

## NGO Information session

# Accounting standards for NGOs

7 November 2023

La Pastorale

# PROGRAMME

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**08:00 – 08:20** Welcome Breakfast buffet & registration

**08:20 – 08:30** Introduction

Mr. Julien Beauvallet, Head of Civil Society Service, CAGI

**08:30 – 09:40** NGOs' annual accounts: Regulations, Best practices and Transparency

Mr. Marc Secretan, Partner, PwC

Mr. Patrick Wagner, Audit Director, PwC

**09:40 – 10:00** Q & A

**10:00 – 10:30** Coffee & Networking

# NGOs' annual accounts: Regulations, Best practices and Transparency

Geneva, 7 November 2023



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# Agenda

## Theme

Swiss accounting law for NGOs

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Swiss GAAP FER

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Audit of NGOs and donor reporting

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Concluding remarks

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Q&A

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# Speakers



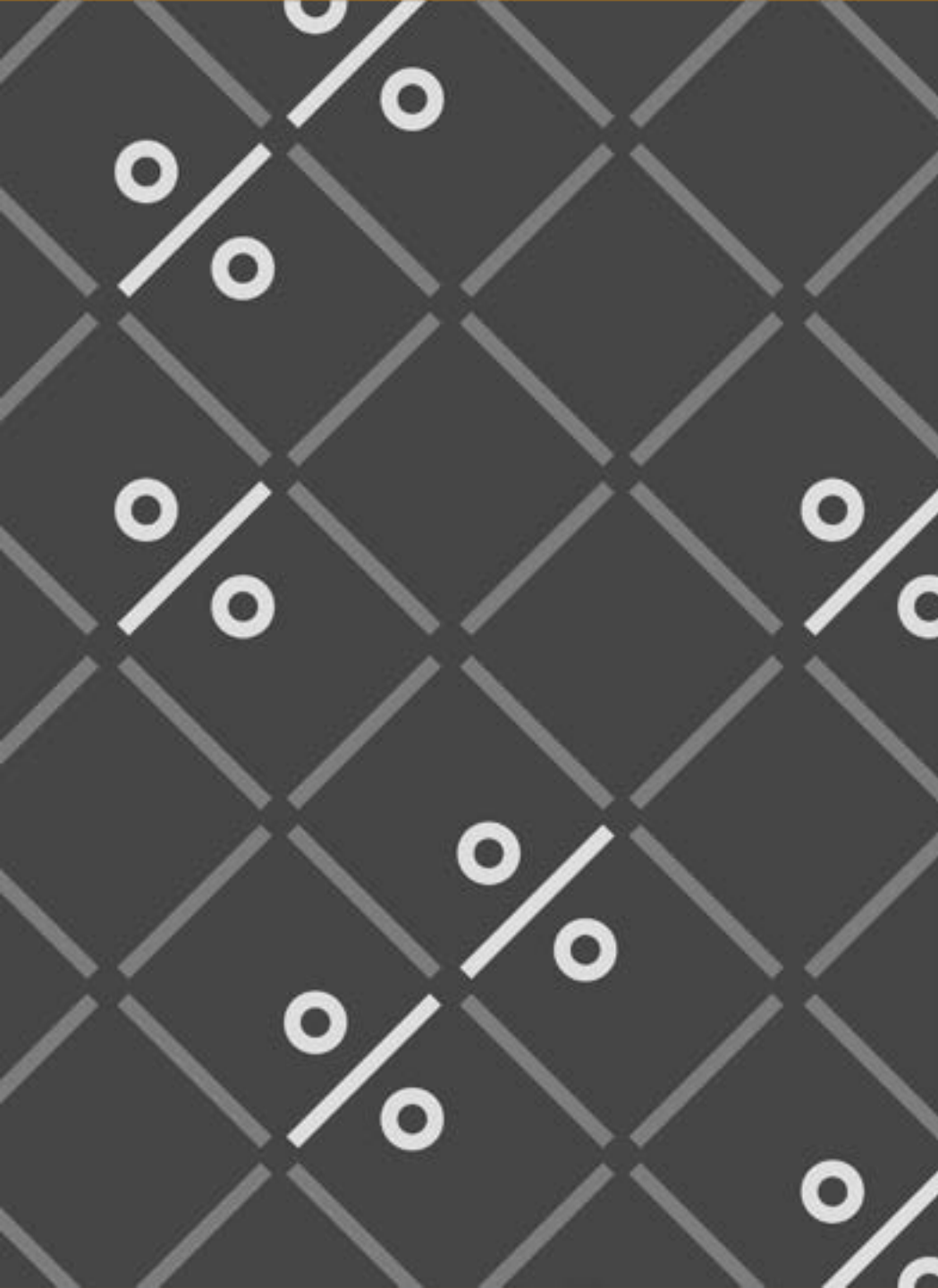
**Marc Secretan**

Partner



**Patrick Wagner**

Director



# 1

## Swiss accounting law for NGOs

# Accounting law for Swiss entities

## Overview of accounting and audit standard applicable

### Type of entity

- Associations and Foundations not in the commercial Register
- Foundations that have not to appoint an external auditor

