



Technical Advisory Group

Issue Paper

AGENDA ITEM: TAGFG04-03

3 December 2024 – Online

Supplementary Information – Response to ED3

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

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Supplementary Information – Response to ED3

1. Introduction

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

2. Background

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

- 2.5 A survey was carried out that considered some of the reporting issues that related to both Section 37 and INPAG Practice Guide 1. These have been incorporated into the analysis of responses where relevant.
- 2.6 Some of the feedback from the SMCs have been presented to both PAG and the Donor Reference Group (DRG) and their feedback is included in the following commentary.

3. Wider comments on Section 37 and the Practice Guide

- 3.1 Over 90 percent of 128 respondents to the survey to accompany ED3 were of the view that it was either very important or somewhat important that INPAG is accompanied by the Practice Guide.
- 3.2 A respondent commented that they have some reservations about the scale and wide scope of the INPAG project. They suggest that both Section 37 and its related Practice Guide should be published separately from INPAG. However, if Section 37 is included as part of the final guidance, it should be relocated, so that it follows all general purpose financial reports sections.
- 3.3 The Secretariat notes these comments, but it is important that Section 37 is a part of the general purpose financial statements sections to increase accountability and provide an assurance base for the supplementary statements. It is currently included towards the end of the INPAG Guidance and in line with the proposals to renumber INPAG it remains the penultimate section.
- 3.4 A respondent questioned whether it would be an option for an NPO to produce supplementary information on a cash basis with a reconciliation to the accrual basis balance in main INPAG reports in the notes to the supplementary information.
- 3.5 A further respondent commented that many donors require regular 'liquidation' reports that show the amount of cash spent, and the amount remaining, to calculate the next remittance. These are usually on a cash basis, while the supplementary statements in the Practice Guide are on an accrual basis. They were of the view that the implementation guidance should spell out these differences and the implications, such that:
- NPOs appreciate the importance and significance of maintaining accrual-based records, even if reporting to donors is on a cash basis.

- Donors appreciate the distinction between end of year accrual based audited grant/project financial reports for accountability, and periodic liquidation reports for remittance purposes.

- 3.6 The Secretariat considers that it is important that the supplementary statements are on an accrual basis to ensure that this is reconcilable to general purpose financial reports and support accountability. However, recognising that donor reporting is often on a cash basis the Practice Guide allows for reconciliations to cash income/cash expenditure/ and to cash income and expenditure (relevant cash inflows and outflows). The Secretariat considers that some additional commentary should be able to be included in the Practice Guide to discuss the importance of accrual based reports and the ability to reconcile them to the financial statements.

Question 1: Do TAG Members have views on wider issues raised by respondents to ED3 for Section 37 and the Practice Guide?

4. Application of Section 37 where supplementary statements are not produced

- 4.1 For SMC3(a) 90 percent of respondents agreed that the requirements of Section 37 do not have to be met unless supplementary statements are prepared in accordance with the Practice Guide with eight percent disagreeing and two percent neither agreeing nor disagreeing. Fifteen respondents did not answer this SMC.
- 4.2 Several respondents that agreed with the SMC commented that this exemption provides flexibility for NPOs and removes an unnecessary burden on preparers that do not prepare supplementary statements. Another respondent commented that this would ensure that the financial statements remained streamlined and relevant. A further respondent noted that this would be important for smaller NPOs.
- 4.3 A respondent that agreed queried the intention to limit the application of Section 37 to donor related statements prescribed by the Practice Guide only as the wording was unclear. The Secretariat is of the view that the intention of Section 37 is to work with supplementary statements that are produced in accordance with the Practice Guide. The Secretariat suggests that paragraph G37.1 includes appropriate clarification that the application of Section 37 is limited to supplementary statements per the Practice Guide.

