



Technical Advisory Group Issue Paper

AGENDA ITEM: TAFG02-03

16 July 2024 – Online

Narrative Reporting – Final guidance

Summary	This paper provides TAG members with the amendments to the final guidance including the Authoritative Guidance, Implementation Guidance and Basis for Conclusions following TAG's advice at its May 2024 meeting on the feedback from ED1 for Section 35 (Narrative Reporting). It seeks TAG's views on the updates and whether further changes are necessary.
Purpose/Objective of the paper	This paper provides: <ul style="list-style-type: none">• the amendments to Section 35, Implementation Guidance and Basis for Conclusions for section 35 following TAG's advice at its May 2024 meeting.• a draft of the final guidance for both section 35 and its Implementation Guidance at Annexes A and B to this report.• a draft of the Basis for Conclusions based on the outcomes of the responses to ED1 and TAG advice to date at Annex C.
Other supporting items	TAGFG01-01, TAGFG02-02
Prepared by	Sarah Sheen
Actions for this meeting	Comment on: <ul style="list-style-type: none">• The proposed approach to sustainability reporting.• The suggestions for performance reporting.• The scope of narrative reporting.• The additional guidance and suggested changes to the exception for sensitive information prior to testing using case studies.• The approach to the Basis for Conclusions.

Technical Advisory Group

Narrative Reporting – Final guidance

1. Introduction

- 1.1 This paper provides:
- amendments to Section 35 (Narrative Reporting), Implementation Guidance and Basis for Conclusions for section 35 following TAG's advice at its May 2024 meeting.
 - a draft of the final guidance for both section 35 and its Implementation Guidance (see Annexes A and B respectively)
 - a draft of the Basis for Conclusions based on the outcomes of the responses to ED1 and the advice of TAG to date at Annex C.

2. Background

- 2.1 At its last meeting TAG members considered:
- the feedback from the responses to ED1;
 - the comments from a survey conducted in February/March 2023;
 - views from the focus group held in April 2024, and
 - the key observations provided from PAG on the main points from the feedback reviewed by PAG at its May 2024 meeting.
- 2.2 TAG deliberated on the report and the initial drafting suggestions for the Authoritative Guidance and the Implementation Guidance at its May 2024 meeting. Amendments to the draft final Guidance can be found in Annexes A to C in tracked change form following TAG members' advice and further consideration of the feedback from the focus group.
- 2.3 Further advice was also sought from PAG on the exception relating to the non-disclosure of sensitive information or information which could prejudice the NPO's mission. This is covered in section 7 of this report.
- 2.4 While reviewing both the authoritative guidance and the implementation guidance two drafting issues were identified:
- development of ED1 focussed on reporting performance information and financial statement commentary rather than narrative information which was at risk of excluding some of the mandatory core topics (see section 9).

- following responses on the structure and content of INPAG (see TAGFG02 – 02), the Secretariat has reviewed the Application Guidance to consider where it is best placed (see section 9).
- 2.5 This report seeks TAG’s views on the changes to ED1 to develop final guidance included in Annexes A to C (including the Basis for Conclusions) on narrative reporting. However, as discussed in section 7, the Secretariat proposes using case studies to test the proposed changes for the non-disclosure of sensitive information and information which may prejudice the NPO’s mission. It might therefore be the case that further updates are required on that issue.

3. Scope - general

- 3.1 TAG members generally agreed with the approaches suggested in the report provided to the TAG in May 2024. These included:
- not pursuing differential reporting;
 - augmenting the specifications which require separation of the narrative report disclosures from the explanatory notes and commentaries in the financial statements (see amendments and edits at paragraphs G35.1 and G35.26) as reported at the May 2024 TAG meeting.
- 3.2 The Secretariat has recommended consideration of the inclusion of additional guidance on reporting of non-financial information, including sustainability reporting (IG35.44) and programme impact, where there is a new paragraph at IG35.29 to indicate that a narrative report may consider the longer-term impact of these issues. Commentary on sustainability reporting has been included in section 4 below.

Question 1: Do TAG members have any comments on the proposed new paragraphs (IG3529 and IG35.44. that respond to the feedback received ?

4. Scope - sustainability reporting

- 4.1 The focus group on 24 April 2024 highlighted the importance of sustainability reporting and supported more guidance on the topic. At the same time the focus group noted the significant reporting burden this might create for smaller NPOs.
- 4.2 TAG members considered various international developments in sustainability reporting, including the IPSASB work on climate related disclosures and international and national work for SMEs. It particularly noted the importance of developing effective metrics and the need for data quality.

- 4.3 TAG's advice was that INPAG should not discourage NPOs from including reporting on climate or sustainability issues in their narrative report and that it should signpost to current developments on a national and international basis.
- 4.4 TAG also advised that a webpage should be created which collates a databank of developments and best practice and that its September 2024 meeting should be provided with a mock-up of this.
- 4.5 A paragraph has therefore been added to the Implementation Guidance to confirm that INPAG does not require sustainability reporting and to signpost the anticipated page on the INPAG website (see paragraph IG35.44).

5. Scope – other issues

- 5.1 TAG members considered the feedback from PAG (including more general longer-term views from practitioners) and the comments from a small number of respondents to ED1 about:
- the reporting of general reserves without restrictions; and
 - whether more guidance should be provided on efficiency ratios.
- 5.2 Some TAG members commented that reporting on reserves was related to the reporting of an NPO's financial position and should therefore be covered in the disclosures in the financial statements. The Secretariat therefore proposes adding this to the final guidance on fund accounting or as a note to the statement of financial position when considering the feedback from Exposure Draft 3 (ED3).
- 5.3 Other TAG members expressed the view that being too specific might be counterproductive, particularly, where some performance measures may either not be relevant or be less useful to some NPOs.
- 5.4 Both the Authoritative Guidance and the Implementation Guidance already have significant commentary on the measurement of inputs, outputs and outcomes (including reporting on impact). As there appears to be some consensus that the use of ratios would be a useful measure of efficiency. The Secretariat has added non prescriptive guidance at new paragraph IG35.26 indicating that performance measures may include measures of efficiency, including an examination of direct and indirect costs. This will allow NPOs to decide its relevance and usefulness for their individual circumstances in the reporting of performance.
- 5.5 The Secretariat agrees with the views expressed by TAG (including a commentary from a TAG member following the meeting about not being too

specific or prescriptive). To avoid encouraging incorrect use, a checklist approach or boilerplate disclosures from NPOs, the Secretariat proposes a cautious approach to the inclusion of examples such as recommendations for the use of specific efficiency ratios. It concurs with TAG's advice that a databank of best practice should be established on the INPAG website. It has therefore included a signpost to the INPAG website at (see paragraph IG35.45).

- 5.6 In addition, the new paragraph suggested at TAG's May 2024 meeting for new Implementation Guidance on the use of funds includes reporting on the policy for holding funds without restrictions for financial sustainability, which would allow for the provision of additional commentary on free reserves (see paragraph IG35.27).

Question 2: Are TAG members content with the Secretariat's proposed responses to TAG's advice at its last meeting and the approach to reporting performance (including the use of efficiency ratios and reporting on general reserves) (see IG35.26)?

- 5.7 At its last meeting the Secretariat suggested that guidance should be added to address the risk of conflict with existing jurisdictional requirements. This paragraph specifies that if possible the jurisdictional reporting requirements should be combined with the specifications of Section 35. The new core guidance stipulates that where it is not possible to follow the requirements of Section 35, NPOs must follow those legislative or other requirements and disclose why it has not been able to follow parts of section 35 (see paragraph G35.4).

Question 3: Do TAG members agree with this approach for circumstances where narrative reporting requirements might conflict with jurisdictional requirements or other similar arrangements (see G35.4)?

Presentation of Information in the narrative report

- 5.8 The feedback on ED1 included commentary on the need to balance the information requirements of the required disclosures and the importance and impact of the connectivity of the information in the narrative report. These comments also referred to the need to avoid overly long reports which might be slanted to the positive aspects.
- 5.9 In its May 2024 report to TAG the Secretariat also suggested that the Implementation Guidance be developed to explain the benefits of setting out

the links to other reported information. This builds on the current core guidance in section 35 (see paragraphs G35.29 and G35.30).

- 5.10 The Secretariat has therefore proposed the changes to the core guidance and Implementation Guidance for Section 35 to support NPOs in the presentation of information in the narrative report, summarised in the table at Annex D.
- 5.11 The Secretariat has also included the other changes proposed as a result of the feedback from ED1 which were considered at TAG's last meeting including guidance:
- that confirms that the presentation of information must adhere to the principles in section 35 and be presented in a clear and concise manner (see additional text at paragraph G35.26);
 - on disclosing information on budgets including comparison against actual income and expenses at new paragraph IG35.26;
 - on providing an overview of funds held and demonstration of how this will impact on the financial performance, financial position and sustainability of the NPO at new paragraph IG35.27;
 - guidance on reporting performance over multiple reporting periods – see new paragraph IG35.28;
 - on how reporting on the risk of harm is usefully addressed in new implementation guidance on the description of principal risks and uncertainties at paragraph IG35.29.
- 5.12 At its last meeting the Secretariat suggested that new Implementation Guidance could provide further exemplification of how governance arrangements might be reported. A new paragraph IG35.21 sets out that disclosures might include information on how decisions are made including the structure of the arrangements and contains suggestions on the types of governance arrangements which should be considered. TAG's views are sought on whether this Implementation Guidance is set at the right level and against the context of a core set of mandatory reporting requirements.

Question 4: What are TAG members' views on the suggested new core and Implementation Guidance to support effective presentation of information in the narrative report (see Implementation Guidance at paragraphs G35.7, IG35.4 and IG35.5 and Annex D) ?

Question 5: Do TAG members have any comments on the proposed responses to TAG's advice at its last meeting and the approach to reporting on other issues relating to the scope of narrative reporting (see paragraphs IG35.26 to IG35.29)?

Question 6: Do TAG members consider the additional Implementation Guidance on the reporting on governance arrangements to be useful (see paragraph IG35.21)? Is it set at the right level?

