

## **Stand up for International Standards for NGOs!**

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NGOs are evolving and developing rapidly as they try to tackle the biggest global challenges of the 21<sup>st</sup> century: climate change; global inequality and poverty; complex political and humanitarian emergencies. It is estimated that there are at least 50,000 international Non-Governmental Organisations (NGOs) and 90% of these have been created since 1970<sup>1</sup>. There are many millions of national NGOs, including more than a million NGOs in India<sup>2</sup>. The scale of the financial activities of NGOs is even harder to estimate, particularly if any attempt is made to value the contribution of volunteers, but is probably in the US\$ trillions. However, despite the scale and importance of NGOs globally, there are currently no international standards which have been tailored to the accounting and reporting needs of NGOs. The lack of these reporting standards also contributes to the lack of reliable information about the number, financial activities and wider contribution of NGOs.

In the UK we think regulation, accounting and reporting for NGOs are important and have developed and refined a widely respected Statement of Recommended Practice (SORP) for charities over many years. In 2009, The Charity Commission and the Office of the Scottish Charity Regulator published its research on 'Charity Reporting and Accounting: Taking Stock and Future Reform'. This research included a national Forum, 28 regional roundtable events and interviews with stakeholders and enabled over 1000 people to contribute their views. A key finding was that high-quality narrative and financial reporting by charities is essential to securing sustained support from donors and from the wider public. Users of the accounts want to understand charities' achievements as well as their financial activities in order to judge whether the charity is worthy of support.

The International Accounting Standards Board (IASB) is in the process of creating International Financial Reporting Standards (IFRS) drawing on expertise from across the world. This should provide an opportunity to build on good practice

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<sup>1</sup> Keane, R (2003), p.5.

<sup>2</sup> Edwards, M et al (1999) p.4.

developed in the UK and elsewhere and create a new international standard for NGOs. However, the IASB has decided to prioritise developing a standards framework for profit-making organisations rather than simultaneously developing standards that would be more applicable to NGOs. While the IASB has stated it plans to subsequently modify this framework for not-for-profit entities, it has yet to set a timetable for this. Mango believes that NGOs should be a higher priority for the IASB and shares the UK Charities Commission's concern that "insufficient weight will subsequently be given to the particular requirements of reporting for not-for profit entities."<sup>3</sup>

UK charities have been concerned that they will lose the UK Charities SORP and be required to adopt International Financial Reporting Standards (IFRS) designed for the profit-making companies from December 2012. Charities have therefore been pressuring the UK Accounting Standards Board (ASB) to retain the charity SORP or develop similar standards which can be applied alongside IFRS in the UK. In response, the UK ASB has committed to developing a "Public Benefit Entities standard which would be a 'differences only' standard: covering issues which IFRS do not address."<sup>4</sup>

While this UK Public Benefit Entities standard may retain some of the good practice developed in charity accounting and reporting in the UK, this may mean that the IASB attaches an even lower priority to developing an IFRS which meets the needs of NGOs. However, it is encouraging that the IASB's new vice-chair, Ian Mackintosh who was appointed in October 2010, has recent understanding of the issues around the charity SORP from his previous role as Chair of the UK ASB.

The widespread support in the UK Charity sector for high-quality narrative and financial reporting by charities reflects the positive benefits such reporting has for charities and users of their accounts. In Mango's experience there are also a number of significant problems that arise for NGOs in other countries due to the absence of a recognised international standard.

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<sup>3</sup> Letter of 16 November 2009 from the UK Charities Commission to IASB  
<http://www.ifrs.org/NR/rdonlyres/BAF6B826-8A25-46CB-AC78-DC27993F73D3/0/CL3.pdf>

<sup>4</sup> Reported in the minutes of the UK Charity Commission's SORP Committee's meeting of 8 July 2010  
<http://www.charity-commission.gov.uk/library/ap2080710.pdf>

The most critical issue is that the lack of international standards reduces the transparency of NGOs. NGOs recognise the need to improve their transparency and accountability. A number of initiatives were mentioned during a consultation carried out by DFID in September 2010 on options for implementing the UK Aid Transparency Guarantee such as: “the Open Forum on CSO Development Effectiveness; the International NGO Accountability Charter; Global Reporting Initiatives attempt to develop sector specific guidelines for NGOs and Oxfam GB released details of expenditure on 1017 projects in 2009-10.<sup>5</sup>”

Introducing standard approaches to reporting should improve the quality of information available to donors and other stakeholders of NGOs. This should improve effectiveness and lead to more sharing of learning and good practice - particularly if there are requirements to report on and analyse achievements similar to the UK SORP. Reporting standards should therefore be seen as one component of a wider agenda of understanding and improving NGO effectiveness.