- 4.4 A respondent that agreed questioned whether any reference to the 2005 Paris Declaration on Aid Effectiveness should be included. The same respondent enquired whether “the INPAG” can include guidance on the treatment of expenses that donors will not recognise and whether there should there be a requirement to reconcile supplementary statements to the financial statements?
- 4.5 The Secretariat is of the view that the production of supplementary statements in accordance with the Practice Guide is consistent with the Paris Declaration objective principles and particularly the principles of harmonisation, results and accountability – in that they should support the alignment of information between donors and promote measurability and accountability. However, it considers that such commentary may not be relevant to the financial reporting specifications of either the Section 37 or the Practice Guide and may detract from key guidance.
- 4.6 The Secretariat also considers that as paragraph SS.16 covers ineligible costs, it addresses the circumstances where donors will not recognise expenses. This paragraph also includes a requirement for a reconciliation to the general purpose financial statements. The Practice Guide includes other reconciliation requirements to the financial statements including:
- SS17 - the opening and closing balances of the funds related to a specified activity which must be cross-referenced and reconciled to the Movement in Funds note in the general purpose financial statement.
 - SS23(d) a reconciliation where support costs are included in the disclosures required by Section 24 Part II *Classification of expenses*.

Question 2: Do TAG Members consider that the reporting requirements for expenses not allowed by donors is addressed and that appropriate reconciliations are available to NPOs?

- 4.7 A respondent that disagreed commented that an NPO should have the flexibility to adapt its reporting format to its specific information needs and the expectations of financial statement users. The respondent commented that supplementary information is essential for providing a complete and relevant view of the organisation and limiting how it is presented could restrict the report’s clarity and usefulness for stakeholders. Two respondents that disagreed were of the view that the requirements of the disclosure can be met by explaining [the relevant information] in the notes to the financial statements rather than the supplementary statements.

- 4.8 Feedback during stakeholder outreach throughout the course of the IFR4NPO project has highlighted the lack of harmonisation of donor reporting formats and that this results in a significant burden on NPOs. The Practice Guide seeks to reduce that burden. The Secretariat considers that the Practice Guide provides a mechanism to support harmonisation. If an NPO's users deem that alternative reporting formats are necessary, they can still be used.
- 4.9 One respondent to this SMC disagreed with the requirements of Section 37 not being mandatory. They were of the view that the whole of entity disclosures are essential to ensure transparency in the information provided. The Secretariat agrees that Section 37 will promote transparency but is of the view that where supplementary statements are either not produced or not produced in accordance with the Practice Guide an opportunity should be sought to minimise the reporting burdens for NPOs.

5. Presentation of the supplementary statement in general purpose financial reports

- 5.1 Ninety-three percent of respondents agreed with SMC3(b) that a whole of NPO supplementary statement need not be presented if the additional information is already in the financial statements and/or notes. Seven percent disagreed. Seventeen respondents did not answer this SMC.
- 5.2 Many of the respondents that agreed with this SMC were of the view that a whole of NPO supplementary statement need not be presented because it will avoid duplication and information overload, reduce the reporting burden and make the general purpose financial reports more "user friendly".
- 5.3 One respondent commented that they did not find any clear difference between the information in the supplementary statement and information already provided in the financial statements.
- 5.4 A respondent that disagreed commented that the supplementary statement presentation is much more user friendly, and the subtotals and balances are important for reconciliation purposes.
- 5.5 Two respondents were of the view that although the disclosures may appear elsewhere in the financial statements, presenting a supplementary statement in accordance with INPAG Practice Guidance 1 provides a standardised structure that enhances comparability and transparency.

- 5.6 The Secretariat agrees that the supplementary statement brings the information together and augments transparency. However, it is of the view that if the information is already provided in the financial statements this has the potential to duplicate information which can obscure the key messages in the financial statements, which would not improve accountability and transparency.
- 5.7 Some DRG members were strongly supportive of the disclosures being presented in a single note for reasons of accessibility and transparency. PAG members supported retaining the current approach which allows but does not require the disclosures to be presented as one note.

Question 3: Do TAG members have any further views on whether a whole of NPO supplementary statement should be provided if the information required is already presented in the financial statements?