6. Non-mandatory information

- 6.1 Responses to ED1 sought clarity on the reporting of non-mandatory other information (including how comparative information should be reported). Over 90% of April 2024 focus group attendees were content with the level of prescription for other information (subject to some caveats) though there was some support for additional guidance.
- 6.2 At its May 2024 meeting TAG considered early drafts of the additional Application Guidance. The draft of the final guidance in Annex A includes additional specifications on the reporting of non-mandatory other information which sets out that the information should be based on standards and guidance which have been prescribed elsewhere, the basis of preparation and treatment over time (see new paragraphs G35.41 to G35.44).
- 6.3 A TAG member cautioned against encouraging NPOs from seeking too many opportunities to use other frameworks or approaches for the reporting of non-mandatory information. The Secretariat concurs and has amended paragraph G35.40 (note this was previously paragraph AG35.13) and new paragraph G35.42 to indicate that other information should be provided when it is useful to the primary users of NPO general purpose financial reports.

Question 7: Do TAG members agree with the approach to the additional guidance on other information (see paragraphs G35.40 to G35.44)?

7. Sensitive information

- 7.1 The focus group in April recognised that the issue of non-disclosure of sensitive information is difficult and was not easy to resolve solely in standards. There may be risks to service users, the NPO and staff. However, there are challenges to non-disclosure as this will increase the possibility of presenting an incomplete narrative report and provide less transparency and accountability for the primary users of general purpose financial reports.
- 7.2 The focus group cautioned that even principles based guidance could not resolve all the challenges which might arise. It was also of the view that where non-disclosure was used the narrative report would have to refer to what was not being disclosed (for example, noting any limitations on information).
- 7.3 TAG members recognised the difficulties encountered with regard to the non-disclosure of sensitive information in the narrative report. It was of the view

that more guidance could be provided to support the preparers of NPO general purpose financial reports. TAG members suggested that guidance from the Australian Charities and Not-for-Profits Commission *Commissioner's Interpretation Statement: Commercially Sensitive Information* (ACNC Commissioner's Statement)¹ and the IFRS Foundation Advisory Council Agenda Paper on the *Disclosure of Sensitive Information* (IFRS Foundation Agenda Paper)², March 2019 could be considered to develop further guidance on the non-disclosure of sensitive information.

- 7.4 Both the sets of guidance used were not directly applicable to the consideration of sensitive information for NPOs as both related to commercially sensitive information with the ACNC Commissioner's Statement being issued from a regulator's perspective. The guidance was useful for establishing principles to work from, with the IFRS Foundation Agenda Paper being particularly useful for what should be reported if the exemption has been used.
- 7.5 Taking account of all of the feedback received, as set out in Annexes A and B the Secretariat proposes to:
- Split the previous G35.7 into two paragraphs for readability purposes, so that the specifications of this paragraph are more easily understood by readers (these are now paragraphs G35.10 and G35.11);
 - edit paragraph G35.10 so that the sensitive information prescriptions can be applied to all mandatory content rather than just the content related to performance information and the financial statements;
 - edit IG35.6 to be consistent with G35.10 (ie to be clear that the exception applies to all mandatory content);
 - move the implementation guidance in IG35.5 to G35.11. This moves the content from non-authoritative guidance to authoritative guidance. This followed a suggestion by a respondent to ED1 because the paragraph provided important clarification about how the exemption on sensitive information should and should not be used (ie it should not disguise poor performance).
- 7.6 The Secretariat is not proposing at this point to make further substantial changes to the core or application guidance. This reflects the views of the focus group about the difficulties of prescribing the detailed treatment, or lists of

¹ Refer to <https://www.acnc.gov.au/tools/guidance/commissioners-interpretation-statements/commissioners-interpretation-statement-commercially-sensitive-information#:~:text=Information%20on%20the%20ACNC%20Register,may%20be%20considered%20commercially%20sensitive>

² Refer to <https://www.ifrs.org/content/dam/ifrs/meetings/2019/march/advisory-council/ap3-disclosure-of-sensitive-information.pdf>

examples, and taking into account the substantial support to ED1 on the relevant specific matter for comment (SMC).

What is sensitive information?

- 7.7 TAG members will be aware that respondents to ED1 sought more guidance on what constitutes sensitive information. The Secretariat therefore proposes to add examples of the types of circumstances which could mean that the sensitive information exception is used. This is located at new paragraph IG35.7, shown in Annex B. The proposals are based on suggestions made at the April 2024 focus group.

When should the exemption be used?

- 7.8 Respondents to ED1 sought more guidance on when the exemption on sensitive information might be used. Comments were also made about whether parameters or principles could be developed to support the decisions which might need to be taken. New guidance has therefore been developed at paragraph IG35.9 in Annex A.
- 7.9 This guidance, provides parameters for considering how an NPO might determine whether the sensitive information exception should be used. These proposals have been adapted from the ACNC Commissioner's Statement. This additional guidance is proposed to be non-authoritative and seeks to avoid introducing rules based requirements, instead allowing judgements to be based on the principles provided in IG35.9.
- 7.10 ED1 responses were also concerned with how sensitive information might be disclosed without revealing pertinent aspects of the information. New guidance is proposed at paragraph IG35.10 in Annex B on what should be disclosed if sensitive information is not reported. This was adapted from the IFRS Foundation Agenda Paper based on work on the management commentary. It should be noted that this content was not included in the IASB Exposure Draft³ that was subject to consultation in 2021, but the Secretariat is of the view that the approach to non-disclosure is useful in addressing issues of transparency and accountability.
- 7.11 PAG considered the draft final guidance on sensitive information at its June 2024 meeting and there were a number of supportive comments about the

³ IFRS Practice Statement Exposure Draft, Management Commentary refer <https://www.ifrs.org/content/dam/ifrs/project/management-commentary/ed-2021-6-management-commentary.pdf>

guidance in the pre-meeting survey. However, at the meeting one member was strongly of the view that there should be no disclosure if the exemption is being used to balance the risk of harm with the risk of misstatement. The Secretariat is, however, planning to develop two or three case studies to test the proposals. These case studies will be used to inform any further proposals. Further updates will be provided to TAG following the relevant testing using the case studies.

Question 8: What are TAG members' views on the proposed new non-authoritative guidance which provide examples, parameters for decisions on sensitive information and assists NPOs with what to report when the non-disclosure exemption is used (see paragraphs IG35.6 to IG35.10)?

8. Transition

- 8.1 As was reported at the May 2024 meeting of TAG there was substantial support for a transition period and no absolute case made for changing that transition period from that suggested in ED1 (ie a period of two years), Though there were alternative suggestions including a period of a single year and some suggestions for longer periods, some respondents also disagreed with the inclusion of a specific transition period. The two year transitional period has also been included in Section 38 (Transition to INPAG) in Exposure Draft 3 (ED3) so further feedback will be received then.
- 8.2 Five respondents to ED1 supported early adoption of Section 35 which is permitted by the proposals in Section 38 in ED3.

9. Other drafting amendments to the final guidance

Narrative reporting information

- 9.1 The mandatory core of the narrative reporting requirements were based on five topics the 1) overview of the NPO, 2) performance information, 3) financial objectives and strategies, 4) analysis of the NPO financial statements and 5) principal risks and uncertainties. However, the drafting proposals in ED1 focussed on the "performance information and financial statement commentary" as a part of the principles of narrative reporting. This phrase was then used throughout section 35 instead of narrative reporting information, even though some requirements (eg the principles) apply to all narrative information.
- 9.2 The Secretariat is of the view that "performance information and financial statement commentary" does not cover the reporting requirements of all the

mandatory core topics and risks excluding parts of them. The Secretariat has therefore replaced reference to “performance information and financial statement commentary” with “narrative reporting information” where appropriate and clarified the scope at paragraph G35.2.

Application Guidance

- 9.3 TAGFG02-02 reported that there were varying views about whether some or all of the Application Guidance should be included in the core text. In the light of these comments, the Secretariat has reviewed the Section 35 Application Guidance to determine whether it could be more appropriately included in the core guidance or Implementation Guidance. In so doing, it provides an illustration of the recommendations proposed in TAGFG02-02. The Secretariat is of the view that the text can be included in the core guidance or Implementation Guidance and therefore proposes to remove the Section 35 Application Guidance. Annex E summarises the edits to the Application Guidance and whether it has been moved to core or Implementation Guidance.

Drafting Augmentations

- 9.4 While making amendments to the final guidance for Section 35 following the responses to ED1 minor edits and other changes have been made to both the Authoritative and Implementation Guidance. These have been listed at Annex F.

Question 9: Do TAG Members agree with the proposals for drafting amendments ie the removal of the references to performance information and financial statement commentary and moving of the application guidance in section 35 to either the core or implementation guidance (see also Annex E)?

10. Illustrative guidance

- 10.1 TAG was asked to consider whether examples of elements of narrative reports would be useful to illustrate effective reporting of the mandatory topics. During its debates on narrative reporting and in comments provided by a member post meeting TAG members expressed concern about illustrative examples leading to boilerplate disclosures. Their inclusion could also mean that the guidance would effectively lean to a rules based approach rather than being principles based. The Secretariat shares TAG's concerns.

- 10.2 At a number of points during the meeting TAG advised that INPAG should establish databanks of practice to support narrative reporting. These databanks would be able to contain good and best practices or examples of national or international developments or standards on reporting on sustainability or climate change. While the databanks would not mitigate all risks of boilerplate or overly standardised reporting they will be able to significantly reduce them.

11. Basis for Conclusions

- 11.1 Annex C includes amendments to the Basis for Conclusions for section 35 (Narrative Reporting). TAG will be aware that in order to provide insights into the development of each of the topics which have been subject to review and the reasons for any of the NPO specific developments the Basis for Conclusions uses as its starting point the IFR4NPO consultation paper issued in January 2021.
- 11.2 To continue with this approach and to ensure that the Basis for Conclusions is a concise summary, the updates provide:
- confirmation of the agreement with the proposals in ED1 (as there was a substantially positive response for each SMC);
 - a summary of significant issues raised by the responses to ED1; and
 - the decisions taken, including any areas of discussion and debate, to give an outline of the intentions of INPAG.
- These will be subject to amendment for any further advice from TAG.
- 11.3 The Basis for Conclusions is therefore amended for the decisions taken in relation to:
- the mandatory core requirements and the scope of the reporting requirements including the decision not to proceed with any form of differential reporting and the need for application guidance where there might be conflicts with jurisdictional arrangements (see BC35.12 and BC35.17);
 - agreement with the principles for narrative reporting, though clarifications have been included on the separation of narrative reporting and the financial statement explanatory notes (see paragraphs BC35.19 and BC35.20)
 - issues raised on sensitive information – including the range of concerns and the need for exemplification, parameters to assist with decision making and additional guidance on what should be reported if the exemption is used (see paragraphs BC35.22 to BC35.25).

