

16 September 2024

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Dear Sam

### **International Non-Profit Accounting Guidance Exposure Draft Part 3**

As the representatives of over 310,000 professional accountants around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the International Non-Profit Accounting Guidance (INPAG) Exposure Draft Part 3 (“the ED”). We make this submission on behalf of our members and in the public interest.

We are strong supporters of the Non-Profit Organisation (NPO) sector and many of our members are involved with the sector in Australia and New Zealand as advisors, auditors, employees and volunteers. As noted in our earlier submissions, both jurisdictions operate NFP reporting frameworks which make use of IFRS and IPSAS principles and we have therefore reviewed the ED using this experience. In these jurisdictions, the term not-for-profit (NFP) is commonly used to refer to organisations that make up the sector. Since the ED refers to these organisations as NPOs, we have used the terms interchangeably throughout our submission based on the context.

#### **Overall comments**

We commend the IFR4NPO for the development of proposals in the ED that focus on the needs of NPOs, seeking to enhance the transparency and credibility of NPO financial reports and improve the accountability of those charged with governance. We are of the view that, in the medium to long term, the proposed requirements will provide a fit-for-purpose solution that addresses a range of significant, expensive and inefficient reporting deficiencies in the NPO sector for many jurisdictions and promote the financial report as an effective communication tool. This will ultimately contribute to a more financially sustainable NPO sector.

We also commend the IFR4NPO for its efforts to keep the accounting requirements focused on the needs of NPOs, principles-based and supported with sector specific application guidance in known difficult areas. This should assist NPOs in overcoming the distinct implementation challenges, particularly given their limited financial skills and reliance on volunteer staff and encourage widespread adoption.

We are therefore pleased to provide support for most of the proposed requirements in the ED. We believe they will enable NPOs to demonstrate transparency to their stakeholders on their strategic, financial and operational activities, stewardship of resources and overall accountability. However, we have some suggestions for improvements which are discussed in the Attachment.

#### **Practical implementation challenges**

As the INPAG nears completion, we believe it is important not to underestimate the practical challenges that are associated with such a significant transformation in global NPO reporting practices. We therefore encourage the IFR4NPO to continue its efforts with preparers, donors, software suppliers, governments and standard setters to ensure they understand the benefits that can be obtained from global harmonisation in this sector and the efforts those bodies need to take to support its implementation.

Similarly, it will be critical for the IFR4NPO to provide ongoing support for the INPAG by way of developing further education programs and implementation material and the formation of a transition resource group. This ongoing support will help preparers as they make the necessary judgements required by the new principles-based reporting guidance and document these decisions for auditors.

As part of this process, it will also be important for the IFR4NPO to ensure that it clearly communicates to its stakeholders the assumptions about the intended NPO audience that have underpinned its cost benefit decisions in developing the INPAG. This will provide a clear framework for applying the INPAG in different jurisdictions.

We also recommend a timely post-implementation review to assess user experience, identify implementation challenges and further shape the education program going forward.

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au) or Zowie Pateman (CA ANZ) at [zowie.pateman@charteredaccountantsanz.com](mailto:zowie.pateman@charteredaccountantsanz.com)

Yours sincerely

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## Attachment

### Question 1 – Fund accounting

#### *Sections 5 and 36 – Questions 1(a), 1(b), 1(c), 1(e)*

We broadly support the inclusion of fund accounting because it facilitates robust communication with donors and reduces the duplication of reporting requirements that satisfy different user needs and the associated assurance costs.

#### ***Presentation of funds on Statement of Income and Expenses***

We support removing the requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses, as noted in our submission to [ED 1](#) (Question 6). Presentation of funds between funds with restrictions and funds without restrictions, including comparatives, on the face of the Statement of Income and Expenses is complex. In our view, providing fund accounting disclosures in the notes would be sufficient to meet user needs.

#### ***Lack of clarity in terminology***

Feedback we gathered from our constituents indicates that there is a need for more clarity about how the term “fund” interacts with other terms such as “programmes”, “projects”, “activities”, which can be used interchangeably. Hence, we recommend adding additional application guidance and illustrative examples to bring more clarity to these terminologies.

We are also concerned that the criteria for the identification of different fund types based on “reasonable expectation” poses a risk that funds will be identified for which the cost benefit associated with the complexities of fund accounting may be inappropriate. Therefore, we recommend that the application guidance and illustrative examples better explain how applying materiality, aggregation and disaggregation principles, undue cost and effort and the need to maintain consistency over the years should be balanced against user needs in identifying these “reasonable expectations”.