6. Reconciliation to the financial statements

- 6.1 One of the respondents to SMC3(b) that disagreed requested clarification on whether movements relating to revaluation reserves and equity claims, which do not relate to funds, need to be included in the whole of entity supplementary information disclosure.
- 6.2 Paragraph G37.2 specifies that the information must conform to the format of INPAG Practice Guide 1. Paragraph G37.7 specifies that information must be prepared in accordance with the reporting boundary of the NPO or be reconciled to it where the supplementary statement departs from the boundary. However, although the Practice Guide refers to the reconciliation to the Movements in Funds note, Section 37 is not explicit about the elements of the financial statements to which the note should reconcile (and thus the totality of the income/expenses to be reported in the note).
- 6.3 The Secretariat is of the view that it will be useful to clarify the elements of the financial statements to which the supplementary statements need to be reconciled. The Secretariat proposes adding the clarification that for the whole of entity supplementary statement required by Section 37:
- (a) total income must be total income as presented in the Statement of Income and Expenses

- (b) total expenses must be total expenses as presented in the Statement of Income and Expenses
- (c) foreign exchange gains and losses must be foreign exchange gains and losses as presented separately in either, or both the Statement of Income and Expenses and the Statement of Changes in Net Assets
- (d) transfers between funds are zero (as they net out across the NPO)
- (e) any other financial movements must total to other amounts presented in the Statement of Income and Expenses and any other items of other comprehensive income presented in the Statement of Changes in Net Assets not included in a) to c) above.

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

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

Question 4: What are TAG members' views on the proposed approach to clarify which elements and transactions in the financial statements need to be reconciled with the note required by Section 37?

7. Format of the supplementary statement

- 7.1 Ninety-one percent of respondents to the consultation in ED3 agreed with the format of the supplementary statement per SMC3(c). Nine percent disagreed. Seventeen respondents did not answer this SMC. Just under eighty percent of the 120 respondents to the survey that accompanied ED3 agreed or agreed with caveats to the format of the supplementary statement.
- 7.2 There were numerous supportive comments from stakeholders including that the standardised expenditure headings are particularly helpful. This included five donor respondents, one of whom indicated that the format is clear and well-structured, making it easy for NPOs to disclose additional project or grant-specific information.
- 7.3 Other supportive comments from donor respondents focused on the harmonisation of information needs, with one commenting that it was likely

to be aligned to best practice, but another suggested that it would be important to demonstrate that the Practice Guide is harmonised with all major donors. Donor and other respondents also commented on the flexibility offered by the example reporting formats in Annex B to the Practice Guide. Of note was the ability to report over multiple periods and multiple grants and that the supporting notes or sub categorisation would offer more granular reporting.

- 7.4 More detailed comments have been provided in Appendix B and the Secretariat would seek TAG's views on its responses. The following key issues were raised.
- 7.5 As reported in Appendix B a few respondents made comments on the reporting of support costs, with some donor respondents expressing a preference that there is a mandatory reporting requirement to report support services separately. As currently drafted the Practice Guide offers flexibility of reporting, allowing support costs to be separately reported or absorbed into the analysis of expenses by nature. The Secretariat suggests that this might be revisited in the light of emerging practice.
- 7.6 One donor suggested that support costs be described as indirect costs, providing symmetry to the reporting of direct costs and encouraging comparison between the two. While support costs could instead be described as indirect costs, this would have implications for INPAG (eg section 24 Part II *Classification of expenses*) itself as there are significant benefits to the consistent use of terms. The Secretariat does not therefore propose to change the description but can amend the Practice Guide to make clear that indirect costs are an alternative term.
- 7.7 Respondents who both agreed and disagreed (including a donor that disagreed) suggested that NPOs should be allowed flexibility with the format of the supplementary statement to meet the individual reporting requirements of various donors or funders. This could, for instance, involve the inclusion of additional lines. However, the Secretariat believes that a standardised format should be upheld to promote harmonisation and ease the reporting burden on NPOs. There is flexibility through the additional formats in Annex B to the Practice Guide and the provisions for additional reporting in paragraph SS.23. The Donor Reference Group (DRG) also supported maintaining the standardised format.

- 7.8 Comments also focused on whether some of the optional reports (for example, the budgetary format) should be made mandatory. This included a donor respondent commenting that this would need to be mandatory if it were to replace their current reporting. The Secretariat is of the view that funders can take their own decisions on this as a part of their requirements for financial reporting. The DRG also supported this approach.

Question 5: Do TAG members agree with the Secretariat's view that the supplementary statement format cannot be varied?

