



International financial reporting for the not-for-profit sector

A study commissioned by CCAB

Executive Summary

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This is an Executive Summary of the report ***International financial reporting for the not-for-profit sector*** (ISBN 978-0-9928205-0-3) published by CCAB in February 2014. It briefly summarises the study approach and main findings, but it omits details of the literature considered, the survey methodology, the questions asked, the profile of respondents, the assessment of responses, narrative comments by respondents, and detailed conclusions. Reference to the full *Final Report* is strongly recommended, and this Executive Summary should not be used as a basis for taking any decisions. The *Final Report* (PDF 140 pages) is available from: www.ccab.org.uk/documents/IFRNPO-FullReport-Final-07022014.pdf

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Executive Summary

“Charities and other non-governmental organisations (NGOs) increasingly work internationally with grants from government funding their development and relief activities, while private donors and international foundations are increasingly taking a global approach to their work. As a result, charities and other NGOs face a multiplicity of international grant regimes, often made more complex by the lack of an agreed approach to financial planning and reporting.” (From the CCAB project brief.)

Key Findings

- The majority of survey respondents (72%) indicated that they thought it would be useful to have international standards for financial reporting by not-for-profit organisations (NPOs) – though respondents interpreted the term ‘standards’ in different ways.
- Many respondents, especially those involved with NPOs operating in developing countries, would welcome a standard if it could contribute to resolving the diverse and inconsistent demands from funders.
- However, 14% were opposed to an international NPO standard. The strongest objections appear to come from countries such as the UK, which already have well developed frameworks for NPO accounting.
- This report is the first step towards establishing whether or not there is a case for developing harmonised international standards for NPO financial reporting.
- Much more analysis and discussion will be needed between interested parties: the findings presented in this report have the potential to inform the debate and move that discussion forward.

Study approach

This study was carried out by a team from Sheffield Hallam University and the University of Dundee, with the support of the other institutions listed on the cover page. It aimed to provide a better understanding of financial reporting practices in the not-for-profit sector worldwide and to provide a body of evidence to determine whether a need exists to develop international financial reporting standards for NPOs.

International Financial Reporting for the Not-for-Profit Sector

THE LITERATURE SHOWS:

- Difficulties with definitions relating to NPO accounting issues and not-for-profit concepts.
- If IFRS or IPSAS were used as a basis for an international financial reporting for NPOs, there would be a need for further standards to deal with NPO-specific accounting issues.
- Particular issues exist for NPO financial reporting, such as non-exchange transactions, fund accounting issues, narrative reporting and the valuation of NPO-specific assets.
- Many jurisdictions across the globe are currently trying to develop national financial reporting standards for NPOs.

THE SURVEY RESPONSES CAME FROM:

- 605 persons involved with NPO financial reporting in at least 179 countries
- Responses came from small community based NPOs up to large international NGOs
- 68% primarily involved with accrual accounts, and 24% with cash-based receipts and payments accounts
- Respondents using a wide range of existing financial reporting frameworks for the content of NPO financial statements.