- 11.4 The updates to the Basis for Conclusions also include amendments related to the specific reporting requirements. Some of these have been included with commentaries on developments originating from the consultation paper, for example, requests for more information on performance. Commentary on how information should be presented (eg the balance of information) has been discussed separately). More significant issues such as sustainability reporting have been updated for international developments in standards in this area and have been addressed separately.
- 11.5 The Basis for Conclusions includes initial commentary on transition which will need to be updated following consideration of ED3. It also includes feedback on the Guidance which has been added on the reporting of other non-mandatory information.

July 2024

Annex A – Amendments to Section 35 Narrative Reporting

Section 35 – Narrative reporting (New)

Scope of this Section

- G35.1** This Section sets out narrative reporting requirements for NPOs. It provides guidance on the performance information and financial statement commentary that is to be presented by an NPO in the same general purpose financial report as its financial statements. The narrative report is published along with the general purpose financial statements to form the general purpose financial report, but is not a part of these statements.
- G35.2** This Section sets out the minimum narrative reporting requirements for NPOs applying INPAG. This includes the principles for all narrative information and the minimum requirements for the topics of information to be covered.
- G35.3** Where an NPO is able to go beyond ~~this~~these minimum requirements and presents additional information to meet the needs of users of its general purpose financial report, it may do so provided that ~~this~~the minimum requirements ~~has~~ve been met. The principles and high-level requirements of the Section instead permit a flexible approach. NPOs are able to report in a manner that best meets the needs of their users. At the same time all NPOs are required to report a base level of information that is useful to users of an NPO’s general purpose financial report.
- G35.4** Where an NPO is required to comply with legislative or other narrative reporting arrangements which have similar force, these disclosures should be combined with those specified by this section to avoid duplication. Exceptionally, where there is a conflict with the guidance in this section, the NPO shall follow those legislative or other requirements and disclose why it has not been able to follow parts of section 35.

Principles

- G35.35** An NPO shall present ~~performance information and financial statement commentary~~narrative reporting information that is useful for accountability and decision-making purposes in the same general purpose financial report as its financial statements. ~~Performance information and financial statement commentary~~Narrative reporting information will enable users to assess the performance of the NPO and provide context to the information included in the financial statements.
- G35.46** The ~~performance information and financial statement commentary~~narrative reporting information presented shall be for the same reporting NPO and reporting period as the financial statements.
- G35.7** An NPO shall also ensure that the narrative reporting information is fair and balanced. Information is balanced if it is not skewed, emphasised, de-emphasised or otherwise presented to make it more likely that primary users will receive that information favourably or unfavourably.
- G35.58** When selecting ~~and presenting performance information and financial statement commentary~~narrative reporting information in a general purpose financial report, an NPO shall apply the qualitative characteristics and the pervasive constraints on information identified in Section 2 Concepts and pervasive principles. The narrative report shall:
- provide faithful representation of the NPO’s operations and activities;



- b) provide relevant information that is capable of making a difference in the decisions made by users, ie it is material;
- c) provide information that is comparable between reporting periods;
- d) provide information that can be verified;
- e) be provided on a timely basis; and
- f) be understandable by the users of the general purpose financial reports.

This will result in ~~performance information and financial statement commentary~~ narrative reporting information that is useful to users of the NPO's general purpose financial report.

G35.9 A reported item in the narrative report is material if its exclusion or misstatement would affect the decision and assessments made by users of the general purpose financial report. As such materiality depends not just on size but also on nature.

~~G35.6~~ An NPO shall also ensure that the performance information and financial statement commentary presented is fair and balanced. The information presented should provide an objective view and assessment of the NPO's performance and financial statements for the reporting period.

G35.710 Exceptionally, an NPO shall not disclose ~~aspects of performance information and financial statement commentary~~ the narrative reporting information required by this section where this that would compromise the safety or wellbeing of individuals working/volunteering for the NPO, or those to whom it provides goods and services. ~~This is,~~ because the information ~~is sensitive and/ or~~ could prejudice the ability of the NPO to deliver its mission. An NPO will remain in compliance with the requirements of INPAG where this exception is utilised.

G35.11 When a sensitive information exception has been used, the NPO ~~should~~ shall disclose that the narrative report has been prepared in accordance with the requirements of ~~this~~ paragraph G35.10. An NPO but is not required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information. An NPO shall present ~~performance narrative reporting information required by this section and financial statement commentary~~ related to those operations and activities that does not result in sensitive information.

G35.12 Paragraphs G35.10 and G35.11 shall not be used by NPOs as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations.

Performance information and financial statement commentary Information to be included in the narrative report reported

G35.813 An NPO shall:

- a) present information to enable users to understand what the performance objectives of the NPO are and what it has done during the reporting period in working towards those performance objectives (performance information); and
- b) present commentary to discuss and analyse the NPO's financial statements (financial statement commentary).

G35.914 In providing performance information and financial statement commentary, an NPO shall provide users with information related to the following topics.

An overview of the NPO

G35.105 An NPO shall provide contextual information that enables users to understand the NPO. The information provided as part of the overview should include:



- a) Who are we? – a description of the legal form of the NPO, how it is structured and what governance arrangements apply to it.
- b) What do we exist for? – a description of the purpose for which the NPO exists, including any formal mission and vision statements.
- c) What do we do? – a description of the NPO’s main activities, including significant relationships the NPO has with other entities.

Performance **information reporting**

G35.146 An NPO shall present information to enable users to understand:

- a) what the performance objectives of the NPO are and what it intended to achieve during the reporting period; and
- b) what it has done in working towards those performance objectives and what it has achieved during the reporting period.

G35.127 The NPO shall provide performance measures and descriptions that enable the NPO to demonstrate to its users its performance for the reporting period. The performance measures and descriptions (including, for example, those relating to the performance of the services provided to recipients) will depend on the NPO and its performance objectives, but must have regard to:

- a) **Quantitative measures** that provide a numerical measurement by which to assess performance – for example, the quantity of a particular good or service provided by an NPO, or ratings by service users on a scale of 1–10.
- b) **Qualitative measures** that provide a non-numerical measurement by which to assess performance – for example, whether the goods and services provided by an NPO were in accordance with a particular quality standard, or ratings by service users of high/medium/low.
- c) **Qualitative descriptions** that provide a non-numerical description by which to assess performance – for example, descriptions by individuals supported by the NPO of improvements made to their wellbeing from open-ended questions in interviews.

G35.138 An NPO will need to exercise judgement to ensure that it provides information that is useful for accountability and decision-making purposes to users of the general purpose financial report. The principles in paragraph G35.8 will guide these judgements, particularly the relevance of the information.

Financial objectives and strategies

G35.149- An NPO shall ~~discuss-report on~~ its objectives and strategies relating to its financial position, income and expenses, net assets and cash flows. This should be done in a way that enables users of the financial statements:

- a) to understand the NPO’s financial objectives and strategies;
- b) to identify the resources that must be managed by the NPO to achieve them; and
- c) how these financial objectives and strategies support the achievement of the NPOs performance objectives.

G35.1520 Where relevant, an NPO should also discuss significant changes in its financial objectives and strategies from the previous period or periods, and the impact this may have on the achievement of its performance objectives.

Analysis of the NPO’s financial statements

G35.1621 An NPO shall include an analysis of significant changes and trends in its financial position, income and expenses, net assets and cash flows. Judgement should be applied to ensure a focus on significant and

important financial statement items, and the NPO should not simply reiterate the information presented in the financial statements. Specifically, the analysis ~~should~~ shall not repeat the disclosures made in accordance with Section 8, but these disclosures may inform the analysis.

G35.22 Users shall be provided with a clear link between the financial statement analysis and items within the financial statements. Any adjustments to information from the financial statements in producing the financial statement analysis shall be disclosed along with the nature and reasons for the adjustment.

G35.1723 As part of this analysis, the NPO ~~should~~ shall provide information on the impact that these significant changes and trends in its financial position, income and expenses, net assets and cash flows have on the achievement of its performance objectives.

Principal rRisks and uncertainties

G35.1824 An NPO shall discuss the principal risks and uncertainties that affect the achievement of its performance objectives and its financial position, income and expenses, net assets and cash flows. This should include:

- a) an explanation of how these risks and uncertainties relate to the performance objectives and financial objectives and strategies of the NPO;
- b) an explanation of changes in those risks and uncertainties since the last reporting date; and
- c) how the NPO manages risks and uncertainties.

G35.1925 This information will help users to evaluate the impact of those risks and uncertainties on the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows in the current period, as well as expected longer term outcomes.

Presentation

G35.206 ~~Performance Narrative information and financial statement commentary~~ shall be clearly identified ~~and distinguished from the financial statements~~. Information provided in the narrative report shall adhere to the principles specified in paragraphs G35.5 to G35.12 and be presented in a clear and concise manner.

G35.217 NPOs should develop a format that meets the information needs of their users while complying with the requirements of this Section.

G35.228 Cross-referencing of performance information and financial statement commentary to the financial statements will enable users to understand and assess the performance information and financial statement commentary within the context of the financial statements.

G35.239 In addition to cross-referencing of information to the financial statements within the general purpose financial report, an NPO may also consider it beneficial to cross-reference to information that is held outside of the general purpose financial report. For example, it may be appropriate to provide users with additional detail on performance objectives and to reduce the volume of information provided in the general purpose financial reports.

G35.2430 Where an NPO does cross-reference to information held outside of the general purpose financial report, it must ensure that:



- a) a complete set of performance information and financial statement commentary is provided to users in the general purpose financial report in accordance with this Section – an NPO shall not simply provide references to information held elsewhere; and
- b) the cross-referenced information held outside of the general purpose financial report is, and will remain, unchanged and available to users of the general purpose financial report.

Comparative information and consistency of reporting

G35.2531 The usefulness of ~~performance information and financial statement commentary~~ narrative reporting information to users is improved through the provision of comparative information and consistent reporting by an NPO.

G35.2632 Comparative information shall be provided by an NPO for the preceding reporting period for amounts and descriptive information reported in the current reporting period.