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

- 7.9 Two respondents commented on the reporting of the costs of capital and inventory – one respondent seeking a mechanism to reconcile non-cash items and another seeking to simplify reporting by removing the optional presentation of the acquisition of capital items and inventory. The Secretariat is of the view that Annex C to the Practice Guide provides a mechanism to reconcile non-cash items.
- 7.10 One of the donor respondents in their response to SMC 3(e) suggested other reporting needs which might be considered for inclusion in the supplementary statements:
- a) core funded grants where less focus is placed on financial reporting of the donor and more on the overall expenditure of the organisation
 - b) where funds provided to a grantee are re-granted to other organisations – the donor would seek additional cost granularity and information on the sub-grantee's activity and the expenditure they are incurring
 - c) future cashflow projection for the project (and the organisation if there are going concern issues identified) and variance analysis of budget versus actual.
- 7.11 The Secretariat is of the view some of these additional reporting requirements might not have a universal application. Items a) and c) could be explored through the inclusion of additional statement variants. The variants outlined in Annex B to the Practice Guide were not intended to be restrictive but examples of the types of information that could be provided. This could be made clearer in the Practice Guide. Option b) can be delivered by providing more granular information in accordance with paragraph SS.23c) using the existing INPAG Guide and the Secretariat is of the view that no substantive additional guidance is needed.

- 7.12 A suggestion was made that there should be more “practical” examples included in the Practice Guide, and the Secretariat is of the view that it may be useful but would welcome TAG’s views on this. Suggestions were also made in response to SMC3(d) for more examples to illustrate how this format applies in different contexts. The Secretariat is of the view, however, that exemplification for different types of NPOs might be best suited to educational materials.

Question 7: Do TAG members have any views on the summary of respondents’ comments on the format of the supplementary statement in Appendix B?

8. Reporting of capital and inventory related costs in the supplementary statements

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

accrual and cash basis reporting or would not allow for the reporting of the acquisition costs of these items.

- 8.5 Both PAG and DRG members commented that the current format for presenting the optional sections (and adjusting accrual accounting transactions for these items) was not easily accessible to users. However, there was no suggested change to the overall approach. One DRG member suggested the use of more lay terms to describe the accounting adjustments. Another suggestion was to have separate lines in the expense analysis that contain the amounts removed in the optional section of the statement. For example, the expense analysis could be expanded to have a line for depreciation or the use of inventory items. The Secretariat agreed to consider how the optional section for capital and inventory items might best be presented.
- 8.6 A few respondents sought clarification on the consistency of treatment of the approach across all capital items used over time and separately the need for a consistent approach to using the option for capital and inventory items.
- 8.7 The Secretariat is of the view that this approach should be used consistently across all capital items and throughout the reporting periods of a specific set of activities but accepts that different donors will have different requirements. The Secretariat will amend the Practice Guide to clarify this point.
- 8.8 The current draft of the Practice Guide allows an NPO to make a different decision about the reporting of the acquisition costs of capital and inventory items. If two separate approaches are used for the items for a single supplementary statement, it might lead to confusion for the statement's users. However, the Secretariat proposes to maintain the options to allow flexibility to meet stakeholder requirements but would seek TAG's views.
- 8.9 A respondent sought clarification on whether the depreciation being removed is the charge that year for all grant funded assets, or only the depreciation relating to the grant funded acquisitions in the financial reporting period. More guidance was also sought on how to calculate the figure for 'opening balance including inventory and capital costs'.
- 8.10 The Secretariat is of the view that if the option in the supplementary statement is used, once depreciation is removed for an acquired asset it should also be presented as being removed in the optional section of the statement for future reporting periods until this asset is depreciated or the specified activity to which the grant relates is completed. This is to ensure

that the value of the closing reserves will be able to be reconciled under the accrued and optional presentations and avoid overstating the cost of the asset.

- 8.11 Depreciation on assets not acquired specifically for the specified activity, but which nevertheless are used for to perform the activity, will be included as depreciation within expenses. These assets are not eligible for inclusion in the optional supplementary statement section. The Secretariat considers that it may be useful to include more guidance on the operation of these balances.

Question 8: Do TAG members consider that the Secretariat should explore the option for simplification of the reporting of capital and inventory acquisition costs?