The diversity and inconsistency of accounting and reporting complicates the preparation of accounts for NGOs. For example, Mango has seen inconsistent treatment of such items as donations of capital items within a single set of NGO accounts, (not just between NGOs or countries), because different donors have different requirements about how such items should be disclosed. The introduction of standards should therefore reduce the administrative burden of preparing accounts to meet a variety of different donors’ needs.

Inconsistencies in treatment also complicate the audit process. The lack of international standards for NGOs also means that auditors in many countries are not trained to deal with the specific requirements of NGOs. These factors reduce the confidence that donors have in audited accounts of NGOs, which means they often request additional reports and project audits. If donors can have confidence in audited accounts which meet their needs, this could generate significant efficiency savings. This is one of the reasons why the International Organisation of Supreme Audit Institutions (INTOSAI), the members of which audit the aid programmes of the EU and other national governments, is also promoting an international standard for NGOs as part of an

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<sup>5</sup> DFID Summary of online discussion and submissions from 78 organisations <http://mande.co.uk/blog/wp-content/uploads/2010/09/2010-Summary-of-Huddle-Discussions-on-UKATG.pdf>

integrated accountability framework that comprises accounting, reporting and audit standards. Within the context of this INTOSAI initiative, the US Governmental Accountability Office and the UK's National Audit office focus on the adequacy of the IPSAS cash-based standard and the Norwegian Audit Office on reporting standards. "INTOSAI is convinced that the use of appropriate international standards will substantially improve transparency and accountability while at the same time making life for NGOs much easier.<sup>6</sup> "

International Standards would therefore bring considerable benefit to donors as well as NGOs. However, it is important that the drive for improved transparency and reporting enhances rather than detracts from other initiatives being taken to improve accountability and performance of NGOs. Developing a new standard for NGOs should provide an opportunity to improve performance reporting in NGOs in ways that encourages downward accountability to, and empowerment of, beneficiaries.

In Mango's view, downward accountability is a critical and essential element of good governance for NGOs. While audit can help encourage NGOs to maintain internal controls to prevent and detect fraud, the biggest risk to NGOs is that they work with the wrong beneficiaries, or do not adequately involve their beneficiaries in identifying and addressing their own priorities. "A particular challenge for aid is that there is a broken "feedback loop" connecting the intended beneficiaries and decision-makers<sup>7</sup>." Techniques have been developed to assess effective implementation of downward accountability, such as the certification process developed by the Humanitarian Accountability Partnership<sup>8</sup>. New International accounting standards for NGOs should incorporate these practices and require NGOs' annual reports to demonstrate how they are using continual feedback from beneficiaries to improve their performance.

There is a risk that accounting setting bodies, such as the IASB, will not have the skills or experience to reflect these wider issues around reporting NGO performance in a new standard. There are also difficulties in auditing narrative reports of the kind that is useful to users of NGOs' accounts. Mango would

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<sup>6</sup> Quote provided for this paper by Jan Pieter Lingen, European Court of Auditors, Head of Cabinet of Mr Engwirda, Member and Chair of the responsible INTOSAI Working Group.

<sup>7</sup> Barder, O (2009), p.10

<sup>8</sup> See [www.hapinternational.org](http://www.hapinternational.org)

recommend that NGOs and academics be involved in developing a new standard, as was the case in the development of the UK Charity SORP.

In conclusion, NGOs are too important and too different from for-profit companies to be ignored by accounting standard setting bodies. Research on the charity sector in the UK has demonstrated that users of their accounts value high-quality narrative reporting that analyses a charity's achievements as well as financial reporting in judging efficiency and effectiveness. Mango's experience and other NGOs' and academic research internationally also demonstrates the importance of using downward accountability and feedback from beneficiaries to improve and assess NGO performance. It is time this established good practice in reporting on NGO performance was promoted through the design and implementation of international accounting and reporting standards for NGOs. Mango is keen to help build a broad international coalition to encourage and support the IASB to develop international accounting standards for NGOs.

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