



IFR4NPO PART 1

Issued 30 July 2021

ICAEW welcomes the opportunity to comment on the IFR4NPO Part 1 published by Humentum and CIPFA in January 2021, a copy of which is available from this [link](#). This response of 30 July 2021 is made by ICAEW's **Business Law Department** following consultation with ICAEW's Charity Committee and Financial Reporting Committee.

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KEY POINTS

1. We agree that introducing greater consistency in accounting for NPOs internationally will be helpful if it satisfies the needs of primary users of the financial statements and leads to greater efficiency; we support the objectives of the project on that basis.
2. We also agree that using an existing standard for profit making organisations (specifically, IFRS for SMEs) as the basis for guidance is likely to be a good starting point. It will, however, be important to define the primary user and then critically assess the requirements of the standard to decide if they meet the user needs. This might result in certain requirements being deleted or simplified, while other requirements may need to be added.
3. Using one of the existing standards means that the project can draw upon experience of countries (such as the UK) that have already adapted those standards for similar purposes. There is also widespread familiarity with those standards, for instance within the international funding community.
4. That said, there is a risk that some charities will incur additional accounting costs if they are to comply with guidance of this kind, so it is important that they also benefit. This will require widespread acceptance of financial statements produced in accordance with the guidance by relevant users (including, but not limited to, funders).
5. IFRS for SMEs might not be the appropriate starting point for all NPOs. While adoption of the guidance would be voluntary, if it is widely accepted, pressure may grow on NPOs generally to adopt it. That might not be in the interests of NPOs that might otherwise produce shorter/simpler accounts that would meet their user needs at least as effectively. We have in mind small charities, which make up a high proportion of UK charities as opposed to medium/large NPOs that have global or multiple sources of funds and are currently required to report different information to different funders.
6. We suggest therefore that the guidance also covers reasons why a particular NPO might, or might not, adopt it (eg, by reference to NPO size).

ANSWERS TO SPECIFIC QUESTIONS+

Question 1(a) Do you agree with the broad characteristics proposed in Chapter 1 for describing NPOs? If not why not? Which alternative characteristics would you propose, and why?

General comments

7. We comment on the individual characteristics below. In general, we agree with the characteristics identified but suggest that the first two are the key ones and that the third and fourth are more in the nature of indicators than characteristics.
8. The term 'business' has been described as an 'etymological chameleon: it suits its meaning to the context in which it is found'. We believe that 'not for profit' is a similarly fluid expression (see ICAEW paper on '[Future Enterprise](#)'). We suggest therefore that the characteristics should be shaped according to the purpose of the project (ie, to enable it to consider accounting issues impacting relevant organisations in practical terms).

Delivering services for public benefit

9. We suggest that this characteristic should be expanded to include those providing goods for public benefit (rather than being confined to provision of services). The services might also include the making of grants (to those who provide goods or services) and this should come within the characteristic.

Profits/surpluses are directed for public benefit

10. We note that profits may be directly applied for the public benefit, or indirectly (eg, some may be used for fundraising efforts that are not of themselves for the public benefit but are designed to increase profits to be used for that purpose).
11. Organisations may have mixed objectives. For instance, in the UK, a Community Interest Company must have a primary community benefit purpose but can distribute part of its profits to shareholders (if it has shareholders and the articles so provide). If this sort of organisation is to be covered, the characteristic should refer to profits/surpluses being 'mainly' directed for the public benefit.
12. While it may be impracticable for the project to consider every form of business used worldwide in this context, it might be useful for it to consider at least the main ones and whether legal characteristics of a form of business are relevant in determining the possible need for, and applicability of, the guidance.

Voluntary donations and grant funding

13. Grant funding is referred to from the perspective of recipients only but, as noted above, the provision of funding/grants by organisations may also constitute a not-for-profit purpose.

Assets are held and used for social purposes

14. NPOs may hold assets to generate a financial return for various reasons (eg, paying pensions, or meeting a public interest objective). It may be difficult to draw clear distinctions here.
15. Objectives of NPOs may include objectives that might not ordinarily be described as 'social purposes', eg, environmental, public and community benefit. This would include heritage assets that are held for their contribution to knowledge and culture.

Question 2(a) Do you agree that NPOs are accountable to service users, resource providers, and regulators and have societal accountability? If not why not? What alternative groups would you propose that NPOs can be seen as accountable to, and why?

16. We agree that NPOs are accountable in the broadest meaning of the word to those listed above. However, the same could perhaps be said of other organisations too given that 'social accountability' is open to various interpretations (eg, at a minimum, complying with laws that, in a democracy, society has set) and that some regulations apply similarly to NPOs and others (eg, company law in the UK, where applicable).
17. We think that a distinction will need to be drawn for the purposes of this project between those to whom an NPO might be accountable in a broad sense, and those for whom information is most appropriately provided in the financial statements. Accounting standards for 'for profit organisations' start with the providers of equity being the primary user and aim to provide information they need which would not otherwise be available to them. The project will need to determine if it has equivalent objectives and who the primary users would be, which we suggest will typically be funders. Some users, such as regulators, might more appropriately obtain information (for themselves or others, eg, the public) by other means.
18. Some NPOs may be legally accountable to their members, most obviously where those members derive similar benefits from membership as service users (eg, the UK National Trust).

Question 2(b) Do you agree that external stakeholders require information on an NPO's achievement of objectives, economy efficiency and effectiveness, compliance with restrictions and regulations, and longer term financial health, for accountability and decision-making purposes? If not why not? What alternative areas would you propose and why?