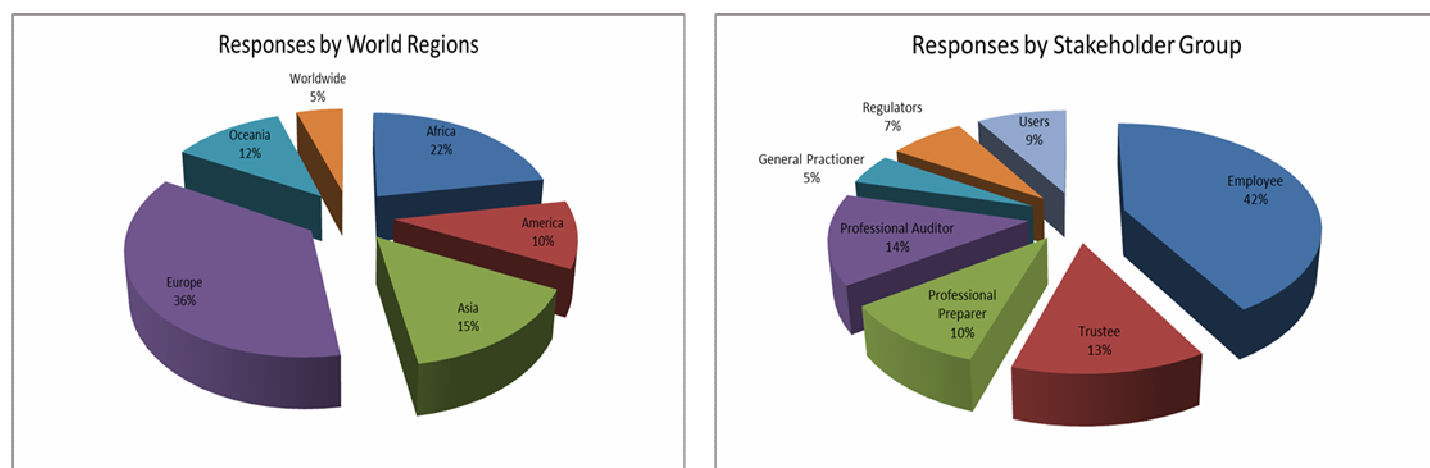
The focus throughout the study was on NPOs defined as organisations that were:

- constituted on a not-for-profit basis;
- self-governing; and
- established for public benefit.

The study was designed in two stages. First, an extensive literature review was undertaken to identify specific financial reporting issues in the not-for-profit sector internationally. Second, an online survey was developed and distributed globally, to: NPO staff and trustees; accountants and auditors; regulators; standard setters; funders; and users, to seek a wide range of opinions regarding their understanding of financial reporting in the not-for-profit sector.

The survey responses

The survey demonstrated an extraordinary level of interest and engagement with the issues, attracting over 600 responses representing experience of NPO financial reporting in 179 countries as shown below. All had direct involvement in NPO financial reporting – the *Stakeholder Groups* figure illustrates the spread of roles. The number and the quality of the responses – particularly as judged by the very high volume of narrative comments – were both exceptional.



Key views demonstrated from the survey

Arguably the central question in the study was a statement, to which respondents indicated the extent of their disagreement or agreement:

“It would be useful to have international standards for NPO accounting.”

In all, 72% of respondents expressed agreement with this statement and 14% disagreed (including 7% that strongly disagreed). However, there were notable differences across world regions with respondents involved in European NPOs expressing 64% support compared to 82% in African countries.

Nevertheless, it is important to note that the survey did not seek to explain what form any such international NPO standard might take, but it allowed respondents to interpret this as they saw fit. It is therefore likely the different respondents will have interpreted the term in different ways, and narrative comments indicate that respondents envisaged anything from a mandatory international standard to voluntary guidance for the sector. Also, one of the limitations of the study was that participants, whilst drawn from a wide range of international contacts, were ultimately self-selecting, and the title of the survey may have attracted respondents who were receptive to the idea of an international standard for NPO reporting.

Conclusions and recommendations

This study makes a significant contribution to the understanding of the specific financial reporting issues experienced by NPOs internationally.

It identified four possible ways forward with a view to developing discussion and debate amongst interested parties – all of these were supported to some extent by the research. Further approaches falling somewhere between these four options could also be suggested.

Option 1: Do nothing.

Whilst a number of respondents would prefer no action, this did not seem to be the majority view of those who took part in the survey.

Option 2: Press for improvements to existing national NPO financial reporting frameworks to address concerns identified in this study (but without creating an international standard).

On this option, many respondents seemed resigned to the problems of existing frameworks. Whilst some in countries such as the UK and New Zealand were welcoming forthcoming developments in their own national NPO reporting frameworks, it appears there was limited evidence of comparable developments elsewhere.

Option 3: Seek to develop international guidance on NPO reporting but not a formal accounting standard.

This could take various forms ranging from ‘helpful guidance’ issued by umbrella bodies (infrastructure organisations in the not-for-profit sector providing support, representation and guidance to local NPOs) to suggested standards endorsed by key international stakeholders. This suggestion would not involve any formal development by an international standard setter. The option was not explored in detail, as the survey focused on formal accounting frameworks and standards, but it was raised in a number of narrative comments.