G35.33 Where an NPO cannot provide comparative information it shall follow the requirements of Section 3 regarding consistency of presentation. Where the information is narrative or descriptive, judgement may be required in determining what and how to disclose comparative information.

G35.2734 ~~Performance information and financial statement commentary~~ Narrative reporting information shall ~~also~~ be reported consistently by an NPO. Where changes are made to what an NPO reports or how an NPO reports its ~~performance information and financial statement commentary~~ narrative information, the reasons for and the nature and effect of these changes shall be explained.

G35.35 Where changes are required to reported information, for example, if an NPO changes its primary objective(s) or measures performance in a different way, consistency of reporting is supported if the reason for the change and its impact on reporting is explained.

G35.2836 If an NPO becomes aware of material prior period errors, ~~be whether~~ this related to numerical or descriptive information, it shall correct these by restating the comparative information for any prior period(s) presented in the general purpose financial reports and disclose an explanation of the error.

G35.37 A material prior period error occurs either where narrative reporting information has either been materially misstated or omitted altogether in a previous general purpose financial report. Where an NPO becomes aware that a material prior period error has occurred it needs to correct this in the next general purpose financial report it produces by restating comparative information for any prior periods presented and by disclosing an explanation of the error.

Disclosure of judgements

G35.2938 An NPO will use judgement in the selection and presentation of ~~performance information~~ narrative information and financial statement commentary that is reported in accordance with this Section. An NPO shall disclose those judgements that are most relevant to users' understanding of the NPO's ~~performance information and financial statement commentary~~ narrative information.

Reporting of other information

G35.309 An NPO may choose or be required to present additional information in its general purpose financial report beyond the performance information and financial statement commentary ~~included~~ required

in this Section. Where it does so, the additional information shall, as far as possible, be presented in compliance with the requirements of this Section (principles, presentation, comparative information, consistency of reporting, and disclosure of judgements).

- G35.40 Where useful to the primary users of the narrative report, an NPO should disclose other relevant information to enhance understanding for the users of the financial report, that goes beyond the minimum core requirement in G35.13 to G35.25. This could include environmental, social and governance (ESG) information, climate related disclosures, and/or broader sustainability reporting.
- G35.41 Where other information is included in the narrative report in accordance with paragraph G35.39, this shall follow the requirements, as far as possible, of section 35. When providing such other information NPOs shall ensure that it does not obscure the information required by paragraphs G35.13 to G35.25.
- G35.42 If an NPO decides it will be useful to provide other information in the narrative report, it should, if possible, be based on standards or guidance that are prescribed elsewhere, or sector established practices and norms such as international standards for sustainability reporting, governance codes or requirements or recognised performance indicators.
- G35.43 Where other information is provided, the basis of preparation shall be described. Any standards, practices or other approaches used in the provision of other information shall be disclosed.
- G35.44 The basis of preparation and the standards, practices and other approaches used for the reporting of other information shall be consistently applied, including over subsequent reporting periods. Where other information is no longer relevant or useful its use shall be discontinued. Where it is discontinued, the reason it is no longer reported shall be disclosed in the narrative report for the reporting periods including comparative periods in which it has been discontinued.

Application Guidance: Section 35 – Narrative reporting (New)

~~AG35.1 – Section 35 *Narrative Reporting* sets out the principles and high-level requirements for reporting performance information and financial statement commentary by NPOs. As INPAG will be applied internationally by a diverse range of NPOs, it is impractical to determine a detailed set of requirements and a specific reporting format for a narrative report that would be appropriate for all NPOs. The principles and high-level requirements of the Section instead permit a flexible approach. NPOs are able to report in a manner that best meets the needs of their users. At the same time all NPOs are required to report a base level of information that is useful to users.~~

Performance information and objectives

~~AG35.2 – Performance information required by paragraphs G35.11–G35.13 gives an NPO the opportunity to provide users with an understanding of why the NPO exists, what it intends to achieve now and in the longer term, and how it goes about doing this, including what it has done in the reporting period to achieve its objectives. Performance information is best supported by performance measures and descriptions (see paragraph IG35.17). These can be presented in a variety of ways including charts, maps, tables and infographics, and need not just rely on narrative descriptions.~~

~~AG35.3 – Performance objectives should be linked to the discussion of what the NPO exists for that is included within the overview. They will be derived from the purpose of the NPO, and should indicate what the NPO intends to achieve now and in the longer term and how it goes about doing this. Reporting should be on the objectives that the NPO executive/management has set to monitor the activities or~~



performance of the NPO. Performance objectives should not be created purely for the purpose of the narrative report.

AG35.4—A key decision will be deciding on which aspects of performance the NPO wishes to report. NPOs should focus on the needs of users of the general purpose financial report to make this judgement. The principles in paragraph G35.5 will guide these judgements, particularly the relevance of the information. Many NPOs will already provide performance information outside of their general purpose financial report to groups such as donors. While NPOs may be able to use the information that is contained in such reports, they should ensure that the information presented is not too detailed and that it complies with the high level reporting principles.

Financial objectives and strategies

AG35.5—As per paragraphs G35.14 and G35.15, NPOs should provide sufficient information on financial objectives and strategies so that users can understand the NPO's financial priorities, the resources it needs to achieve them, and how these relate to its performance objectives. Given that NPOs exist primarily to deliver a benefit to the public rather than to generate financial returns for investors, financial objectives and strategies are likely to be derived from the NPO's performance objectives.

AG35.6—For example, an NPO may have a performance objective of delivering a certain volume of services over a financial period and has volatile incoming resources. To ensure that the NPO has sufficient resources to deliver this volume of services, it may have a reserves policy that requires it to hold six months equivalent of expenditure in unrestricted reserves or funds. To achieve this the NPO may have a strategy of increasing both the amount and percentage of unrestricted donations it receives compared to those that can only be spent on a specific project.

Discussion and analysis of the financial statements

AG35.7—Financial statement commentary required by paragraphs G35.16 and G35.17 gives an NPO the opportunity to discuss and analyse the financial statements. The commentary can focus on the significant items, transactions and events that are presented in the NPO's financial statements and the factors that have influenced them. This provides context to the financial statements for users, thus ensuring that they are useful for accountability and decision-making purposes.

AG35.8—The focus of the analysis of financial statements should be on significant changes and trends, and the achievement of its performance objectives, both in this period and the future. An explanation should be provided of the impact that these changes and trends have on the NPO's:

- financial position;
- income and expenses;
- net assets; and
- cash flows.

For example, how a significant amount of income from holding financial assets has enabled the NPO to increase its unrestricted cash reserves and how this will permit it to increase the number of members of the public it can support in the next financial year.

AG35.9—The NPO should not simply reiterate or replicate the information in the financial statements. The focus should be on enabling the primary users of the general purpose financial reports to gain a better understanding of the financial position, income and expenses and cash flows of the NPO. Judgement will be required to identify and present the significant items, transactions and events that will provide this understanding, with users provided with a clear link between the financial statement analysis and items within the financial statements. Any adjustments to information from the financial statements

in producing the financial statement analysis must be disclosed along with the nature and reasons for the adjustment.

Comparative information and consistency of reporting

AG35.10 Comparative information is required by paragraphs G35.25–G35.28. Users' understanding of performance and financial information is usually improved when comparative information for the preceding reporting period is included. Where the information provided is numerical, it should be relatively easy for an NPO to provide the comparative information. Where it cannot provide comparative information an NPO must follow the requirements of Section 3 regarding consistency. Where the information is narrative or descriptive, judgement may be required in determining what and how to disclose comparative information.

AG35.11 Users' understanding of performance and financial information is also improved when an NPO reports in a consistent manner over time what it reports and how it reports it. Consistency of reporting can be supported by thinking carefully about what users require when first considering the performance and financial information that will be reported and how it will be presented. Where changes are required, for example if an NPO changes its primary objective or measures performance in a different way, consistency of reporting is supported if the reason for the change and its impact on reporting is explained.

AG35.12 An item is material if its exclusion or misstatement would affect the decision and assessments made by users of the general purpose financial report. As such materiality depends not just on size but also on nature. A material prior period error occurs either where performance information or financial statement commentary has either been materially misstated or omitted altogether in a previous general purpose financial report. Where an NPO becomes aware that a material prior period error has occurred it needs to correct this in the next general purpose financial report it produces by restating comparative information for any prior periods presented and by disclosing an explanation of the error.

Reporting of other information

AG35.13 Paragraph G35.30 permits the inclusion of additional information beyond the mandatory core in paragraphs G35.8–G35.19. Where possible, an NPO should disclose other relevant information to enhance understanding for the users of the financial report, that goes beyond the minimum core requirement of this Guidance. This could include environmental, social and governance (ESG) information, climate related disclosures, and/or broader sustainability reporting.

Judgements

AG35.14 As required by paragraph G35.29, NPOs should disclose the judgements that have had the most significant effect on the selection, measurement and presentation of performance information and financial statement commentary. Only those that are most significant to the information reported and are relevant to the users' understanding of the information provided. This might include for example a decision by an NPO to disclose performance information by region or activity, or why an NPO utilises a certain financial ratio to determine if it has sufficient funds to continue to provide services.

Annex B – Section 35 Implementation Guidance, Narrative Reporting

Section 35 – Narrative reporting

IG35.1 [Section 35 Narrative Reporting sets out the principles and high-level requirements for reporting performance information and financial statement commentary by NPOs. As INPAG will be applied internationally by a diverse range of NPOs, it is impractical to determine a prescriptive set of requirements and a specific reporting format for a narrative report that would be appropriate for all NPOs.](#) This Implementation Guidance is supported by illustrative examples and links to [the INPAG webpages where](#) other sources of information [are referenced](#).

What is meant by fair and balanced?

IG35.2 G35.67 requires that the information presented by the NPO is fair and balanced. Narrative reporting must not be biased towards a particular portrayal of its circumstances, for example, to be used by NPOs as a selling pitch or to provide a subjective view of performance or the financial statements that does not reflect reality. Users must be provided with an objective view of what has gone well and what has gone less well during the reporting period and the implications that this has for the future.

IG35.3 In making a judgement of whether the narrative report is fair and balanced an NPO should consider issues such as:

- a) does the narrative overstate what has been achieved?
- b) is there too much focus on successes to the exclusion of activities that were less successful?
- c) is reporting deliberately selective with items omitted in order to portray a particular view of the NPO's activities or financial position?
- d) does the narrative report put the information presented into its full context?

