

# A bridge to the future

## Moves are afoot to create international standards for accounting and grant practice. **Tim Boyes-Watson** explains.

SIR JOHN Wolfe-Barry is famous for building Tower Bridge in London. When it opened in 1894, it was the largest bascule or see-saw bridge in the world and used 11,000 tonnes of steel. However, its longevity as a landmark of London is due to Wolfe-Barry's more influential legacy, which was all about quality not quantity. Wolfe-Barry founded what was to become the British Standards Institute, and its first standard covered the iron and steel sections that are still in daily use at the bridge today.

Standards ensure quality and inspire trust and confidence in a wide range of national and international trade and supply chains. It is strange therefore that they are relatively absent from the not-for-profit sector. Mango is setting out to change that with efforts to create two new forms of finance standards for not-for-profit organisations (NPOs), which will help everyone be more confident that NPOs are making the most of their money.

The first standard we want to see created will be the first-ever international accounting standard for NPOs. The second will be an international quality standard in good financial grant practice (GFGP).

### International accounting

Mango has been campaigning for a new international accounting standard for NPOs since 2010, when I wrote an article for the *Charity Finance Yearbook* entitled "stand up for standards".

There are over 50,000 NPOs which work internationally as well as several million which work only within their own country. Trillions

of dollars flow through NPOs, yet it is startling how little evidence there actually is about the size and scale of the not-for-profit sector, which partly reflects the patchiness of rules and guidance about financial reporting. While there have been efforts to increase transparency, like the International Aid Transparency Initiative, this runs the risk of being "garbage in and garbage out" if the underlying financial reporting is not standardised and is poorly regulated.

“There is startlingly little evidence about the size and scale of our sector”

Lack of transparency also fuels concern from governments and citizens about the accountability of NPOs. Attitude surveys carried out by Bond in the UK show that fear about corruption is the biggest factor causing falling public support for development. Meanwhile, various country governments are using fear of corruption and the lack of transparency and accountability of NPOs to restrict NPOs' freedoms to work and campaign.

Some accounting bodies have recognised the problems, and the CAAB, which is a joint platform of the UK and Ireland's accounting bodies, funded independent research into the need for international NPO accounting standards in 2012. This found that of 605 respondents involved in NPO reporting in 179 countries, 72 per cent agreed that "it would be useful to have international standards for NPO accounting".

It also identified that there are

several key issues affecting NPO financial reporting which are not consistently addressed by available standards. These include non-exchange transactions, fund accounting issues, narrative reporting and the valuation of NPO-specific assets.

Fortunately, the international accounting institutions are starting to listen. In 2015, ACCA and the UK's Charity Commission collaborated to publish a *Companion Guide for Not-for-profits to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*.

On 5 October 2015, meanwhile, CIPFA hosted a key seminar for national accounting standard-setters from jurisdictions including Australia, Canada, Japan, Ireland, the Netherlands, Norway, Sierra Leone, South Africa, Turkey, UK, USA, and Zimbabwe. It also involved representatives of the International Accounting Standards Board (IASB), which deals with the corporate for-profit world, and the International Public Sector Accounting Standards Board (IPSASB). The key conclusion appeared to be that international guidance or standards for NPOs are needed.

The IASB also recently consulted on whether it should extend its remit to develop standards for the not-for-profit sector, and this consultation closed on 30 November 2015.

### Quality grant practice

Fears about corruption and about diversion of aid into funding for terrorism are fuelling demands for adequate due diligence along the entire aid chain. As a result, funders, and more recently the banking sector, now require more in-depth due diligence of organisations they work with. At present, these due-



**Tower Bridge** was built by Sir John Wolfe-Barry, who championed standardisation

diligence processes are not harmonised or shared, which means that organisations undergo multiple assessments using different criteria.

The lack of funders using organisational audits, partly due to the absence of standardisation in financial reporting, also means that each funder tends to require a project audit. I know of an NPO that has experienced over 100 project audits in a single country programme within one year.

This burden of compliance increases direct costs for both NPOs and funders, and diverts scarce time away from the intended outcomes of funding. Furthermore, it complicates the processes NPOs have to put in place to meet funder requirements, actually increasing the risk of fraud and misuse of funds rather than improving assurance.

To address these problems, a group of the major international funders that support medical research are backing a pan-African initiative to develop a standard in Good Financial Grant Practice (GFGP). The draft plans for this

were shared in a key international seminar on 6 October 2015.

This standard will provide a base-level assurance of fitness to receive funding, like the MOT provides for roadworthiness. The standard will adopt a tiered approach depending on the size and complexity of the organisation. NPOs will be able to self-assess and address any gaps they have against the standard before seeking certification from an approved body such as an audit firm.

“ **The standards will be based on the best of current practice for each relevant tier of NPO** ”

The results and supporting evidence from the certification process will be stored digitally and will be accessible to other funders, which will reduce most of the duplication and waste that is caused by current due-diligence processes. As the standards will be based on the best of current practice for each

relevant tier of NPO, meeting them will improve the quality of financial management and improve assurance. This should enable the creation of a virtuous cycle which supports continuous quality improvement.

The new standard will be developed by the African Research and Standards Organisation, the body created and governed by national standard-setters across Africa. This will involve a rigorous process of consultation with stakeholders (including funders beyond the field of medical research), standards development and critical review over a two-year period that meets international benchmarks in standards development.

If this harmonisation can be achieved, there should be significant cost-savings for NPOs and funders and improved assurance. It also has the potential to make funding more accessible to national NPOs at a time when many donors are seeking to localise their funding. Once the standard starts to gain traction and demonstrate its benefits to funders and NPOs, the African Research and Standards Organisation is one of the regional bodies able to apply to create an international (ISO) standard.

### **A bridge to the future**

The quality which Sir John Wolfe-Barry standardised has helped Tower Bridge endure. The two financial standards initiatives for NPOs that are gathering momentum in 2015 will drive up quality in ways Wolfe-Barry would heartily approve of. ■



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is director at Mango