Question 9: Do TAG members consider that NPOs should be able to apply the options for the reporting of the acquisition cost of capital and inventory items separately or should there be consistent treatment for both? Does this need to be clarified in any way?

9. Supplementary statements and general purpose financial reports

- 9.1 Eighty-two percent of respondents agreed with SMC5(e) that the supplementary statements are not part of the general purpose financial report but can be published as an annex. Ten percent disagreed and eight percent neither agreed nor disagreed. Fourteen respondents did not answer this SMC.
- 9.2 Respondents indicated that such an approach:
- reduces the burden of donor-specified reporting
 - offers a framework of extended assurance that is likely to reduce the desire for additional donor-specific reporting and related limited assurance/certification
 - is useful as a document attached to the general purpose financial reports to show detail of a specific project/funding stream which strikes a good balance between comprehensive reporting and focused financial disclosure
 - ensures that stakeholders who need in-depth information can access it without navigating through a more complex main financial report.
- 9.3 Other respondents noted that clear separation of the two financial reports was important if presented in the same publication because:

- this would otherwise confuse the general reader of the financial statements by introducing variation between NPOs in their reporting
- some of the information presented in the supplementary statements may not be prepared in accordance with INPAG but entity-specific or donor requirements
- separation helps keep the main report focused and clear, while the appendices can provide detailed additional information without overloading the primary report.

- 9.4 The Secretariat notes the supportive comments and agrees that where an NPO provides information that is not a part of the general purpose financial reports then there should be clear demarcation between the two.
- 9.5 A respondent that disagreed commented that not all users will appreciate that such an annex is not part of the general purpose financial report (GPFR). They continued that these should not be directly associated with the GPFR but may be included as other Information which the audit will cover under *ISA 720 The Auditor's Responsibilities for other Information*. Their view was that including the supplementary statements as an annex to the GPFR creates a direct association with the GPFR and thus the auditor must consider, which will translate into additional work and cost. A respondent that neither agreed nor disagreed also raised auditor issues under ISA 720.
- 9.6 The Secretariat concurs that providing information with the general purpose financial report will at the very least be subject to the reporting requirements of ISA 720 and will incur audit work. The auditor will be required to read the accompanying information and consider whether it is materially inconsistent with the financial statements or whether the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists. At the same time, however, this will not mean that it has been subject to an audit opinion and the same assurance provided as for information presented in the general purpose financial statements (ie this information will not be the subject of an audit opinion). This is unless there are specific audit procedures carried out to provide assurance on the accompanying information. However, if this information is not clearly marked as being separate from the general purpose financial statements it will be subject to the full audit in accordance with auditing standards.



- 9.7 A few respondents that disagreed with the SMC indicated that this might cause confusion for users when some of the supplementary information is not subject to audit. One respondent commented that as such they strongly recommend that either Section 37 Supplementary information and its related Practice Guide are published separately from INPAG, or that Section 37 is relocated to sit outside the main framework.
- 9.8 A respondent that disagreed also commented that the supplementary statements should be an integral part of the financial statements and their notes, as they could otherwise be lost or their relevance unclear.
- 9.9 The Secretariat agrees that there are risks of confusion for the users of the financial statements and risks that the messages in the general purpose financial statements or general purpose financial reports are obscured by any supplementary statement information being provided with the financial statements. However, providing the supplementary statements as an annex to the financial statements is not proposed as a requirement, but an option that an NPO can adopt if they reach a judgement that this is most useful for the readers of its financial statements. The Secretariat maintains its view that these statements should not be part of the general purpose financial statements but in a separate annex is acceptable (acknowledging the risks described above). However, the supplementary statement information required by Section 37 is a part of the general purpose financial statements and where an NPO produces supplementary statements in accordance with the INPAG Practice Guide the Secretariat maintains its view that such information is a part of the financial statements.

Question 10: Do TAG Members continue to support the possibility of the Supplementary statements being included as an annex to the financial statements?

December 2024

Appendix A

Summary of Feedback Responses on Supplementary Statements

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

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



SMC 3(c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?