#### ***Allocating expenses***

Although we recognise that there are challenges in allocating shared and support costs to funds, we feel that there should be transparency in the allocations to restricted funds. Therefore, we support the proposed requirement that the relevant expenses should be tracked and charged against a fund with restrictions even if there are currently insufficient resources to cover these as it provides transparency about the use of individual funds and activities financed by that fund. Additional disclosure that explains the reasons for deficit in the funds and how the NPO plans to finance that deficit also provides transparency about the NPO’s operations.

In addition, such disclosure and tracking of expenses provides a rational basis to communicate with donors regarding future funding requirements.

#### ***Accounting infrastructure***

The feedback from our constituents indicates that accounting software packages currently available on the market for NPOs are not well designed to allow for the splitting of income and expenses. Therefore, we encourage the IFR4NPO in its efforts to liaise with software providers to develop fit for purpose programmes that will support this upgrade in NPO reporting.

## Question 3 – Supplementary information

### Section 37 and INPAG Practice Guide 1

We commend the IFR4NPO for introducing proposals on optional supplementary information with the aim of reducing preparation and assurance costs by avoiding multiple reporting and duplicating assurance to meet different donor requirements. However, its success will depend on the support of the donor community and so we continue to encourage the IFR4NPO to work with these groups to encourage recognition of the value of this approach.

## Question 7 – Application of fair value

### Sections 12, 16, 17 and 18

In general, feedback from our members in the NFP sector indicates that the use of fair value is a complex area and difficult to apply in practice. Assumptions and inputs for using fair value such as highest and best use, exit value and market participant assumptions are not readily available and therefore perhaps less practical in the NFP sector.

We therefore appreciate the inclusion in the INPAG of clear implementation guidance and examples of highest and best use, restrictions, donated assets and most advantageous market, which would be our key areas of concern.

However, we still have concerns about the extent to which the use of level 3 inputs will be required and so recommend that more consideration be given to the identification of assets where the temporary use of deemed cost can be justified until such time as the fair value chapter is comprehensively reviewed for its suitability in the NPO sector. An example of assets where this difficulty arises would be concessionary leases and other similar arrangements involving rights to use assets at concession rates.

## Question 9 – Combinations of entities

### Section 19

Feedback we gathered for local consultations identified that business combinations in the NFP sector are complex and differ from the for-profit sector, with challenges being associated with the identification of acquirers, fair value and assessment of control. We therefore welcome the additional guidance that has been included in the ED to support these issues.

We also support the proposed exemption to reassessing assets when recognising a bargain purchase for two NPOs that have net assets as it seems to be a practical approach to business combinations.

## Question 10 – Other topics

### Sections 14, 15, 20 and 34

#### *Concessionary leases*

As noted in our comments on the fair value section, feedback we received for local consultations on similar reporting frameworks indicate that concessionary leases are a problematic area. Therefore, we recommend including guidance on valuing concessionary leases as a temporary measure until such time as the fair value chapter is comprehensively reviewed.

### ***Agriculture in NPO context***

Feedback from NFPs in our jurisdictions indicates that agriculture requirements could be beneficial as community gardens, cultivating plants or rearing animals for communal purposes are common in the NFP sector.

### **Other matters**

#### ***Education and support***

As noted in our cover letter, the lack of financial literacy and resources in the NFP sector globally represents a significant challenge to the effective implementation of the INPAG globally. While it offers substantial benefits in the medium to long term, considerable effort will be required in the short term to educate donors and preparers on the value of the kinds of improved governance and financial management practices that this guidance will impose. Nevertheless, we recognise that this whole shift in reporting is an essential starting point to bring improvements to the entire NFP reporting ecosystem.

The CPA Australia research paper; [Annual reports of Australian Not-for-profit Organisations](#), identifies that even in a relatively robust NFP reporting environment such as Australia, financial statements are recognised as a valuable reporting tool, but that resource constraints significantly impact the appetite for financial reporting reform. Hence, it is important to clearly communicate to preparers, users and donors that the new standardised financial statements have been developed with the needs of the NPO sector in mind and have as their aim ensuring that the financial statements are an effective communication tool, not a compliance exercise. If properly implemented, they should significantly improve the way NPOs communicate with stakeholders and demonstrate accountability in new and meaningful ways.

Examples of the kinds of resource material we provide to our members and others in the NFP sector are:

- [Financial management and governance guide for NFP organisations \(CPA Australia\)](#)
- [Enhancing not-for-profit and charity reporting \(CA ANZ\)](#)