



The journey to the first International Non-Profit Accounting Guidance (INPAG)



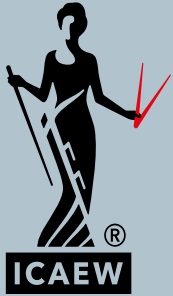
Did you know?

From 1 November 2023, ICAEW's revised Continuing Professional Development (CPD) Regulations bring in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at [icaew.com/cpdchanges](https://www.icaew.com/cpdchanges).





CONSULTATION: PROFESSIONAL INDEMNITY INSURANCE

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**PROFESSIONAL
STANDARDS
DEPARTMENT**





INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

The journey to
the first
International
Non-Profit
Accounting
Guidance (INPAG)

www.ifr4npo.org

THE JOURNEY SO FAR





2014

72% of CCAB's research respondents
(659 people from 172 countries) agreed
that **international standards for non-
profit accounting** would be useful



2015

International Accounting Standards Board (IASB) - **agreed**, but not within their strategic priorities for 2015 - 2022 agenda.



2016

International Forum of Accounting
Standard Setters (IFASS) **established** not-
for-profit working group



2018



CIPFA

ACCA

FASB

Joint presentation 'Is the time now right for
non-profit accounting standards' given at
Humentum conference



2019



FORD
FOUNDATION

OPEN SOCIETY
FOUNDATIONS

Seed funding received from The Ford
Foundation and Open Society
Foundations



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

**CIPFA and Humentum partner to launch
IFR4NPO (International Financial Reporting
for Non-Profit Organisations)**



Have your say!

2021

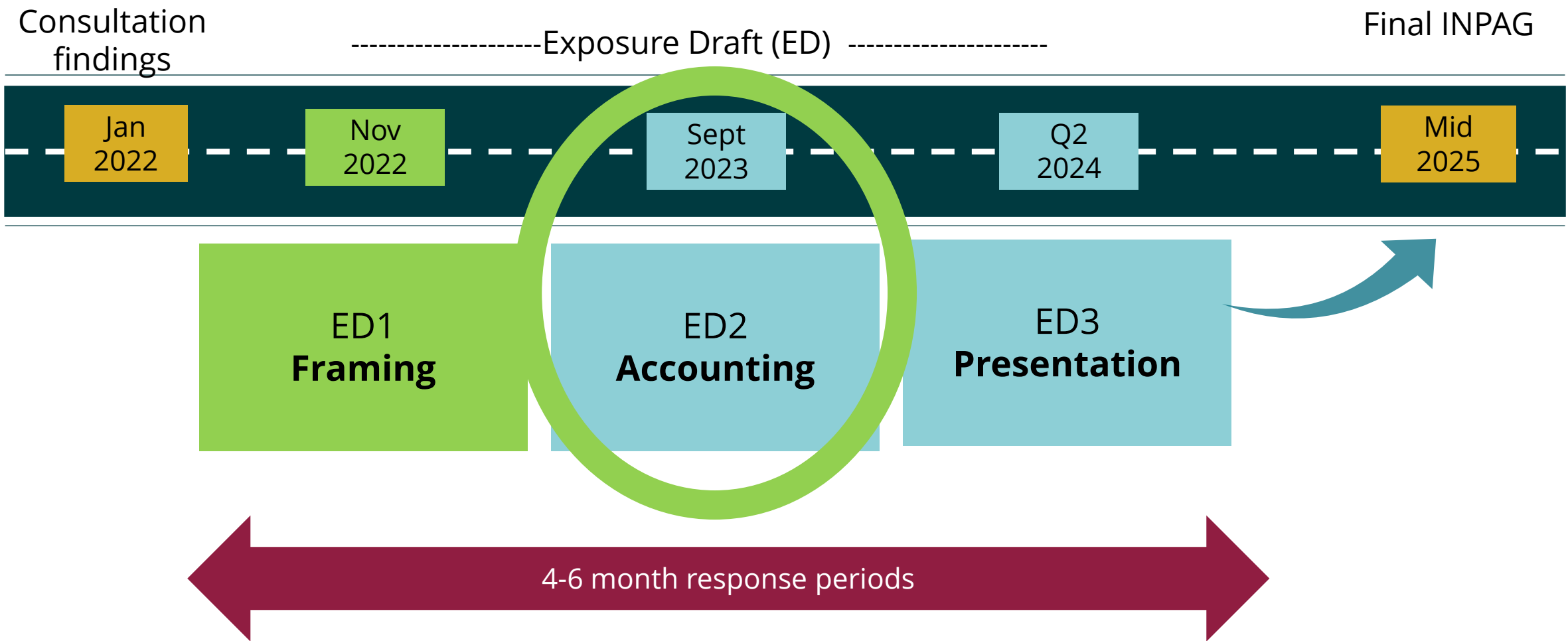
Consultation Paper **released**,
open for comments for 9 months



2022

Guidance name **announced**

INPAG Exposure Draft roadmap



Plan is subject to change



Why INPAG?

Only a few countries benefit from their own national standards.

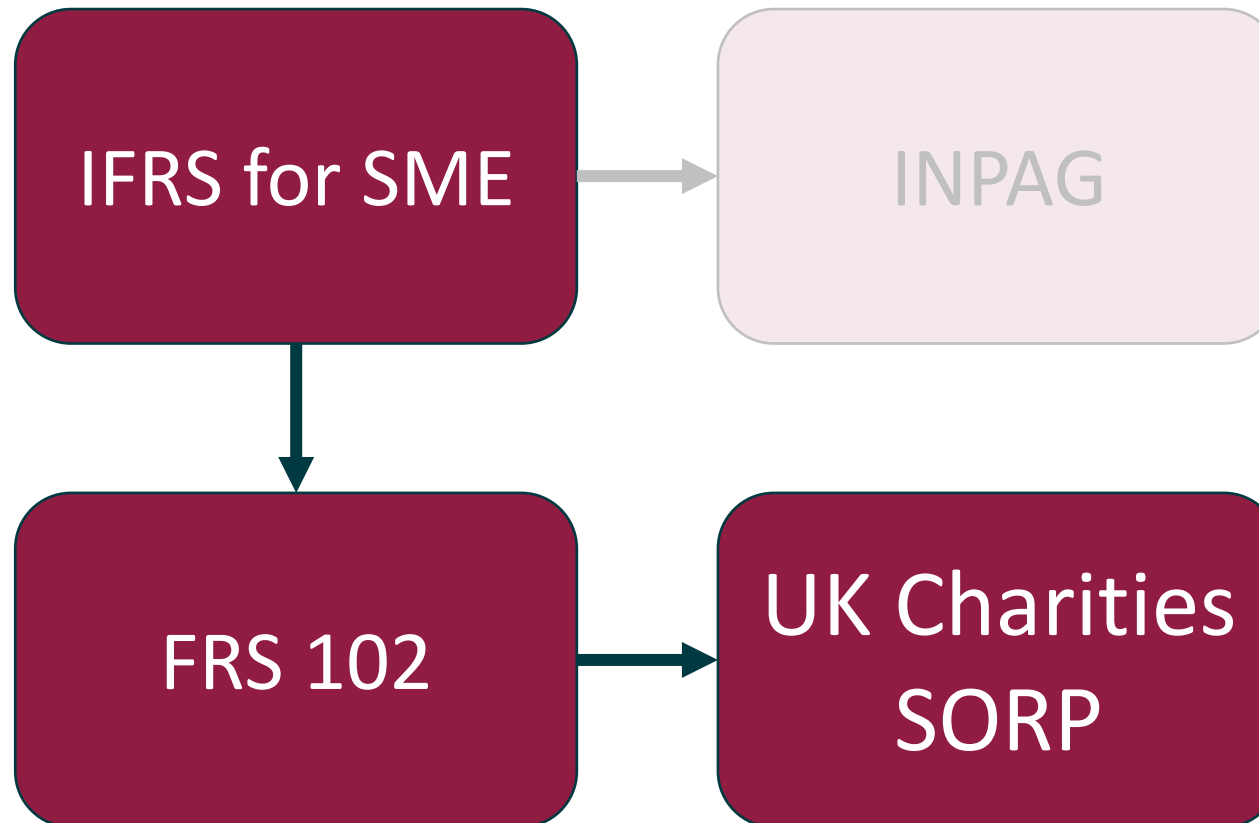
Existing international standards do not meet the unique needs of NPOs.