Response	Number	% of those who responded
Agree	42	91%
Disagree	4	9%
Neither agree nor disagree	-	-
No Response	17	-
	63	100%

SMC 3(d) Do you agree with the options for the disclosure of capital and inventory related costs? If not, what would you change and why?

Response	Number	% of those who responded
Agree	39	87%
Disagree	1	2%
Neither agree nor disagree	5	11%
No Response	18	-
	63	100%

SMC 3(e) Do you agree that the supplementary statements are not part of the general purpose financial report but can be published as an annex? If not, why not?

Response	Number	% of those who responded
Agree	40	82%
Disagree	5	10%
Neither agree nor disagree	4	8%
No Response	14	-
	63	100%

Appendix B

Comments on format of the Supplementary Statement

Respondents' comments	Secretariat Response
<i>Comments from those that agreed:</i>	
Grants payable should not be included as part of expenses but recognised before expense deduction.	The Secretariat does not concur – these are expenses against the individual activity.
NPOs should be allowed to include additional line items depending on nature of entity and information they intend to present. Another respondent commented: Not being able to vary the format may be rather onerous and suggested that an option be left for an NPO to be permitted to present further information in separate columns/rows if an NPO finds some of the available line items under par SS.5 not relevant to them.	The Secretariat is of the view that the intention of the supplementary statement is to harmonise the reporting requirements for donors as much as possible, reduce the reporting burden and to allow a standardised line format to be able to be reconciled to the financial statements – additional line items would counter this objective. INPAG Practice Guide 1 does allow for a further analysis of expenses in the notes to accompany the supplementary statement. It also allows for additional reporting if income includes amounts other than the grant or donation related to the specified activities – an NPO is required to provide an explanation of this income and provide a cross reference to the general purpose financial statements (see paragraph SS23 (b)) and an additional analysis of expenses (see paragraph SS23(c)). SS24 also allows for additional columns to be added for a variety of options (eg currency, budget, etc).
The requirements will be adjusted based on needs, and each jurisdiction would adapt them according to its informational requirements.	It is likely that over time the format may be augmented and developed but see preceding row for comments about the standard format and the benefits of harmonisation.
The budget report should include a budget comparison column, together with budget utilization rate. The burn rate [cash reserves to cover overhead costs] gives insight about the implementation capacity of the reporting entity.	The optional format includes a budget comparison column. Budget utilisation and burn rates are likely to provide useful information for donors. It will be for NPOs and donors to agree the most useful information to be presented in the columns.



Respondents' comments	Secretariat Response
<p>A reconciliation template for financial budget utilization % and activity accomplishment percentage should be provided.</p>	
<p>An output-based expense presentation is much more relevant than an input-based (by nature) presentation. The supplementary information should address the deficiencies (ie by nature) of the main report.</p>	<p>Output based presentations are useful for stakeholders, but it would be difficult to produce a standardised output based supplementary statement.</p>
<p>DONOR RESPONSE It would be preferable if support costs continued to be disclosed as a separate line rather than absorbed into direct expense costs to give greater transparency to direct versus indirect project costs. The donor would continue to require separate guidance to be issued around eligible support costs in line with their current eligible cost guidelines. They also welcomed the flexibility in the guidance around options for the format of the statement and in particular the potential for additional information such as comparison against agreed budget.</p>	<p>The treatment of support cost is an optional presentation in the standardised format allowing both separate presentation and absorption so this would allow harmonisation for this donor. In allowing either presentation a donor can agree the approach to reporting support costs with an NPO. It can also require disclosure in the notes to the supplementary statement. The Secretariat suggests that this might be revisited in the light of existing practice.</p>
<p>Requests for a mechanism to reconcile the non-cash items such as depreciation, impairment/loss. Suggestions for more practical examples to be included.</p>	<p>This is allowed for in the standardised format of the supplementary statement. TAG's views are sought on whether this is clear. Additional exemplification may be useful.</p>
<p>DONOR RESPONSE What needs to be improved is the classification of expenses in the income and expenditure statement. The best-selling point to all donors would be to demonstrate that the Practice Guide has harmonised the current classification formats of all the major donors. Donors could use supporting notes or subcategories of the main cost grouping to get more granular information.</p>	<p>The donor reference group has been instrumental in the development of the standardised format. It reflects its views on the main information required and builds on the work of the 'Money where it counts' initiative. Agreed that the notes can provide more granular information, and this provides some flexibility.</p>
<p>DONOR RESPONSE The format's design is likely aligned with best practices, providing a logical and organised way to present supplementary information. This supports</p>	<p>Positive comments are noted by the Secretariat.</p>