How should a balance of information be reported in the narrative report?

IG35.4 [NPOs will need to balance the information requirements of Section 35, Narrative reporting to produce the narrative report. The disclosure objectives of each of the mandatory requirements are summarised in figure 35.1 below to assist preparers of general purpose financial reports and other stakeholders. The disclosure objectives are intended to meet the needs of the primary users of the general purpose financial report. Figure 35.1 also demonstrates the interrelationship between each of the requirements. Information to meet one requirement might help meet the reporting needs of another. For example, information on the amounts of funds which are not subject to restrictions or designation will illustrate the financial position and net assets of the NPO. This may represent a principal risk or uncertainty for the NPO that affects the achievement of performance objectives.](#)



Figure 35.1 Summary of the objectives of the mandatory topics in the narrative report

The narrative report must provide information to resource providers and to the public that depend on the goods and services provided by NPOs that enable them to understand:

An overview of an NPO	Performance information	Financial objectives and strategies	An analysis of the financial statements	Risks and uncertainties
<ul style="list-style-type: none">the context of the NPO, including its legal form, structure, governance arrangements, purpose, mission, vision and main activities.	<ul style="list-style-type: none">what the performance objectives of the NPO are and what it intended to achieve during the reporting period; andwhat it has done in working towards those performance objectives and what it has achieved during the reporting period.	<ul style="list-style-type: none">financial objectives and strategies relating to its financial position, income and expenses, net assets and cash flowshow these financial objectives and strategies support the achievement of the NPO's performance objectives	<ul style="list-style-type: none">significant changes and trends in the NPOs financial position, income and expenses, net assets and cash flows	<ul style="list-style-type: none">the principal risks and uncertainties that affect the achievement of the NPOs performance objectives and its financial position, income and expenses, net assets and cash flows

Are there benefits of linking to other reported information?

IG35.5 To meet the reporting requirements in section 35 it may be useful to cross refer to information in other reports produced by the NPO, for example, reports on performance, impact reports or governance reports (see paragraphs G35.29 and G35.30). Including information by cross reference may be useful to avoid duplication or to reduce the amounts of standing information. If cross references are used, they should encourage clear and concise reporting. Paragraph G35.30 sets out the information requirements where such cross references are used in the narrative report. To ensure these information requirements are achieved, where information is included by cross reference it must be:

- consistent with the mandatory reporting requirements of section 35;
- available whenever the narrative report is available, on the same terms and with a clear cross reference in the narrative report, with precise information on where other reported information can be located;
- authorised for publication using the same governance processes and structures as those required to authorise the narrative report for publication.

What is meant by sensitive information or information that could prejudice the ability of the NPO to deliver its mission?

IG35.46 NPOs are permitted ~~to not~~ to disclose ~~aspects of performance information and financial statement commentary~~ narrative reporting information required by section 35 where the information is sensitive or could prejudice the ability of the NPO to deliver its mission. ~~Given the diversity of activities undertaken by NPOs, it is not possible to provide a definition or exhaustive list of the activities that could give rise to such information.~~ It is intended to include situations where there is a risk of harm, including of physical harm, to an NPO's staff, its volunteers or the public who engages with the NPO, or that would provoke significant ongoing disruption to the NPO's operating activities in a locality if information was publicly disclosed in the general purpose financial reports.

IG35.7 It is not possible to provide an exhaustive list of types of sensitive information or circumstances which could prejudice the ability of an NPO to deliver its mission. The following are therefore provided to be illustrative of when the disclosure of information might lead to:

- risk of personal harm, either physical or otherwise, to employees or members of their close family;
- risk of persecution, harassment, social exclusion or displacement of service beneficiaries;
- disruption to services, for example, by risk of damage to buildings, other assets or equipment or logistical difficulties in delivering services to service recipients;
- release of personal information about service recipients or beneficiaries, for example, patient details.

IG35.68 Examples of sensitive or mission prejudicial information that an NPO may not disclose could include, but ~~is~~are not limited to:

- a) information that identifies the nature of activities being undertaken by an NPO;
- b) information that discloses the scope of geographic activities being undertaken by an NPO;
- c) information that identifies the individuals, communities or groups that benefit from the goods and service provided by the NPO.

IG35.9 NPOs will need to make a judgement about whether information or potential information to be included in the narrative report is sensitive or could prejudice the ability of the NPO to deliver its mission. Factors that an NPO may consider in making this judgement include:

- a) whether the harm caused by sensitive information or which might prejudice the delivery of its mission is real, actual or in-substance – the reporting of the information must at least have the potential to cause harm to an individual, an NPO, or its employees. The NPO should consider the specific nature of the likelihood for harm or prejudice (for example, information on a group of individuals that benefit from the NPO’s activities), rather than a mere assertion that the detriment is likely to eventuate (for example, some possible future harm may befall the individuals);
- b) whether there is a causal link between the reporting of the information and the harm or prejudice to the its mission perceived by the NPO. This requires NPOs to establish that the harm or prejudice is at least possible, and there are circumstances in which it may arise;
- c) the timing of the reporting of narrative information and whether it impacts on the potential harm caused by sensitive information or how it might prejudice the delivery of an NPO’s mission. Circumstances requiring the non-disclosure of information, which might be sensitive or prejudice the NPO’s mission, may change from the reporting date, so should be subject to annual review.

IG35.10 Where an NPO is of the view that information is sensitive or mission prejudicial an NPO should:

- a) provide summarised information at the most detailed level that is not sensitive or mission prejudicial;
- b) consider whether other information in the narrative report may be misleading in the context of the information not disclosed and ensure that the content and tone of the narrative report is appropriately amended; and
- c) describe the process undertaken to determine that it was appropriate to not disclose the sensitive or mission prejudicial information.

How should the qualitative characteristics be applied?

IG35.711 Faithful representation requires the NPO to provide information that is complete, neutral and free from error. ~~Performance information and financial statement analysis~~Narrative reporting information should be reviewed by the NPO to ensure that it is not partial, wholly subjective and/or materially incorrect, taking into consideration the overall requirement to ensure fair and balanced reporting.

IG35.812 NPOs should only provide information that is relevant ie information that is capable of making a difference to the decisions made by users. What is relevant will be NPO-specific, and may be based on

magnitude or nature. Including only material information will enable the NPO to produce a concise narrative report that is focused on the needs of users.

IG35.913 The information provided by the NPO should also be verifiable. NPOs should aim to provide users with assurance that the information provided is a faithful representation. This may involve providing evidence of a formal assurance process that the information has been subjected or describing how the NPO satisfies itself that the information is a faithful representation.

IG35.104 Timeliness requires that information is available to users in time to be capable of influencing their decisions. Generally, NPOs should aim to provide the most up-to-date information that they can although this does not mean that older information is not of use to users, as it may be useful for identifying and assessing trends.

IG35.145 NPOs should also ensure that users are able to identify and understand similarities and differences among the information that is provided in the narrative report. Although NPOs may utilise different performance measures, comparability means that users should be able to make meaningful comparisons between information that is presented.

IG35.126 There is no set format for presenting ~~performance information and financial statement commentary~~ narrative reporting information. What is most effective for users to provide understandability will vary depending on the nature of the NPO and its activities. As ~~performance information and financial statement commentary~~ narrative reporting information will be both numerical and ~~narrative descriptive~~ in nature, NPOs have the option of using a variety of different formats which may include charts, graphs, tables, narrative text and infographics.

IG35.137 In general, NPOs should ensure that information is presented in a manner that is:

- easy to read;
- visually appealing;
- focused and/or concise, concentrating on the key information;
- consistent with other information presented in the general purpose financial report; and
- cross-referenced to any external information.

What information is relevant to providing an overview of the NPO?

IG35.1418 An overview of the NPO provides users with an understanding of the purpose of the NPO, how it is governed, its activities and how its relationships with other entities and the environment in which it operates affects its performance and financial statements.

IG35.1519 To provide users with this contextual information, it is suggested that NPOs look to answer three questions.

Who are we? – where it is expected that an NPO will discuss areas like:

- legal form – is the NPO, a company, a trust, a co-operative membership organisation, registered with a regulator (eg charity)? Is it registered in more than one jurisdiction?
- operational structure – is the NPO part of a group, does it control other entities, is it part of a consortium, does it have a large number of staff, does it operate in more than one jurisdiction?
- governance arrangements – is there an executive board, non-executive oversight, trustees?

What do we exist for? – where it is expected that an NPO would discuss areas like:

- its purpose – what is the mission and vision of the NPO, what are its values?
- its key objectives – what are the key things that the NPO is looking to do?
- who is the NPO is seeking to help?

- d) the outcomes and impact it is looking to achieve – what changes in the world is the NPO looking to make?

What do we do? – where it is expected that an NPO would discuss areas like:

- the environment in which it operates – what jurisdiction(s) or communities does the NPO operate in, what is the legal, economic, political situation in which it operates?
- its main activities – does it deliver goods and services itself directly to the public, does it make grants to individuals or organisations, does it lobby on behalf of others?
- what goods and services it provides – what are the specific goods and services that it delivers?
- how it works with other entities to do so – is it reliant on donors to provide funding, does it deliver services to the public with another organisation?

IG35.1620 The information needed to provide this overview should be readily available to most NPOs from documents like the founding constitution, grant proposals and reports to goods recipients and service users.

IG35.21 Paragraph G35.15 specifies that the narrative report must provide a description of the legal form of the NPO, how it is structured and what governance arrangements apply to it. This might include:

- information on how decisions are taken by the NPO, including the structure of the arrangements to facilitate this, for example, governing body arrangements, committees and/or management structures;
- key responsibilities for those structures, relevant officers or personnel;
- how performance is measured, managed and monitored; and
- how compliance with regulatory requirements is ensured.

This information should provide an overview of the governance arrangements so that the users of the general purpose financial report might understand the arrangements to ensure accountability and transparency.

How should performance measures and descriptions be selected?

IG35.1722 The performance measures and descriptions that an NPO selects will depend on its performance objectives, the nature of its activities and whether it wants to focus on inputs, outputs, outcomes and/or impact.

Inputs – this will be relevant where performance is best measured by the quantity of resources used to deliver an NPO’s mission, for example, the number of employees, volunteers, or amount of donations.