Future Outcomes

- ✓ NPOs able to demonstrate capacity and attract funds
- ✓ Information useful to range of stakeholders
- ✓ Quality & consistency of NPO financial reports
- ✓ Reduced duplication of effort
- ✓ Simplified audit assurance provision

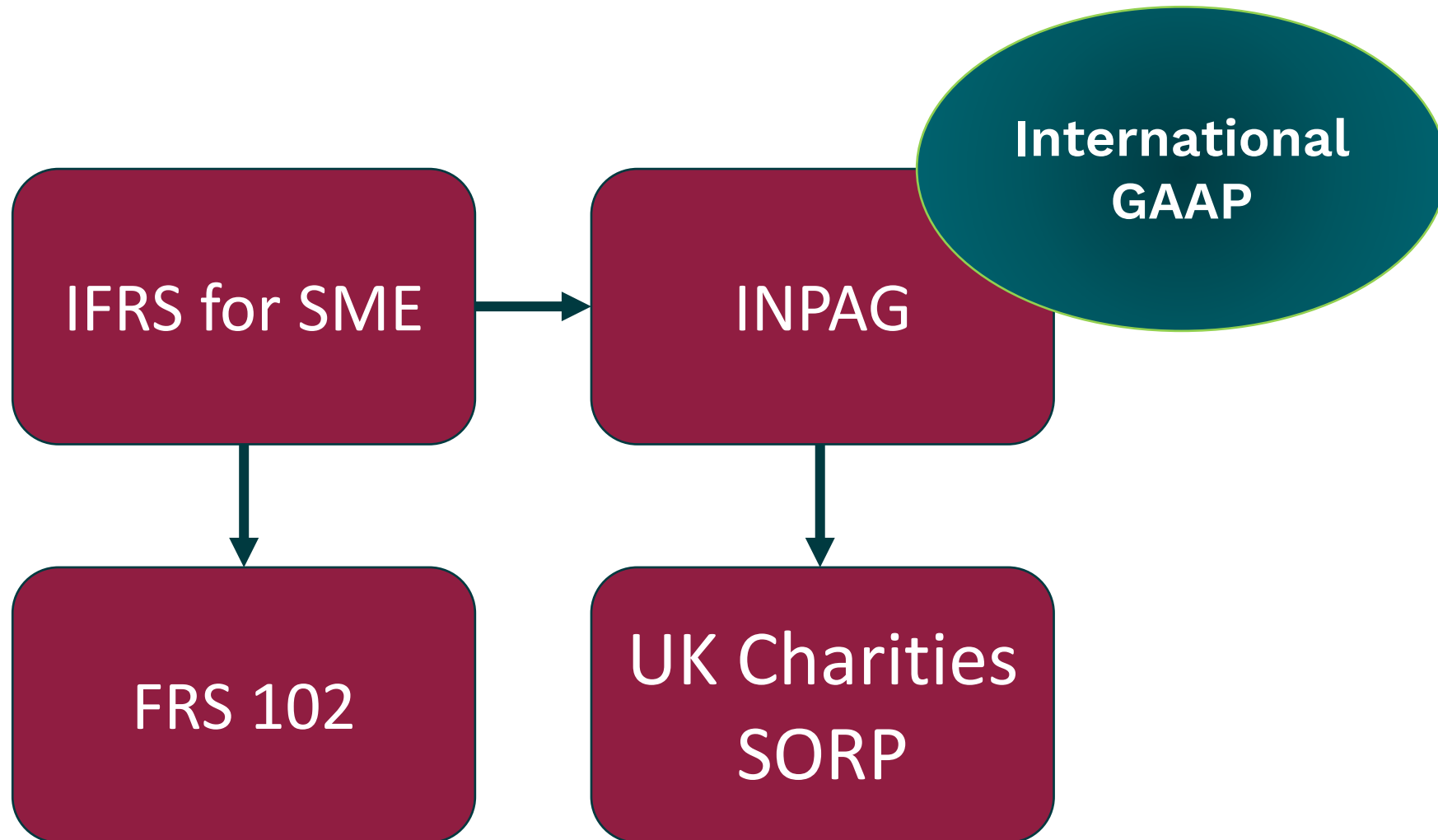
Trust
Accountability
Equity
Efficiency

UK & Ireland GAAP At present



UK & Ireland GAAP

Future possibility??

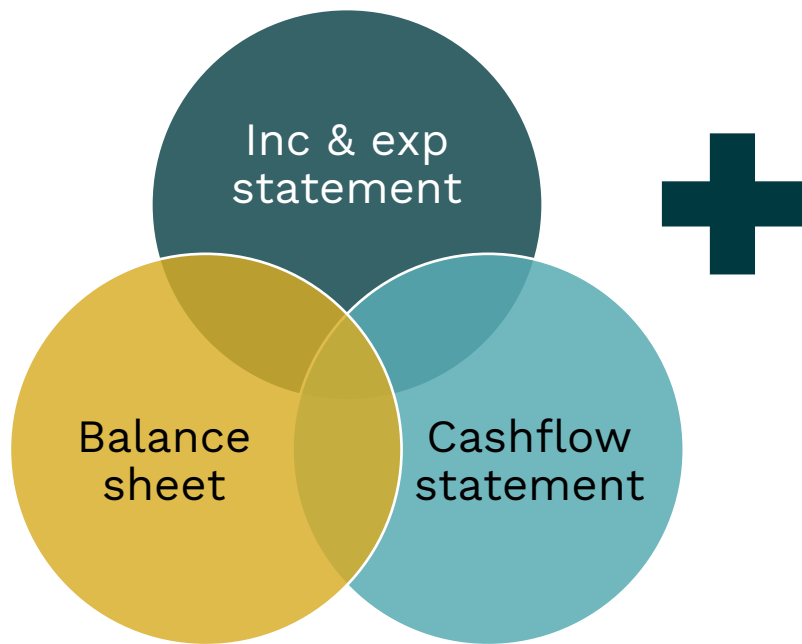


Your feedback matters



A route to harmonization?