Respondents' comments	Secretariat Response
<p>both the reporting needs of NPOs and the informational needs of stakeholders, ensuring that additional disclosures are both useful and comprehensible.</p> <p>For example, If an NPO is using the Supplementary statement to report on multiple grants, the format allows for clear sections dedicated to each grant, including details such as the amount received, purpose, expenditures, and any remaining balances.</p>	
<p>DONOR RESPONSE</p> <p>Note that it is optional for NPOs to include budgets and to have separate columns for each grant and donation. These would need to be mandatory to replace our current financial reporting.</p> <p>Note the flexibility within the schedules to match donor requirements. Comment that they hope that this encourages donors to move towards requesting reports on a financial year basis to simplify grantees' accounting processes.</p>	<p>Comments noted. The Secretariat is of the view that the optional formats can be made mandatory as a part of the individual donor's decisions on financial reporting – see also the comments in the body of the report.</p>
<p>DONOR RESPONSE</p> <p>Suggested clarifications for simplification:</p> <ul style="list-style-type: none"> • move 'Change in grant [fund] balance' to last two lines, • remove 'optional' inventory and capital costs section and current last two lines that read 'opening balance including inventory and capital costs', • add [one] line for inventory expenses and depreciation and/or amortization expense (or charged). <p>Suggested edits</p> <ul style="list-style-type: none"> • current 'Support costs' to either: 'Support costs (i.e., indirect costs)' or remove 'Support costs' and label as 'Indirect expenses' which would compare/contrast with 'Direct expenses' section immediately above. • Shorten the title to: Supplementary statement of income and expenses from: Supplementary 	<p>The suggested simplification would remove the optional treatment to separately present the cash/acquisition cost for inventory and capital items. Other options might offer two formats (one with the treatment for inventory and capital items and one without) or emphasising the optional treatment with appropriate splits and total lines to be clear about aggregations. This feedback will be discussed with the TAG.</p> <p>The description of support costs aligns with the description used in the proposals for the reporting of expenses in Section 24 Part II. For this reason, the Secretariat does not propose to change the description but can amend the Practice Guide to make clear that indirect costs are an alternative term.</p>



Respondents' comments	Secretariat Response
statement of income, expenses, inventory and capital costs.	
It could benefit from minor adjustments for complex or multi-donor projects.	Noted.
Suggestion for more examples to illustrate how this format applies in different contexts. This will help NPOs better understand how these requirements are applied in practice	There will be benefits of further exemplification though it might be difficult to decide which context best serves the most NPOs. Exemplification for different types of NPOs might be best suited to educational materials.
<p>DONOR RESPONSE</p> <p>The general format of the statement and guidance is user-friendly and provides clear instruction as to how the categories should be used to avoid inconsistency in reporting.</p> <p>We are supportive of the flexibility that has been provided for the different needs of donors (cash vs accruals), multi-year reporting, budgets, multiple grants, which the donor would make use of to ensure reporting meets our needs.</p> <p>The categories provided within the report cover the key costs the donor would expect to see in a financial report from a partner and we welcome the flexibility the policy provides to annotate the report with additional information as needed by the donor.</p> <p>The current reporting the donor receives from partners does have support costs broken out separately therefore our preference would be to continue to have the transparency of these costs separately (rather than aggregated into the different cost lines). We understand the proposed statement provides this flexibility</p>	Positive comments are noted – see earlier point on separate reporting of support costs.
<i>Comments from those who disagreed</i>	
Let each NPO present summary financial info as it feels most useful – so long as it is not misleading, and it clearly refers to the full statements.	The separate production of the supplementary statement does not prohibit this.
The format of the [supplementary statements] should be aligned with each country's regulatory framework and customize it in the local context. In	The production of the supplementary statement does not prohibit decisions by the regulatory framework and local contexts. The