Outputs – this will be relevant where performance is best measured by what an NPO produces in terms of good or services delivered, for example, the number of free meals, trees planted, vaccinations given.

Outcomes – this will be relevant where performance is best measured by the impact that an NPO is having on those that it intends to benefit, for example, longevity, air quality, literacy. In selecting performance measures and descriptions, NPOs may have a mix of input, output and outcome measures depending on their activities. Some may already be used in reporting to donors, reporting to management or those providing oversight of the NPO, those to whom the NPO is providing goods and services, as well as other stakeholders.

IG35.23 Performance information required by paragraphs G35.16–G35.18 gives an NPO the opportunity to provide users with an understanding of why the NPO exists, what it intends to achieve now and in the



longer term, and how intends to accomplish this, including what it has done in the reporting period to achieve its objectives. Performance information is best supported by performance measures and descriptions (see paragraph IG35.22).

IG35.24 Performance objectives should be linked to the discussion of the purpose of the NPO that is included within the overview. They will be derived from this purpose, and should indicate what the NPO intends to achieve now and in the longer term and how it will accomplish this. Reporting should be on the objectives that the NPO executive/management has set to monitor the activities or performance of the NPO. Performance objectives should not be created purely for the purpose of the narrative report.

IG35.25 Many NPOs will already provide performance information outside of their general purpose financial report to groups such as donors. While NPOs may be able to use the information that is contained in such reports, they should ensure that the information presented is not too detailed and that it complies with the high-level reporting principles. It should, however, provide an effective overview of an NPO's performance.

IG35.26 Reporting performance information on the services or activities of an NPO might usefully include actual to budget comparisons, particularly where users take decisions on resource allocation. It might also include information on efficiency, including performance ratios and/or an examination of direct and indirect costs, if these are relevant performance measures for the NPO.

IG35.27 Reports of performance may include:

- an overview of the funds;
- their significance to the delivery of performance objectives and the activities of the NPO;
- the nature of any material restrictions on the funds and the effects of those restrictions on the activities of the NPO;
- how resources within those funds have changed during the reporting period, including those which are restricted, and the major movements in the year;
- the policy for holding funds without restrictions, to set out the position for financial sustainability.

This information should reflect how funds held by the NPO impact on its the performance, its activities and its financial position. It should not merely replicate the disclosures included in the financial statements.

IG35.28 Reporting performance may cover more than one reporting period. Care should be taken to ensure that any performance measures that cover more than one reporting period is individually correct and consistently reports the performance for each period and, when necessary, provides an overview of the service performance over a number of reporting periods.

IG35.29 Reporting on performance may also consider the broader or longer-term effects of a projects or organisation's outputs, outcomes and activities. This is more difficult to measure but may take the form of programme evaluations, case studies or quantitative evidence.

What should be included in financial objectives and strategies?

IG35.30 Paragraphs G35.19 and G35.20, specify that NPOs should provide sufficient information on financial objectives and strategies so that users can understand the NPO's financial priorities, the resources it needs to achieve them, and how these relate to it performance objectives. Given that NPOs exist primarily to deliver a benefit to the public rather than to generate financial returns for investors, financial objectives and strategies are likely to be derived from the NPOs performance objectives.



IG35.31 For example, an NPO may have a performance objective of delivering a certain volume of services over a financial period and has volatile incoming resources. To ensure that the NPO has sufficient resources to deliver this volume of services, it may have a reserves policy that requires it to hold resources equivalent to six months of expenditure in unrestricted reserves or funds. To achieve this the NPO may have a strategy of increasing both the amount and percentage of unrestricted donations it receives compared to those that can only be spent on a specific project. The NPO may therefore consider it useful to the users of the NPO general purpose financial report to set out in the narrative report an overview of the strategy intended to achieve this financial objective, including, in this case, the reserves policy.

What should the discussion and the financial statement analysis focus on?

IG35.32 Financial statement commentary required by paragraphs G35.21 and G35.23 gives an NPO the opportunity to discuss and analyse the financial statements. The focus of the NPO's analysis of the financial statements should be on enabling the primary users of the general purpose financial reports to gain a better understanding of the financial position, income and expenses and cash flows of the NPO.

IG35.33 The commentary on the financial statements may focus on the significant items, transactions and events that are presented in the NPO's financial statements and the factors that have influenced them. This provides context to the financial statements for users, thus ensuring that they are useful for accountability and decision-making purposes.

IG35.34 The focus of the analysis of financial statements should be on significant changes and trends, and the achievement of its performance objectives, both in this period and the future. An explanation should be provided of the impact that these changes and trends have on the NPO's:

- financial position;
- income and expenses;
- net assets; and
- cash flows.

The narrative report might include, for example, how a significant amount of income from holding financial assets has enabled an NPO to increase its unrestricted cash reserves and how this will permit it to increase the number of members of the public it can support in the next financial year.

How should the principal risks and uncertainties be described?

~~IG35.1835~~ IG35.1835 Principal risks and uncertainties are those that could significantly disrupt the ability of the NPO to achieve its performance objectives and its financial objectives and strategies. This will include but is not limited to:

- how the NPO works with others to deliver its main activities;
- changes to the political environment;
- changes to the legal or regulatory environment;
- changes to the physical environment;
- changes to the economic environment;
- reliance on volunteers;
- reliance on certain donors;
- capacity and capability of NPO resources; and
- the NPO's ability to generate and manage financial resources, or its operations and governance.

In describing the key risks and uncertainties any changes from previous periods should be disclosed, and users should also be given information on how the NPO manages their risks and uncertainties.

IG35.1936 For example, a key risk which might be disclosed could be reliance on donations from the public to fund services, which have historically fallen significantly during periods of economic recession. An economic recession might mean the NPO is unable to generate the required level of donations and lead to a reduction in the services it provides. This would impact both its financial and performance objectives. Mitigations to manage the impact of this risk could include levels of reserves or a longer-term plan to diversify income sources.

IG35.37 For some NPOs a key risk which might be reported is the need to have adequate systems to protect service recipients, staff and the NPO from risks of harm which might occur due to the environments in which they operate or the nature of the activities undertaken. Any failures could fundamentally risk an NPO's ability to deliver its objectives and strategies and undermine confidence in its ability to deliver. The narrative report might also disclose mitigations to manage the incidence and impact of this risk such as safeguarding arrangements, systems and protocols or health and safety procedures which operate throughout an NPO's activities.

What should the approach be for the consistency of reporting of information in the narrative report?

IG35.38 Paragraph G35.34 requires consistency of reporting of narrative information. This is because users' understanding of narrative information is improved when its content and presentation is consistent over time. Consistency of reporting can be supported by careful consideration about what users require particularly when first preparing narrative information, including financial and other performance information.

How should judgements be made on the selection, measurement and presentation of narrative information?

IG35.39 Paragraph G35.38 requires, NPOs to disclose the judgements that are the most relevant to users understanding of the narrative information in its selection, measurement and presentation. Only those that are most significant to the users understanding of the information provided should be selected. This might include, for example, a decision by an NPO to disclose performance information by region or activity, or why an NPO utilises a certain financial ratio to determine if it has sufficient funds to continue to provide services.

What is an effective means of presenting ~~performance information and financial statement commentary~~ narrative information?

IG35.2040 The narrative report should be written using clear, concise and simple language and sector-specific jargon should be avoided where possible. Where the use of technical terms is necessary to communicate clearly, prior knowledge should not be assumed, and these should be defined for users and used consistently throughout the narrative report.

IG35.2141 In addition to the use of clear and simple language, how information is presented can significantly affect understandability. The nature of the information will determine the most appropriate method of presentation, but tabular, graphical or pictorial methods can be effective ways of explaining concepts to users and highlighting key information. They should, however, serve a clear purpose, be accessible for all users, and be supported by appropriate narrative text.



IG35.2242 NPOs may also wish to consider the use of case studies and feedback from those that provide financial and other support to it and those that benefit from the goods and services it provides. Case studies and feedback can enable the NPO to provide more in-depth information about individual activities and personal insights that will enable users to more readily engage with the report.

IG35.2343 Globally there are a number of awards that celebrate excellence in non-profit organisation financial reporting. Examples of recent award-winning reports that highlight the use of clear and simple language, excellent presentation of information supported by narrative text and the effective use of case studies and feedback include are available on the INPAG website:

- Age UK annual report 2021
- Zealandia Te Māra a Tāne wildlife sanctuary annual report 2019/2020
- Children's Rights Alliance directors' report 2019
- National Sea Rescue Institute integrated annual report 2021

Should NPOs be providing information on environmental, social and governance (ESG) information, climate related disclosures, and/or broader sustainability reporting?

IG35.44 Paragraph G35.40 sets out that other information could include environmental, social and governance (ESG) information, climate related disclosures, and/or broader sustainability reporting. An NPO is not required to provide such information but where it is of the view that it will be useful to users of its general purpose financial information to do so, additional material and guidance to support NPOs is available on the INPAG website.

What additional material and guidance is available?

IG35.2435-Additional material and guidance to support an NPOs looking to other reporting frameworks for additional ideas in meeting narrative reporting requirements is available at: on the INPAG website.