General purpose financial statements

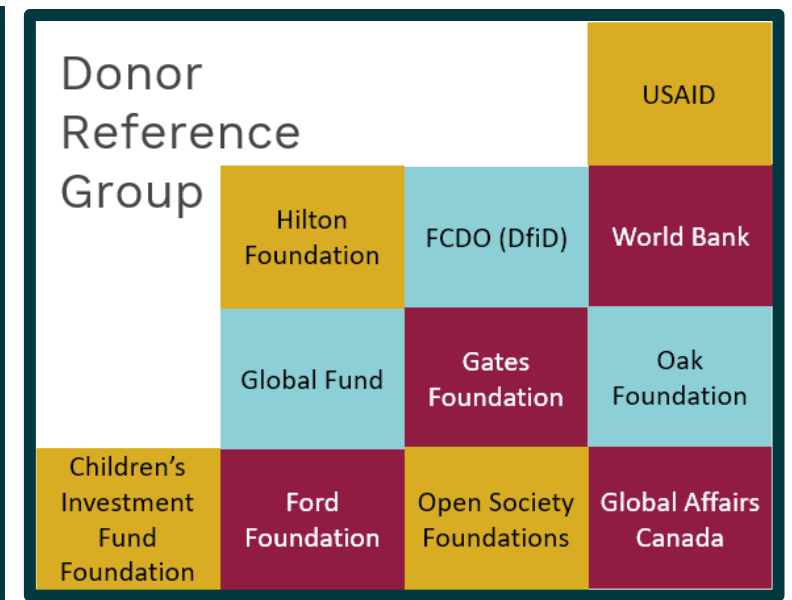


➤ *Optional*
➤ *Supplementary*
Donor / Project statement(s) in standard format

Donors can choose to:

- 1) Rely on statement in GPFS for financial assurance
- 2) Require separate audits but align format to INPAG
- 3) Maintain current practice

Developing INPAG



Primary audience

Tier 1 – Full IFRS or equivalent

Tier 2 - INPAG

Tier 3 – cash based likely to be sufficient

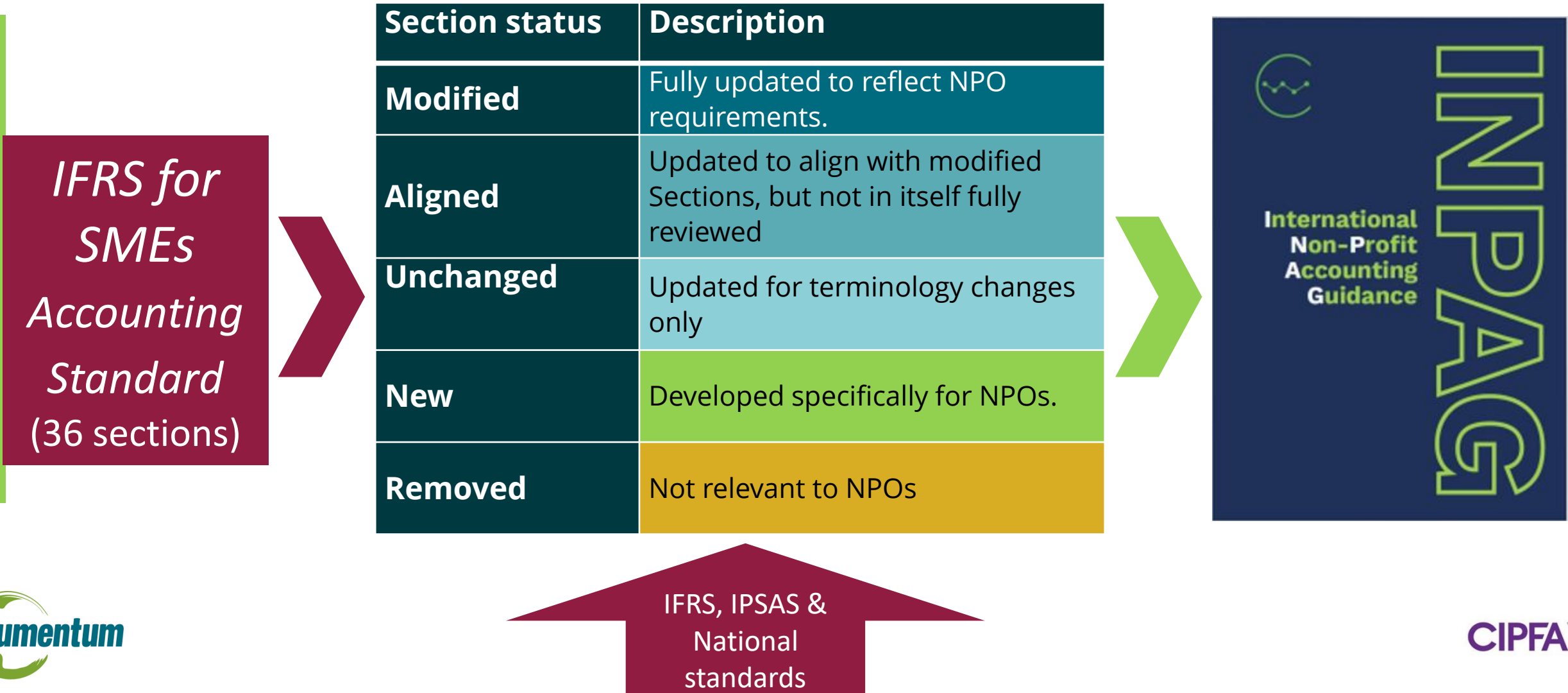
Characteristics of NPOs

Providing a benefit to the public

Direct surpluses for the benefit of the public

Not government or public sector entities

Guidance development model



INPAG Sections in ED2

11	Financial instruments
13	Inventories
21	Provisions and contingencies
23	Revenue
24	Grant Expenses (Part I only)
25	Borrowing costs
28	Employee benefits
29	Income Tax
30	Foreign currency translation
31	Hyperinflation
32	Events after the end of the reporting period

Reminder - Sections already published in ED1	
Preface	
1	Non-profit organisations
2	Concepts and pervasive principles
3	Financial statement presentation
4	Statement of Financial Position
5	Statement of Income and Expenses
6	Statement of Changes in Net Assets
7	Statement of Cash flows
8	Notes to the financial statements
9	Consolidated and separate financial statements
10	Accounting policies, estimates and errors
35	Narrative reporting



INPAG ED3

- Planned for launch in May 2024
- 3 main topics + other remaining sections
- Separate volume – Recommended Practice Statement