19. We agree that these are areas of interest for a variety of stakeholders, and we agree that the project should consider these various perspectives. Other areas that are likely to be of interest include how the entity is organised to perform its objectives (eg, legal form of organisation).
20. However, as the next question acknowledges, the needs and expectations of 'stakeholders' (defined broadly and including 'the public at large') may differ according to their interest in the NPO and it is not necessarily the case that financial reports are the best means of conveying information that they might seek.
21. Where resources have been provided by funders for particular purposes (ie on a restricted basis) it can be important for this to be apparent to all users of the accounts, not just the funders.

Question 2(c) Do you agree with the issues that have been identified with current accountability and decision-making arrangements for NPOs? If not why not? Are there any other issues with current accountability and decision-making arrangements, particularly financial accountability to donors, that you would wish to highlight?

22. The differences in reporting requirements across jurisdictions and differing demands of donors could push entities to report in differing ways and we agree with the objective of devising a principles-based approach to align reporting requirements.

Question 3(a) What, if any, do you see as the main challenges with Guidance that is accrual-based?

23. We agree that that accruals-based accounting is generally appropriate.
24. However, the UK permits cash-based accounting for non-corporate charities below a certain size threshold. A large proportion of UK charities are very small and, while some elect to use accruals accounting, we believe that many do account on a cash basis; any change to this could be highly controversial, particularly if driven by a global accounting initiative rather than local assessment of costs v benefits. Accruals based guidance may not be useful for them.
25. We think it likely that some kind of threshold (eg, size) may be needed to ensure that the guidance has a proportionate impact (see further under Q5a below), but this is likely to prove challenging, particularly as the project seeks to bring about consistency.

Question 3(b) What, if any, do you see as the main challenges with Guidance that includes non-financial information reporting?

26. We agree that non-financial reporting is an important issue that the Guidance will need to address but recognise that it may prove particularly challenging.
27. Challenges include the disparate needs or desires of various stakeholders, including regulators. In the UK regulators may require organisations to disclose additional information, eg, through annual returns or specific accounting directions. However, some stakeholders may prefer information to be contained in financial statements so that it is subject to an audit process. If non-financial information is to be included, the project should also consider whether, and how, audit might apply to that information, and what the related costs might be.
28. The project should take into account other current initiatives (in particular from the IFRS Foundation) on this subject.

Question 4(a) Do you agree that international frameworks are the best start point for the Guidance? If not, why not?

29. Yes. We believe the frameworks provide a suitable basis, particularly in the interests of providing guidance as soon as practicable. The standards (or financial statements prepared in accordance with them) are widely used, including by funders and practitioners, and relevant training and educational materials are available.

30. However, both IFRS and IFRS for SMEs start with the holders of equity as the primary user and their information needs will not be the same as those of donors (or other primary users) of NPO accounts. The standards will, in effect, need to be adapted for the purpose, as the project proposes to do through its guidance. We believe that the UK experience shows that this is possible, eg, through FRS102 and the Charity SORP, and we support the approach of the project in considering international experience in this context.

Question 4(b) Do you agree with the criteria that have been used to assess the suitability of the existing international frameworks?

31. As noted above, we believe that the project should ensure that the accounts are suitable for their primary users. These will be different from primary users of accounts under existing international frameworks, but much of the information provided will be relevant to users of NPO accounts eg, to funders.
32. The project should also focus on cost versus benefit of using existing international frameworks and the accounting and disclosure requirements entailed, given the different stakeholder base.

Question 4(c) Do you agree with the high-level assessment of the existing international frameworks against these criteria? If not, why not? What assessment would you make and why?

33. See earlier comments on costs v benefits. If we take the use of international frameworks as a given, then we think that a different question needs to be addressed, which is whether the project should seek to address the needs or desires of all the potential stakeholders identified in Q2 above or should concentrate on users whose needs are most likely to be satisfied by accounts based on the international standards (eg, funders).
34. We do not think that a single standard could reasonably be expected to result in accounts that would satisfy all the desires of all possible stakeholders and the project is going to have to limit its scope by one means or another.

Question 5(a) What do you see as the main challenges, if any, with the proposed model and the use of the IFRS for SMEs Standard as the foundational framework? What, if any, alternative model and/or foundational framework do you suggest would be more suitable and why?

35. We agree that the IFRS for SMEs Standard would be a good foundational framework and believe that the guidance should be as closely aligned to it as possible. Jurisdictional differences (eg, legal requirements) will need to be taken into account as appropriate.
36. The guidance will need to be clear how it relates to each relevant Standard. It may be preferable for this to take the form of annotations of the Standard concerned, so that there is no doubt where the guidance applies and everything is in one place. While adoption of the guidance may be voluntary, we assume that its application will be mandatory for those who do adopt it; it will be important that the guidance is clear on its application.
37. It seems likely that the guidance will result in increased disclosures or analysis of accounting treatment, which could be time consuming for relevant NPOs or increase their consultancy/advisory costs. The project should consider issues of materiality in that context and it may be that the guidance generally should only apply to NPOs over a certain size, or that relevant provisions may apply differently to NPOs depending on size etc.
38. It may not be easy to find a definition of size that is helpful on an international basis. Even within the UK there are different measures of the 'size' of organisations for various purposes connected with accounting and audit. The UK threshold for accruals accounting may (or may not) be the appropriate threshold in the context (or for other jurisdictions).
39. We would also note that the structure of an organisation may have a bearing on this issue. For instance, charities operating under a federated model might be regarded as large if considered in aggregate, but might be made up of small individual charities where the costs

of complying with international guidance might be disproportionate. On the other hand, some charities might be small, eg, if measured by turnover, but benefit from the guidance, eg, they might have complex structures or operate internationally.