- IASB Practice Statement 1: Management Commentary
- IPSASB Recommended Practice Guideline 2: Financial Statement Discussion and Analysis
- IPSASB Recommended Practice Guideline 3: Reporting Service Performance Information
- New Zealand PBE FRS 48: Service Performance Reporting
- Value Reporting Foundation — Integrated Reporting Framework
- International Sustainability Standards Board
- GRI Standards

Annex C – Basis for Conclusions – Section 35, Narrative Reporting

Section 35 – Narrative reporting

Consultation Paper feedback on narrative reporting

- BC 35.1 The IFR4NPO Consultation Paper proposed in Part 1 that one of the core premises of the INPAG, in order to meet Guidance objectives, would be the inclusion of non-financial reporting information, also known as narrative reporting. This would lead to NPOs producing general purpose financial reports rather than just general purpose financial statements.
- BC 35.2 A detailed description of the issue was included as part of Issue 10: Narrative Reporting in Part 2 of the Consultation Paper. This highlighted the importance of non-financial information for NPOs to demonstrate accountability and stewardship to stakeholders, and the difficulty caused by varying disclosure requirements globally.
- BC 35.3 Respondents to Part 1 of the Consultation Paper provided feedback on what they deemed the challenges would be from guidance that included non-financial information reporting requirements for NPOs. At a conceptual level, respondents highlighted issues such as scope, timing of introduction, prescription and flexibility, the reliability and integrity of data, and integration with existing performance reporting. A number of practical challenges were also raised, including NPO capacity and capability, costs and expertise, and subjectivity in reporting.
- BC 35.4 For Part 2, respondents were asked to provide feedback on the description of the issue, the alternative treatments proposed, and whether the guidance should be set at the level of an overarching framework and high-level principles, or include more specific reporting requirements. Respondents to Part 2 were supportive of the description of the issue (96% agreed) and were mainly in agreement with the list of alternatives identified (77% agreed). Substantive comments received from respondents included a need for a fuller understanding of user's needs to determine how they can be met, which could require a solution not presented as an alternative. There was also support for narrative reporting to focus on an NPO's objectives, its impact, the effectiveness of the organisation's governance structures and processes, and broader sustainability issues, rather than being restricted to financial statement analysis.
- BC 35.5 With respect to the alternatives put forward in the Consultation Paper, there was little support for the do-nothing alternative, which was widely seen as a missed opportunity. There was relatively even support amongst those providing a preference for the other alternatives, with the approach based on the Integrated Reporting Framework (50%) being slightly more favoured than an approach based on IASB/IPSASB guidance (37%).
- BC 35.6 Those favouring the IASB/IPSASB guidance approach indicated that it would complement the information in the financial statements and would be less complicated for NPOs to apply. Those favouring the Integrated Reporting Framework approach felt that, although more ambitious, it offered an opportunity for NPOs to apply emerging best practice and to deliver standardised narrative reporting based on stakeholder needs.
- BC 35.7 With respect to whether guidance should be set at the level of an overarching framework and high level principles, or if specific reporting requirements or recommendations should be required instead, the majority of respondents noted that the diversity of NPOs and jurisdictions pointed to the need for a framework and principles solution. Some of these respondents noted, however, that this would need to be backed by detailed guidance on how to apply the framework and principles.



Compulsory-Mandatory requirements

BC 35.8 Analysis of the Consultation Paper responses supported a framework and principles-based approach that provides a mandatory core of narrative reporting requirements that could be applied by all NPOs. The approach proposed is adaptable, so that NPOs wishing to go beyond this core could do so provided that the mandatory topics and elements important to users of all NPO general purpose financial reports were met. The proposed approach is designed to ensure a base level of consistency and comparability amongst all NPOs applying the INPAG, while providing NPOs the freedom to move beyond this to meet the needs of the users of their general purpose financial reports.

BC 35.9 Concerns were raised by the IFR4NPO project's Technical Advisory Group, the Practitioner Advisory Group and by attendees at additional outreach events, that requiring all NPOs to comply with narrative reporting requirements could act as a barrier to the adoption of INPAG.

BC35.10 While feedback from these groups was that the narrative reporting proposals could bring significant benefit to both the users of ~~the~~ NPO's general purpose financial reports and the NPOs themselves, it is the case that international guidance in this area is not mandatory and there are only a few jurisdictions that mandate NPOs to produce general purpose financial reports and undertake this type of reporting.

BC35.11 ~~As such, whilst the~~ Exposure Draft 1 (ED1) contained ~~eds~~ proposals for a mandatory core of narrative reporting, and included a specific matter for comment ~~has been included~~ to gain additional feedback on whether this should be mandatory for all NPOs.

BC35.12 A small number of respondents to ED1 suggested differential reporting either for smaller NPOs, or to make use of efficiencies within groups. Other respondents discussed the resource implications for the introduction of INPAG with one suggesting that narrative reporting should be separated from the main INPAG Guidance on general purpose financial statements. The Secretariat considered this but was of the view that the benefits of increased transparency and accountability of having a consistent minimum mandatory core of reporting that could be applied by all outweighed any form of differential reporting. The Secretariat was also of the view that any form of differential reporting might also make the Section 35 more complex.

Narrative reporting proposal

Scope

BC35.123 The narrative reporting requirements were developed as a mandatory framework, using a principles approach based on the existing IASB Practice Statement and IPSASB Recommended Practice Guidelines (RPGs) and jurisdictional-level frameworks. The IASB Practice Statement and IPSASB RPGs and jurisdictional-level frameworks were used instead of the Integrated Reporting Framework as they are expected to be less complicated for NPOs to apply and will complement the information in the financial statements rather than require NPOs to also apply broader integrated reporting principles.

BC35.134 In developing these proposals, the requirements of the IASB Practice Statement, IPSASB RPGs and jurisdictional-level frameworks were tailored to meet the needs of users of NPO general purpose financial reports and to reflect the capacity and capability of the NPOs that the INPAG is initially aimed at.

BC35.145 Under the proposals for narrative reporting, NPOs would need to:



- present information to enable users to understand what the performance objectives of the NPO are and what it has done during the reporting period in working towards those performance objectives; and
- present commentary to discuss and analyse the NPO's financial statements.

BC35.156 Reporting on these two areas was integrated where possible to reduce repetition and reflect their integrated nature, with the proposals requiring that NPOs provide mandatory information on defined topics:

- **Overview of the NPO** – contextual information that enables users to understand the NPO such as legal form, structure, governance, purpose, mission, vision, main activities and significant relationships.
- **Performance information** – information on performance objectives and plans and what has been achieved with measures and descriptions to demonstrate performance being a mix of quantitative measures, qualitative measures and qualitative descriptions.
- **Financial objectives and strategies** – users with an understanding of the NPO's financial objectives and strategies in relation to its financial position, income and expenditure, net assets and cash flows and how these support the achievement of its performance objectives.
- **Analysis of financial statements** – information on significant changes and trends and how these impact on the achievement of its performance objectives.
- **Description of principal risks and uncertainties** – information on principal risks and uncertainties and how these relate to the NPO's performance objectives and financial objectives and strategies. Any significant changes and how the NPO manages risks and uncertainties should also be included.

BC35.17 Respondents to ED1 agreed with the scope of the mandatory reporting requirements. However, a respondent to ED1 commented that there is a risk that mandatory reporting requirements could create unintended consequences, for example, if the requirements duplicate or conflict with existing regulatory requirements. The Secretariat concurs that this might be a possibility but this risk is mitigated by being principles based and by being based on existing IASB Practice Statement Guidance, IPSASB Recommended Practice Guidelines and jurisdictional level frameworks. However, clarification has been included on the approach to be taken where such circumstances exist. Guidance has been added to encourage the avoidance of duplication of information. Guidance also clarifies that, exceptionally, where there are conflicts that the regulatory requirements will prevail. Where the requirements of section 35 have not been able to be applied because of such conflicts this must be disclosed.

Principles

BC35.168 Sitting alongside this mandatory requirement is-was a proposal that this information be presented in accordance with certain principles including:

- the performance information and financial statement commentary being-should be for the same reporting NPO and reporting period as the financial statements;
- in selecting and presenting the performance information and financial statement commentary the NPO should apply the qualitative characteristics and pervasive constraints on information in Section 2 Concepts and pervasive principles;
- the NPO should also ensure that the performance information and financial statement commentary presented is fair and balanced; and
- non-disclosure of aspects of performance information and financial statement commentary would be permitted where an NPO engages in 'sensitive' activities. This would mean that where the activities of the NPO would be compromised by aspects of the narrative report, for example specific humanitarian aid programs, this can be omitted.



BC35.19 Respondents agreed with the proposals for the information to be presented using these principles (though see below commentary on sensitive information). However, commentaries were made about the need to ensure that there was separation of the information presented in the narrative report and the financial statements. Augmented provisions have therefore been included to be clear that information to be presented in the narrative report must be separate from the financial statements and the explanatory notes. The Guidance has also been amended to clarify that the principles apply to all narrative reporting requirements and not just to performance information and financial statement commentary.

BC35.20 A respondent also suggested that the description of the narrative report should be changed to NPO annual report. The Secretariat considered this but was of the view that narrative report probably best encapsulates the reporting requirements (though NPOs did not have to describe the report as such).

Sensitive information

BC35.1721 Permission to not disclose information was introduced to the proposals following recommendations from the project's Practitioner Advisory Group and a specific focus group that was created to provide additional advice to the INPAG Secretariat on narrative reporting. These groups noted that the mandatory nature of the narrative reporting proposals would cause difficulties for some NPOs if they were required to disclose information that could jeopardise the safety and security of staff, volunteers, or the public that benefit from the goods and services provided by the NPO. They also noted that subsequently requiring NPOs to disclose that they had made use of the permission to not disclose information on 'sensitive' activities could also be problematic, especially if this were to highlight the nature or substance of the information that was not being disclosed.

BC35.1822 It is recognised that there is the possibility that exercising a permission to not disclose sensitive information could be misused by NPOs as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations, particularly if there were no requirements to disclose that information relating to 'sensitive' activities has been withheld. The project's Technical Advisory Group shared these concerns. As such, agreement was reached that where an NPO does use the sensitive information exemption, ~~users-the NPO~~ should be required to ~~disclosure-disclose~~ that the narrative report has been prepared in accordance with the requirements of the sensitive information exemption paragraph. NPOs are not, however, required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information.

BC35.23 Respondents to ED1 agreed that sensitive information could be excluded from the narrative report. Respondents that both agreed and disagreed with the exclusion raised the issue of whether more guidance should be included to ensure that adverse practices are avoided. This included the clarification (initially included in the implementation guidance) that the permission to not disclose information must not be used to hide poor performance or financial problems. This paragraph was moved to the core guidance.

BC35.24 Some respondents were concerned about the transparency of reporting, raising concerns about the rights for of users and the information needed to take decisions. Other respondents who disagreed were concerned that the need to include a statement in the narrative report that the information has been prepared in accordance with the requirements of section 35 for the non-disclosure of the sensitive information could place the NPO, its beneficiaries or staff in danger.

BC35.25 Further outreach supported these concerns and the need to add guidance on the issue. The Secretariat is of the view that the non-disclosure of sensitive information can be a complex issue balancing the need for transparency and accountability and the risks of the reporting of sensitive activities and issues which might prejudice the mission of the NPO. It agreed with TAG's advice on the



need for effective reporting and decided not to make substantial changes to the core guidance. To address the issues raised by respondents implementation guidance has been augmented to add:

- examples of the types of circumstances which could lead to the sensitive information non-disclosure exception;
- new guidance on how an NPO might determine the need to use the permission not to disclose sensitive information;
- new guidance on what should be disclosed if the sensitive information is not reported.