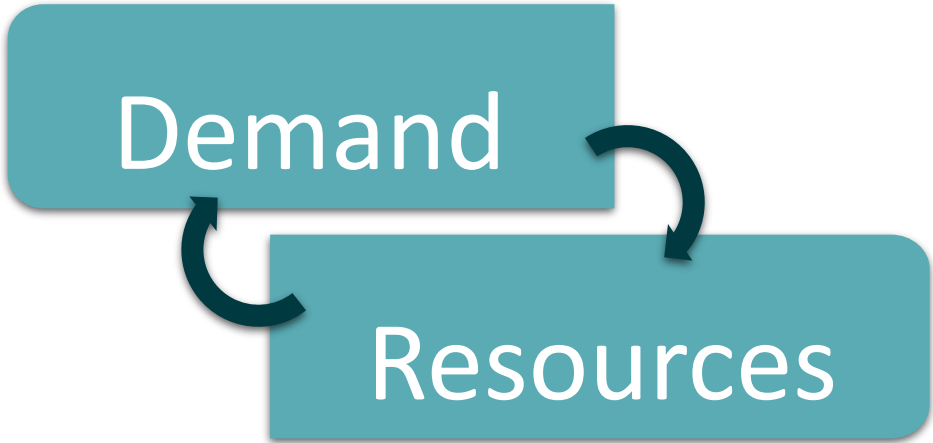
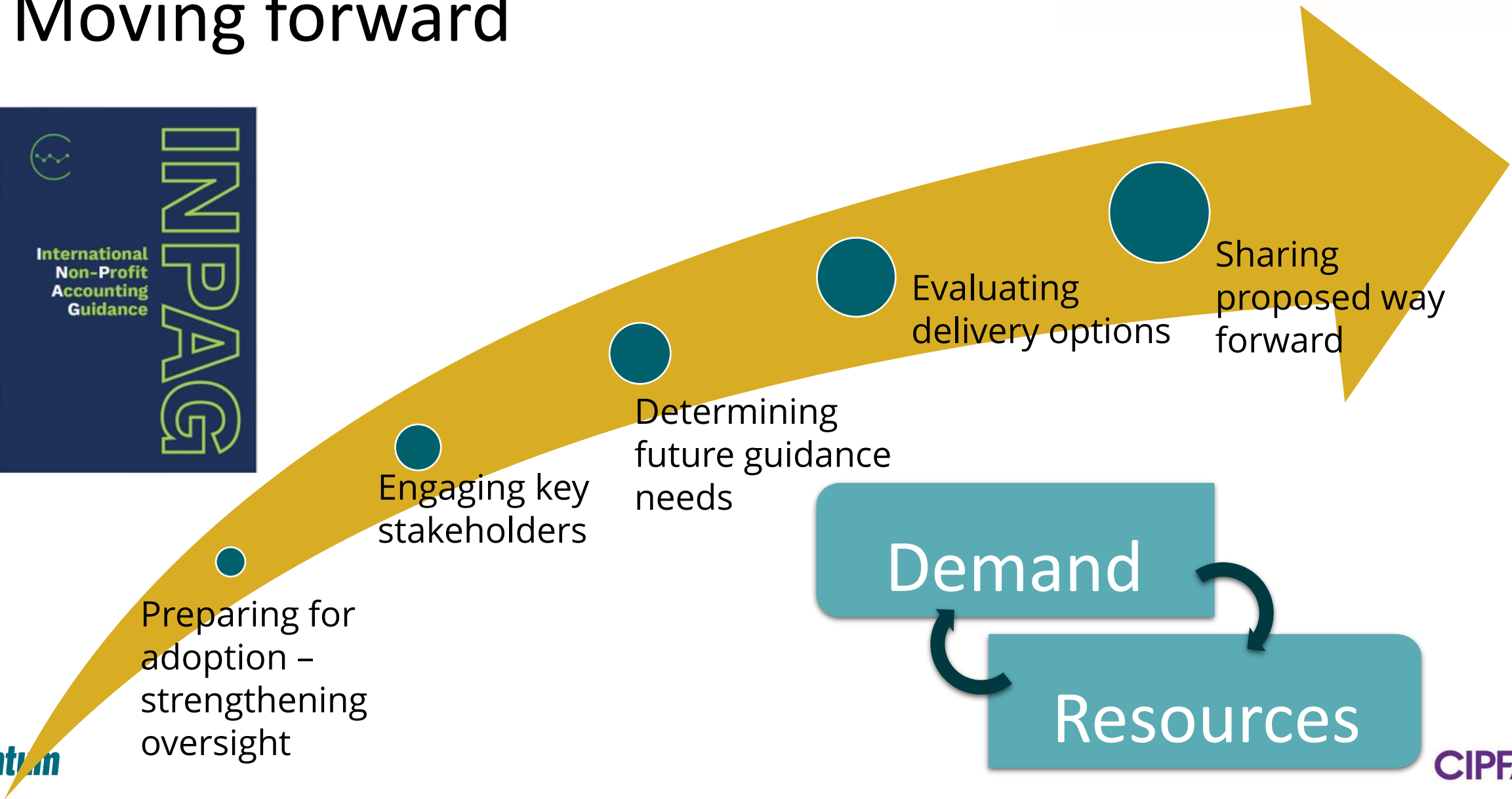
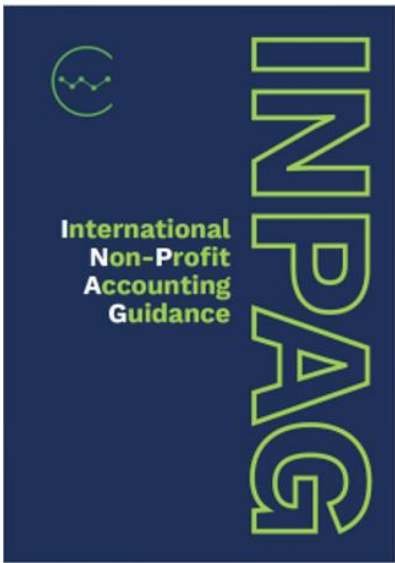
Classification of
expenses

Fundraising
costs

Fund
accounting

Recommended
Practice
Statement for
Supplementary
Reporting

Moving forward





Strengthening governance

New GG Chair = Kris Peach – former AASB Chair



Key changes – Governance Group

- Prioritising INPAG credibility including oversight of due process
- Emphasis on risk management
- Less focus on project management oversight
- Increasing membership from 3 to 10
- Involvement of chairs of Advisory Groups
- Focus on forward strategy
- Developing the future funding strategy

Transitioning to the next stage

Poll

- **In terms of content in Exposure Draft 2, which topic(s) are most relevant for you? (Pick 2)**
 - ✓ Classifying grants
 - ✓ Recognition of grant revenue
 - ✓ Donations in-kind
 - ✓ Grant expenses (ie grant making)
 - ✓ Foreign currency