Option 4: Development of international standards for NPO financial reporting, prepared by an international standard setting body, and (eventually) endorsed by appropriate regulatory regimes in jurisdictions across the globe.

The development of a formal international standard appears to command a good deal of interest, as shown by a range of narrative comments. The majority of those who commented on detailed frameworks in response to narrative survey questions seemed to suggest such a standard should be

THE SURVEY RESPONSES FOUND:

- 72% agree that it would be useful to have international standards for NPO accounting, whilst 14% disagree.
- 30% of respondents thought a standard should be applied to all NPOs regardless of size.
- Fewer than 50% of respondents believe that the value of NPO-specific assets and narrative reporting are adequately dealt with in national reporting frameworks.
- National legislation (32%) and national GAAP (20%) are used most frequently to determine the content of NPO financial reports across the globe.
- IFRS (9%), IFRS for SME (4%) and IPSAS (1%) are used infrequently across the globe to determine the content NPO financial reports.
- There are important perception differences across the globe, with those involved in African NPOs being the most supportive to the idea of an international NPO standard, the most subject to reporting demands from funders and the most likely to use cash-based receipts and payments accounting.

NARRATIVE RESPONSES IN THE SURVEY SHOW:

- Concerns about the demands of any developed reporting regime and the scope of a standard.
- Concerns about the capacity, in terms of education and training of staff, of NPOs to take on new reporting standards.

IFRS-based. In contrast, evidence from the closed questions showed that IFRS-based financial reporting frameworks are infrequently encountered by survey participants across the globe. Indeed, those currently seeking to produce NPO financial statements within an IFRS framework (or the IFRS for SMEs) reported significant problems and difficulties, so there is little doubt that specific additional guidance for NPOs (or even complete new standards) would be welcomed.

Further research – scope of a new standard

Of necessity an exploratory study of this kind can only begin to address the issues. Further work is needed, including more systematic sampling of NPOs in a range of countries, to assess:

- (a) the extent to which they would welcome a formal international standard for NPO financial reporting and be willing to use it;
- (b) the form which any standard should take – for example, in terms of content, scope and presentations (comparing views of users on a range of options regarding the presentation of a standard);
- (c) if it is suggested that such a standard should be mandatory, to assess the size range of NPOs to which it would apply – or, conversely, the extent to which such a standard would be used in the absence of mandatory requirements;
- (d) whether any new standard should allow for an option of receipts and payments accounting (at least for smaller NPOs);
- (e) how far the issues raised in this study could in practice be addressed by non-mandatory guidance rather than formal standards (option 3 above); and
- (f) the impact of different legal structures under which NPOs can be constituted in different jurisdictions (in particular, the fact that many NPOs are not incorporated as companies and hence fall outside the requirements and standards for company reporting).

Further research – development approaches for a new standard

If the fourth option above – the development of formal international standards for NPOs – were to take place, various approaches can be envisaged (which are not necessarily mutually exclusive):

- constituting a new international standard setting body for the not-for-profit sector;
- adapting existing international financial reporting standards, for example IFRS or IPSAS, to incorporate NPO specific accounting issues; or
- promoting an existing national financial reporting framework for NPOs, which may have been developed by a funder, regulator or national standard setter, that appears to reflect best practice, and develop international standards on this basis.

Each of these could be the subject of further research to determine the views of stakeholders and their willingness to engage in such a process. It was clear from responses to the survey that development of standards or guidance for the NPO community internationally will have to be an inclusive process, to ensure that the resulting international NPO financial reporting standards can be complied with and enforced at the national level – indeed, the majority of survey respondents (63%) felt that their country would be able to contribute to such a process.

However, a wide range of respondents commented on the skills and capacity of NPO finance staff and external accountants. Several stressed that any process to introduce an accepted international framework for NPO accounting (whether a formal standard or non-mandatory guidance) will have to incorporate consideration of the education and experience of those individuals who will ultimately be responsible for setting, complying, and (potentially) enforcing standards.

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