Extended transition period

BC35.1926 It is recognised that for some NPOs, the narrative reporting required by INPAG might represent a challenge, particularly if the NPO is also transitioning to accrual accounting at the same time. Extensive guidance was developed to assist in implementing these requirements through the implementation guide and implementation examples. The option for an extended transition period of two years was supported by a focus group on narrative reporting, and this is being considered alongside other feedback as evidence of support for an extended transition period.

BC35.27 Respondents to ED1 supported the transition period though there was some limited debate about its length. This was also subject to consultation as a part of Exposure Draft 3, where it was proposed in a new Section 38 Transition to INPAG, that for the first two years following the date of first adoption of INPAG an NPO may make an explicit and unreserved statement in its financial report of compliance with the INPAG requirements for the financial statements only rather than a statement of compliance with the full requirements of INPAG. Early adoption of section 35 is permitted.

Additional specific reporting requirements

BC35.208 Responses to ED1 and the consultation paper~~Consultation Paper responses~~, and outreach feedback, did see some support for the inclusion of certain specific reporting requirements, including governance, objectives, service performance, efficiency of resources and risks, including reporting on the risk of harm. These are included as areas that the NPO would be required to report on in the mandatory topics, so have effectively been integrated into these narrative reporting proposals.

BC35.29 ED1 feedback also suggested more guidance was required on the balance of information provided and that there should be effective cross referencing between the financial statements and the narrative report. Additional commentary was added to underline that information should be clear and concise and presented in accordance with the principles of section 35. The Secretariat was of the view that there was already sufficient commentary in section 35 on the need for cross referencing between the financial statements.

BC35.2130 Climate reporting and broader sustainability reporting were also highlighted by some respondents to the Consultation Paper as specific topics for inclusion in NPO narrative reporting. Inclusion of these areas as mandatory requirements was also supported by the narrative reporting focus group. Respondents to ED1 agreed with the scope, which excluded sustainability reporting from mandatory reporting requirements. A small but significant number of respondents indicated that due to the impact and increased prevalence of climate change and the environment that sustainability or ESG reporting should be included as a mandatory element in narrative reporting with some referring to developments in sustainability reporting standards.

BC35.2231 It is recognised that this is an important area for NPOs and their users. Sustainability reporting continues to grow in importance and will continue to do so as the climate emergency is unlikely to diminish. Since ED1 was issued, the International Sustainability Standards Board (ISSB) issued two



standards (S1 General Requirements for Disclosure of Sustainability-related Financial Information and S2 Climate-related Disclosures).

BC35.32 There are, as yet no internationally developed standards for either the public benefit sector or the public sector, either issued by the ISSB, IPSASB or the Global Reporting Initiative (GRI). The initial focus has been 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. Developments in climate reporting and sustainability reporting frameworks are ongoing, and have, to date, been aimed at the needs of private sector entities and their users

BC35.33 Given the broader challenges to introducing mandatory narrative reporting for NPOs, the INPAG Secretariat and the project advisory groups felt that it was premature to require sustainability reporting as a mandatory component of narrative reporting at the current time.

BC35.2334 The proposed approach to narrative reporting does, however, permit NPOs to apply existing climate reporting and sustainability reporting frameworks should they wish to do so and the INPAG implementation guidance includes a signpost to the various frameworks available. This could Use of these frameworks could-be either through a specific climate and/or sustainability report or by reporting on the impacts of climate relates issues and sustainability through the financial statement commentary and performance information presented in areas such as governance, strategy, risk, and performance measures and descriptions.

BC35.2435 Developments in this area, and their impact on broader reporting requirements, are being actively monitored as part of the IFR4NPO project's ongoing work. Any changes to the requirements of Section 35 Narrative reporting to reflect them would be undertaken in accordance with due process.

Other information (non-mandatory)

BC35.36 Respondents raised concerns about the approach to reporting and how non-mandatory other information is disclosed including issues of comparability and how to report over time. The Secretariat agreed that additional guidance would be useful. It therefore added application guidance that:

- confirms that where other information is useful it should if possible be based on standards prescribed elsewhere or sector practices or norms; where these are used they should be disclosed;
- the basis of preparation must described and consistently applied;
- where information is no longer useful it should be discontinued and the reason it is no longer reported included in the narrative report.

Additional resources

BC35.37 A number of comments in the responses to ED1 and at the outreach events sought additional illustrations and examples of effective practice for the various requirements for narrative reporting in INPAG. During its debates on narrative reporting TAG cautioned against the risk that too many illustrative examples in the Guidance might lead to boilerplate disclosures or mean that the Guidance could lean more towards rules based prescriptions rather than being principles based. Instead INPAG webpages have been established for sustainability and ESG reporting and for illustrative examples of current and effective practices in the production of narrative reports.

Annex D – Amendments to Improve the Balance of Information and Support Connected Information

Amended or new paragraphs	Commentary
Additional text at paragraph G35.7	This text augments the commentary on balanced information and confirms that information must not be skewed, emphasised or de-emphasised (note that this is adapted from the IASB Exposure Draft on the Management Commentary (see paragraph 13.7).
New section at paragraph IG35.4	This section highlights the objectives of each of the topics and their interrelationship to encourage a balance of information across all five mandatory topics and to address issues of connectivity between reported information. This has been informed by guidance included in the IASB Exposure Draft on the Management Commentary but based on the prescriptions in INPAG section 35 (to focus on balance and connectivity).
New section at paragraph IG35.5	This section is intended to explain the benefits of setting out the links to other reported information, again to address issues of connectivity, and builds on the specifications in paragraphs G35.29 and G35.30. This has been informed by paragraphs 13.19 to 13.20 in the IASB Exposure Draft on the Management Commentary.

Annex E – Edits and Movements to the Application Guidance in Section 35 (note minor edits may not be recorded)

Original Application Guidance Paragraph	Moved paragraphs or other amendments
AG35.1	Second half of paragraph moved to paragraph G35.3. First half of paragraph moved to Implementation Guidance paragraph IG35.1
AG35.2	Moved to Implementation Guidance (paragraph IG35.23) and cross references updated. Removal of an NPO “goes about” with “intends to accomplish” with regards to performance information and objectives. Last sentence removed.
AG35.3	Moved to Implementation Guidance (paragraph IG35.24) and cross references updated. Removal of an NPO “goes about” with “will accomplish” with regards to performance information and objectives.
AG35.4	First sentence removed for duplication. Second sentence moved to core guidance G35.18. Remaining sentences move to implementation guidance (paragraph IG35.25). Additional confirmation that although performance information is not too detailed it should still be an effective overview of performance.
AG35.5	Moved to Implementation Guidance (paragraph IG35.30). Minor improvements to drafting. Changed cross references.
AG35.6	Moved to Implementation Guidance (paragraph IG35.31). Minor corrections to add reference to resources. Confirmation of how financial objectives and strategies should be drafted.
AG35.7	First sentence moved to Implementation Guidance (paragraph IG35.32). Second and third sentences moved to paragraph IG35.33. Amended from “can” to “may” – first sentence.
AG35.8	Moved to paragraph IG35.34. Added confirmation that the narrative report might include the example of the analysis of the items in the financial statements.
AG35.9	First sentence deleted to remove duplication. Second sentence moved to Implementation Guidance (paragraph IG35.32). Remainder of paragraph moved



Original Application Guidance Paragraph	Moved paragraphs or other amendments
	to core guidance (paragraph G35.22) though a sentence removed for duplication.
AG35.10	Earlier sentences deleted to remove duplication. Remainder moved to core guidance paragraph G35.33. Augmentation to drafting (added reference to consistency of presentation).
AG35.11	First sentence removed for duplication. Remainder of paragraph moved to Implementation Guidance (paragraph IG35.38).
AG35.12	First two sentences moved to core guidance on pervasive principles (see paragraph G35.9). Remainder of the paragraph moved to core guidance on comparability and consistency of reporting (paragraph G35.37).
AG35.13	First sentence removed for duplication. Remainder moved to core guidance paragraph G35.40.
AG35.14	Moved to Implementation Guidance (paragraph IG35.39) but edited for references to performance information and financial statement commentary. Cross reference updated.

Annex E – General Amendments to Section 35, Narrative Reporting and the Implementation Guidance

Amended or Updated Paragraph	Amendments and reason for amendments
G35.2	Minor corrections and new detail on scope.
G35.5	Changed references from “performance information and financial statement commentary” to “narrative reporting information”.
G35.7	Moved this paragraph and added commentary on what balanced information is. Removed last sentence as it referred only to performance information and financial statement commentary.
G35.8	Changed references from “performance information and financial statement commentary” to “narrative reporting information”.
G35.13	Minor drafting augmentations.
G35.17	Augmented reference to illustrate that this might include service performance. Minor punctuation improvements.
G35.19	Removed reference from “discuss” to “report”.
G35.23	Removed “should” and changed to “shall” as core guidance.
G35.31	Changed references from “performance information and financial statement commentary” to “narrative reporting information” and minor drafting augmentations.
G35.32	Confirmation that the reporting requirements are for reporting periods.
G35.34	Changed references from “performance information and financial statement commentary” to “narrative reporting information”.
G35.36	Minor drafting augmentation.
G35.38	Changed references from “performance information and financial statement commentary” to “narrative reporting information”.
G35.39	Minor drafting augmentation.
Section 35 - various	Paragraph numbering amended.
Section 35 - various	Paragraph cross references updated.
IG35.1	Cross reference to INPAG webpages added.
IG35.2	Minor punctuation amendments and cross reference change.



Amended or Updated Paragraph	Amendments and reason for amendments
IG35.3	Typographical correction.
IG35.11	Changed references from “performance information and financial statement commentary” to “narrative reporting information”.
IG35.16	Changed references from “performance information and financial statement commentary” to “narrative reporting information” minor drafting augmentation.
IG35.20	Added the word “recipients”.
IG35.22	Minor punctuation amendments.
IG35.36	Minor drafting augmentation.
Section 35 Implementation Guidance – various	Paragraph numbering amended.