ED2 topics - accounting

Revenue

Recognition, measurement, disclosure

INPAG Section 23 Part I and Part II

Expenses on grants & donations

Recognition, measurement, disclosure

INPAG Section 24 Part I

Inventories

Exemptions, measurement, disclosure

INPAG Section 13

Foreign currency translation

Presentation and disclosure

INPAG Section 30



Grants and donations - recognition

Factor	Consideration
Technical	Only defer revenue as accrued income (a liability) if there is a 'present obligation'
Practical	Capacity for application by small NPOs – keep it simple
Preparers	Clarity – make it easy to identify how to account for a particular grant
Users	Understandability by non-accountants: <ul style="list-style-type: none"> • Liabilities – risk exposure / liquidity? • Surplus / Deficit – financial performance? • Restricted / unrestricted funds balance – health / resilience?
Donors	Ability to reconcile to donor reports – better assurance
Sector trends	How to support best practice in terms of accountability and localisation

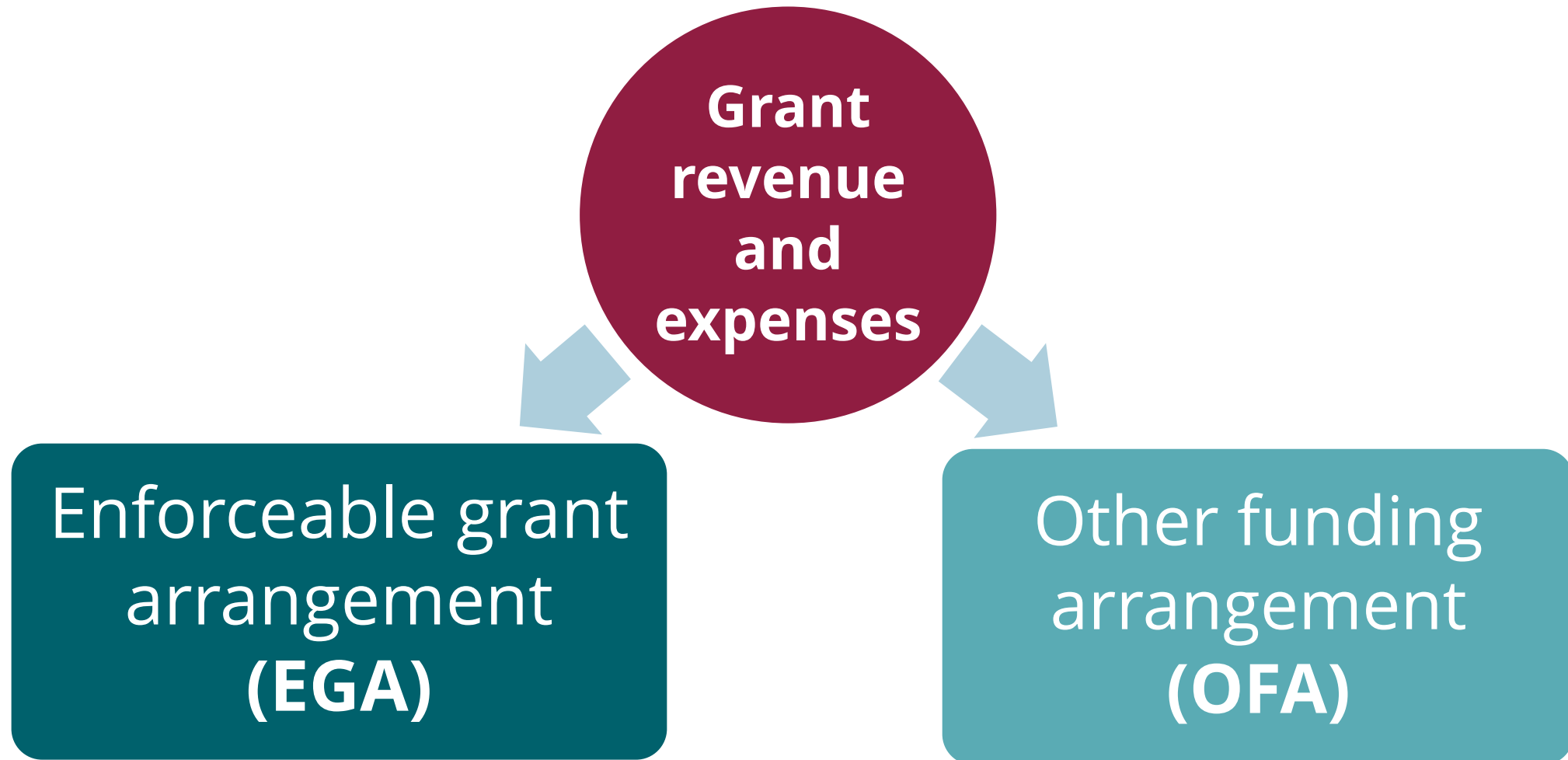
Standard clause
choice in grant
agreements

Education once
INPAG finalised

Notes to
Supplementary
Reports



Types of grant arrangement





EGA – Enforceable grant arrangement

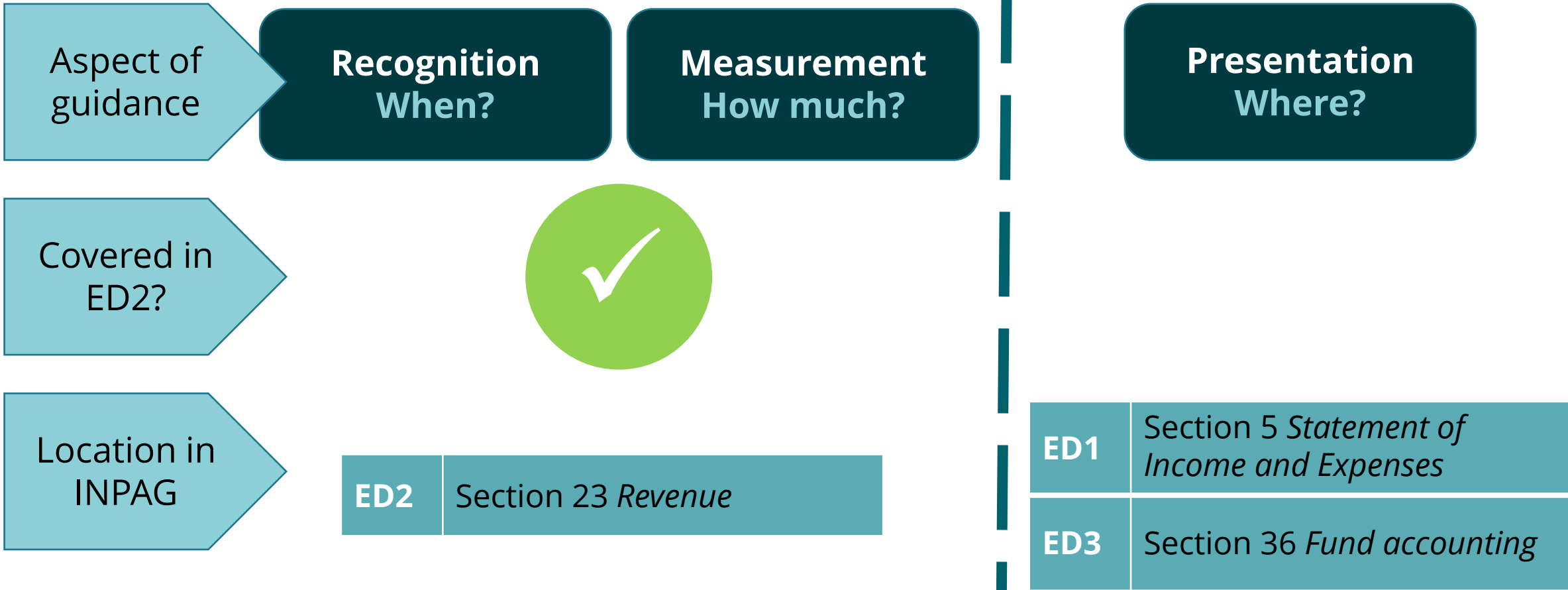
- ☒ **Both parties** to the grant arrangement
- ☒ Have **both rights and obligations**
- ☒ **Enforceable** through legal or equivalent means
- ☒ Must have at least one enforceable grant obligation (**EGO**)