Respondents' comments	Secretariat Response
<p>our case the NPO regulatory body puts a compliance requirement for 20% to support costs to 80% for programmatic expenditure. Moreover, the SS template must expand what costs are included in the support cost category. The Grant arrangements for restricted vs non-restricted grants/costs should be explained in detail and there is lack of clarity in this area.</p>	<p>Secretariat will review the descriptions for funds and whether it is useful to include further information on restricted or unrestricted funds in the Practice Guide.</p>
<p>DONOR RESPONSE Having a format that could be somewhat modified on an as needed basis could bring more value to the donors and provide valuable information in a case where an organization would present expenses by functions on the face of the financial statements (the supplementary statement could be adjusted based on donor requirements). Regarding the presentation currency, we agree with SS.8 but suggest adding flexibility for the organizations to add a column and present in other currencies based on donor's preference.</p>	<p>This suggestion moves away from the harmonisation principle. The alternative presentation B1 permits donor or other stakeholder presentation including currency. See comments in the body of the main report.</p>

Appendix C

Commentary on the options for Disclosure of Capital and Inventory Costs

Respondent's Comments	Secretariat's Response
<i>Comments from those that agreed:</i>	
Clarification sought on whether the depreciation being removed is the charge that year for all project related assets, or only the depreciation relating to the additions. More guidance sought on how to calculate the figure for 'opening balance including inventory and capital costs'.	The Secretariat is of the view if this option is undertaken that it should be consistently used across the reporting periods for all assets acquired under the project otherwise this would be confusing to the user and risks inconsistent reporting of opening balances for each grant. Other assets not acquired during the project but used on the project would not be able to use the optional approach. The Secretariat proposes to provide additional guidance to clarify this point.
Would recommend in this kind of situation is to set a threshold amount for the procured inventory or capital equipment.	The Secretariat considers that this is likely to be something established by the donor so does not suggest setting a threshold.
Other examples may arise in the future.	Agreed.
Two respondents indicated that this could help NPOs that engage in large-scale capital-intensive activities better align their disclosures with the long-term nature of their operations.	Noted.
DONOR RESPONDENT This offers flexibility in how these costs are reported ensures that all relevant information is provided transparently, regardless of the NPO's size or complexity.	Noted.
DONOR RESPONDENT It may not be easily understood by non-accounting trained colleagues who view/use this statement. Suggestion (see also Appendix B) on the replacement of the current capital and inventory expense cost incurred reconciliation into one line each for capital and inventory expenses.	This may be relatively complex and might usefully be explained in the notes. See comments on this issue in the body of the report and Appendix B.



Request for consideration to be given to adding examples to illustrate how these options apply in different contexts.	The Secretariat would seek TAG's views but is of the view that exemplification might be more useful in educational materials.
DONOR RESPONDENT This will partially aid the reconciliation from an accrual basis to a cash basis, which is helpful to the donor.	Comments noted.
<i>Comments from those that disagreed:</i>	
Respondent was of the view that no explicit guidance is needed.	No further comments.
<i>Comments from those that neither agreed nor disagreed:</i>	
Is the intention to require NPOs to make a choice, either to disclose both capital and inventory related costs, or to disclose neither? Or are they permitted to disclose capital and/or inventory related costs? Do we need to require NPOs to report consistently from one year to the next? (i.e. if they choose to report capital and inventory related costs one year, they must continue doing so or explain why?)	The Practice Guide presents these as separate options so an NPO could chose different reporting policies on either. The Secretariat proposes to maintain the options to allow flexibility to meet stakeholder requirements (see body of main report).
We believe that there are better options to disclose the capital and related costs in the spirit of transparency such as the illustrative examples in section 36.	The Secretariat agrees that the reporting for section 36 provides more transparency as these are accrual accounting transactions but would note that donor reporting is regularly on a cash basis – hence the proposal in the Practice Guide.
The term capital in NPO should be replaced with the term net assets.	The Secretariat considers that this term was used to cover capital assets ie property, plant and equipment and investment property. This term was intended to cover capital assets rather than being equivalent to equity.
A respondent sought views on the treatment of the transaction over time and the asset's useful lives.	The Secretariat is of the view that this is covered by the Practice Guide though exemplification will be useful here.