Statement of intent ≠ EGA, but may be constructive obligation

EGO – Enforceable grant obligation

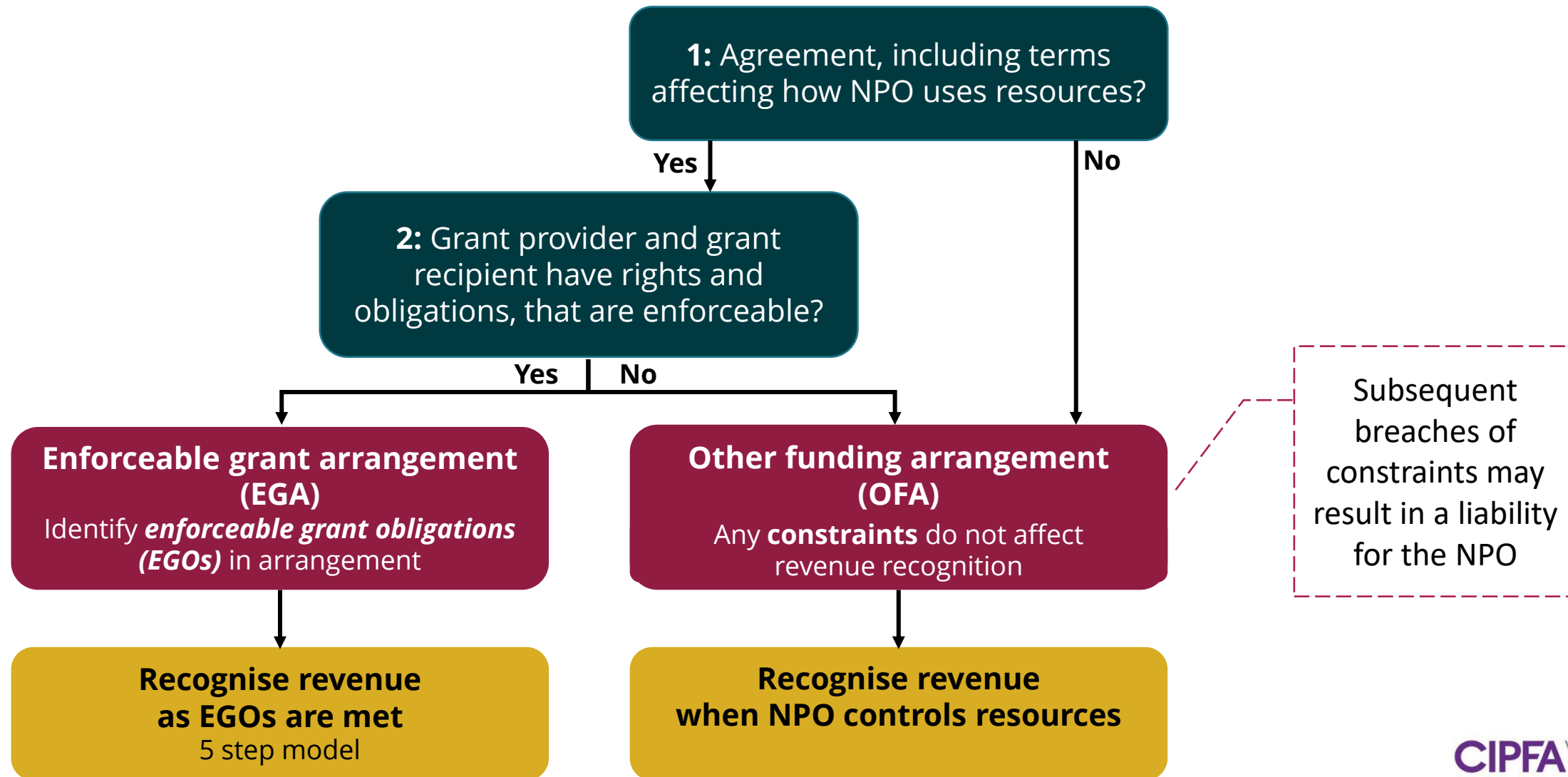


Revenue guidance in ED2





Accounting for grants and donations





Other funding arrangement (OFA)

Any grant or donation that is not an enforceable grant arrangement



Recognise revenue when NPO controls resources



Measure at fair value of resources received (or receivable)

OFA with constraints

Spectrum

Hi
level



Very
detailed

Constraint in OFA

≠

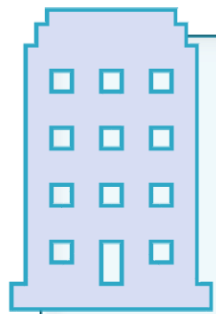
EGO in EGA

A future breach of constraints may result in financial liability to repay all or part of resources



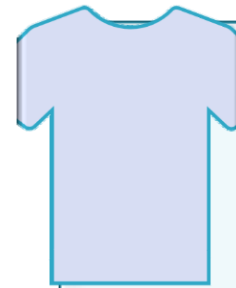
Gifts in-kind exceptions

Donations of goods and other assets



No exception

Non-current assets –
recognise revenue on receipt,
measured at fair value



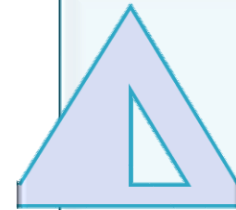
Exception

Low value items for resale –
option to recognise revenue
when sold, measured at sale
amount



Exception

Items for own use or
distribution – option to
recognise only when used or
distributed, measured at fair
value

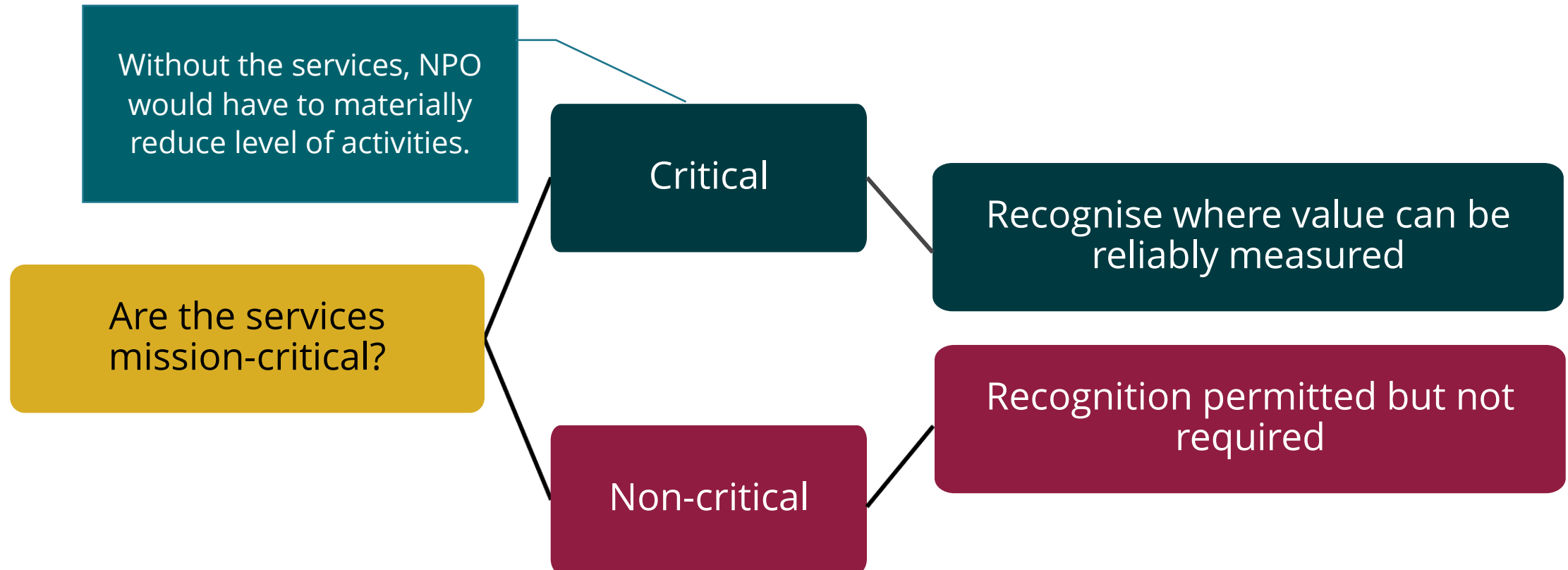


Exception

Rare situations where items
cannot be reliably measured

Services in-kind exceptions

Donations of services to the NPO



Inventories

Inventories are assets:

- Held for sale
- Held for distribution to service recipients
- Held for fundraising events
- In the process of production
- Materials or supplies to be used by the NPO

Adaptations and exceptions



**Donated
inventory**



Work-in-progress



Measurement

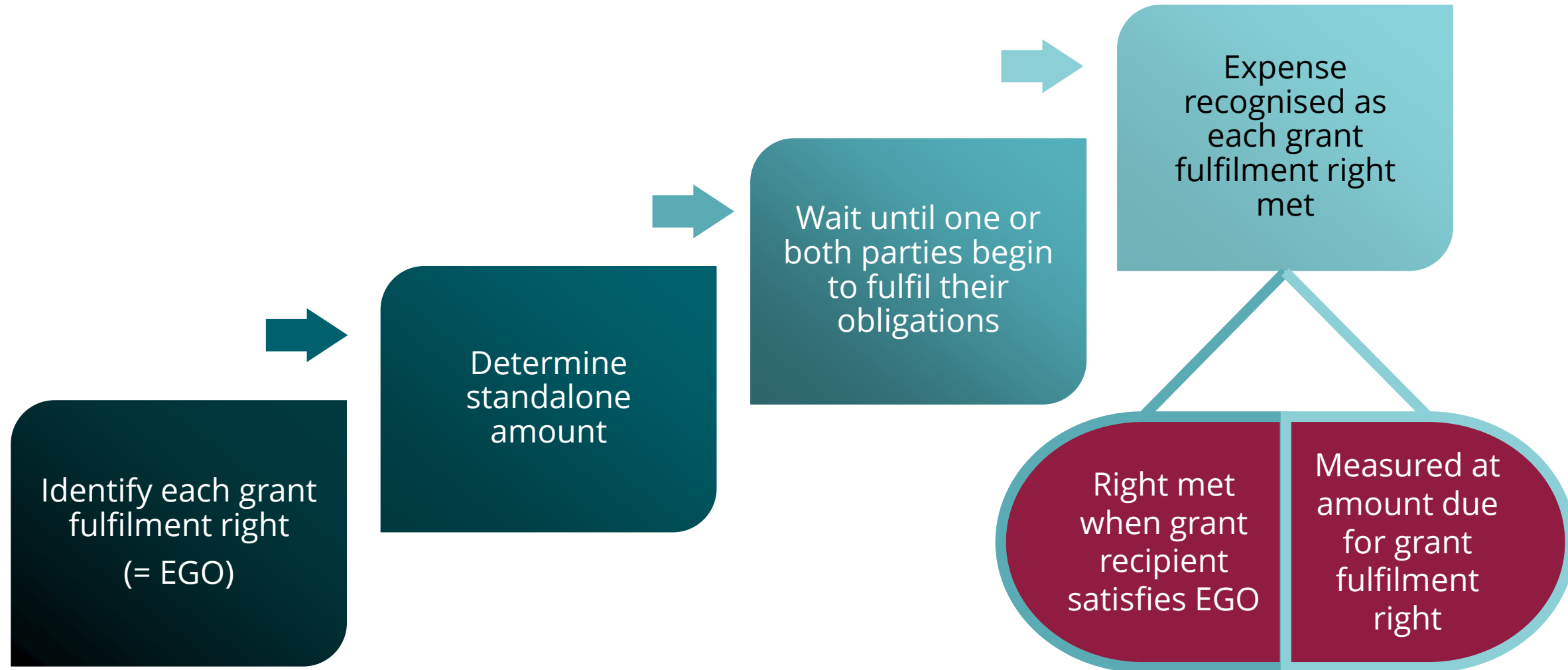
Inventories held for use or distribution = lower of cost adjusted for **service potential** and replacement cost

Recognised donated inventories = **fair value**

Unable to measure reliably



Grant expenses: EGA



OFA with constraints

Constraint

- On grant recipient's use of resources, eg
 - Purpose
 - Region
 - Time period

On transfer

- Entitlement not dependent on actions
- No present obligation on recipient


Recognise grant expense

If breached

- At a future date
- Grant recipient may have to make good or refund

Recognise financial or other asset

EGA: practical considerations



Rights and obligations	<ul style="list-style-type: none">• Clarity over requirements• Clarity over consequences
Stand-alone amounts	<ul style="list-style-type: none">• Specified in EGA• Best estimates
Monitoring	<ul style="list-style-type: none">• Clear when EGOs met• Other administrative requirements

Foreign exchange - Practical difficulties for NPOs



Exchange rate risk



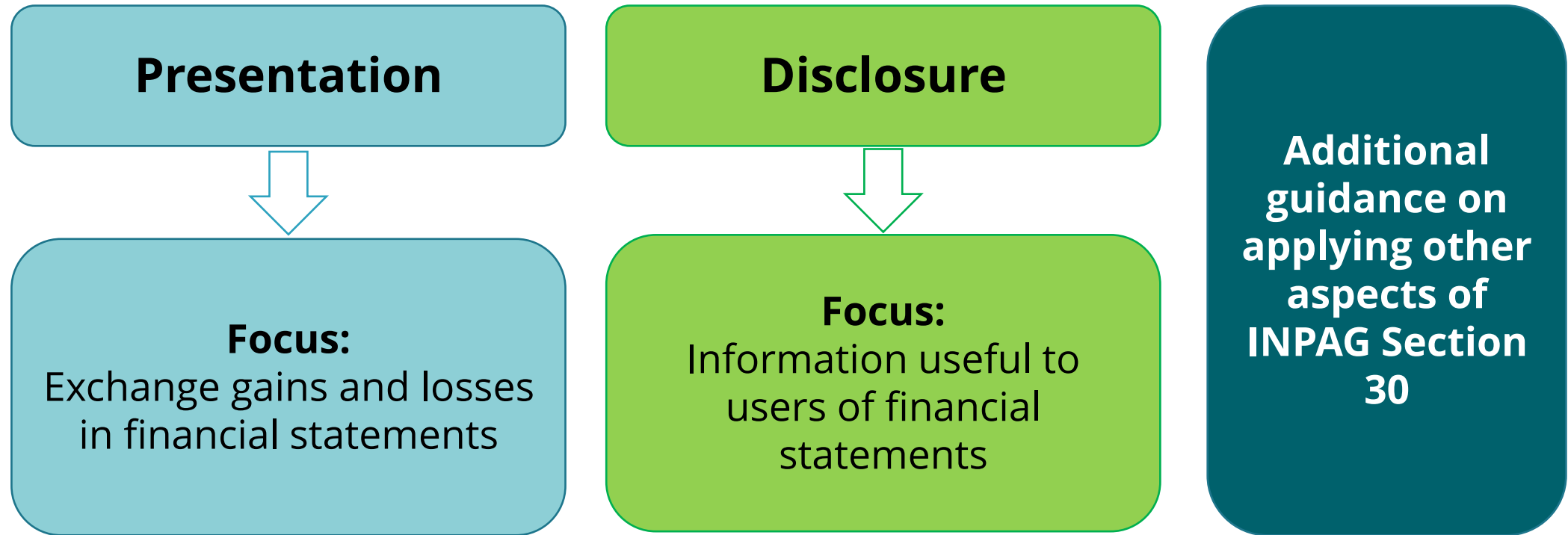
Use of specific
presentation rates



Cash in foreign
currency bank
accounts is pooled

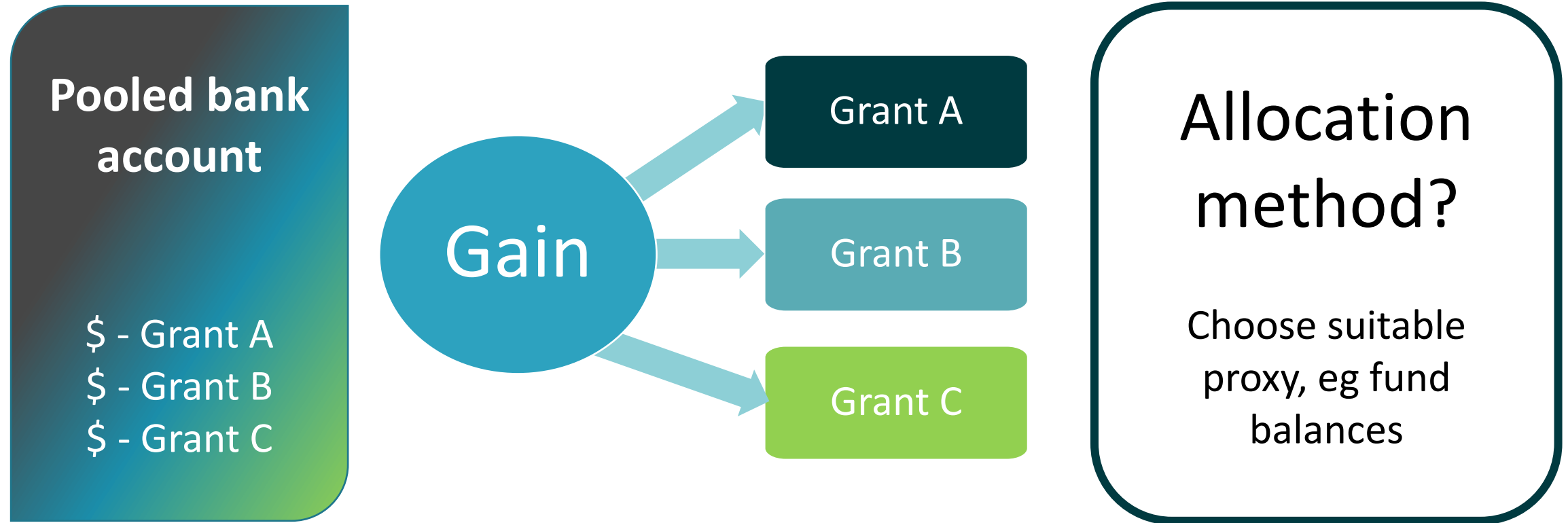


Main proposals



NOTE: No changes to the principles of how to account for foreign exchange gains and losses

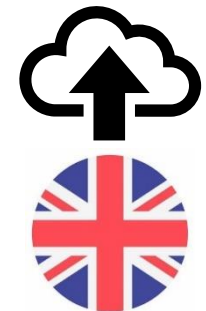
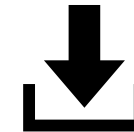
Foreign currency bank accounts





Have your say on INPAG Exposure Draft 2

www.ifr4npo.org/have-your-say



by 15 March 2024

ICAEW seminar

Reflections from a UK PAG member

Looking to the future, what might the INPAG mean for UK-Ireland?

- A fresh start: two submissions by Charities SORP-making body request a new approach for non-profits but is the FRC listening?
- INPAG launch in 2025 will precede the next SORP, now expected to go live in 2026. Could now be the time to start a new conversation?
- In 1988 one SORP- SORP2 but this excluded universities, the opportunity for a unified approach was lost and since then three PBE SORPs- could the sector reunify?
- ED3 adoption: A key conversation about how INPAG might be effected in UK-Ireland were it to be the future?
- Or is a local approach best after all?