- Medium size entities
- Less than 20/40/250

- Larger entities
- More than 20/40/250

- Listed entities
- Cooperative with 2000 employees
- Foundations subject to ordinary audit

### Accounting standard applicable

- Keep accounts on income and expenditure and on their asset position

- Financial statements in accordance with article 958 to 960 SCO, Balance sheet, income statement and notes

- Cash flow statements
- Additional disclosure
- Management report

- Additional set of financials statements
- IFRS, IFRS for SME
  - Swiss GAAP
  - US GAAP
  - IPSAS

### Type of audit

- No audit required

- Limited statutory examination
- Opting-out possible if less than 10 FTE
- Association > 10/20/50 → ordinary audit

- Ordinary audit

- Ordinary audit

# Accounting law for Swiss entities

## Basic principles

### COMPLIANCE FRAMEWORK

- Assumption that the NGO will remain a **going concern**
- Corresponding values of **prior year** must be shown
- Financial reports are presented in the national currency or in the **currency required for business operations** with the exchange **values in CHF shown**.
- Financial statements may be presented in one of the official Swiss languages or **in English**
- Accounting records and accounting vouchers together with management report and audit report must be retained for **ten years**.

- **Completeness:** All business transactions must be recorded completely in the accounts.
- **Truth:** The records must accurately reflect the transactions and the company's situation.
- **Principle of Clarity:** Entries must be made in a clear and understandable manner.
- **Prudence:** Valuation of assets and liabilities must be conservative, acknowledging all foreseeable risks and losses.
- **Continuity:** The valuation methods must remain consistent over time.
- **No Offsetting:** Revenues and expenses, as well as assets and liabilities, must not be offset against each other unless specifically allowed.
- **Individual Valuation:** Each asset and liability must be valued separately.



## True or false?

“The new CO 725 et seqq. also apply for associations, except for the provisions of CO 725a on capital loss.”

# Threat of insolvency, capital loss and over-indebtedness

## Associations

### Revision of ZGB/CC 69d:



**Associations required to register in the commercial register: new capital protection provisions apply**

- Impending insolvency (CO 725)
- Over-indebtedness (CO 725b)
- Revaluation of properties and investments (CO 725c)

### ZGB/CC 61/2: An association must be registered if it either

conducts a commercial operation in pursuit of its purpose

**or**

is subject to an audit according to CC 69b/1 or 69b/2

Indicators based on jurisprudence: If an association has e.g.

- employees
- business-driven processes and organisation
- substantial revenues
- substantial goodwill paid for a business acquired
- significant costs for infrastructure, accounting, legal advice
- significant debt financing

- Ordinary audit: assets CHF 10m / turnover CHF 20m / avg. FTE 50 (if two thresholds are exceeded in two consecutive years)
- LSE: upon request of a member with personal liability or an obligation to provide further capital



**Check if your subject to registration in the register of commerce**

# Threat of insolvency, capital loss and over-indebtedness

## Foundations

### Revision of ZGB/CC 84a:



#### **Duty to inform the foundation supervisory authority** in case of

- Impending insolvency (CO 725) – new requirement
- Over-indebtedness (CO 725b, no requirement to prepare interim F/S as the supervisory authority has to be informed immediately) – existing requirement

**Revaluation of properties and investments** under CO 725c newly permitted

- **Order of notification in case of over-indebtedness:**
  1. By the board of trustees of the foundation
  2. By the auditor
- Supervisory authority requires the board of trustees to take corrective measures. Supervisory authority proceeds with the corrective measures if the board of trustees remains inactive or it informs the court.



# 2

Swiss GAAP FER

# Concept

## Key elements

**1** Conceptual framework

**2** Fundamental FER

**3** Other standards related to a specific topic

**4** Swiss GAAP FER 30 consolidated accounts

**5** Swiss GAAP FER 31 additional recommendations for listed entities

**6** FER specific to an industry 21, 26, 40 et 41

# Swiss GAAP FER

## Users and purposes

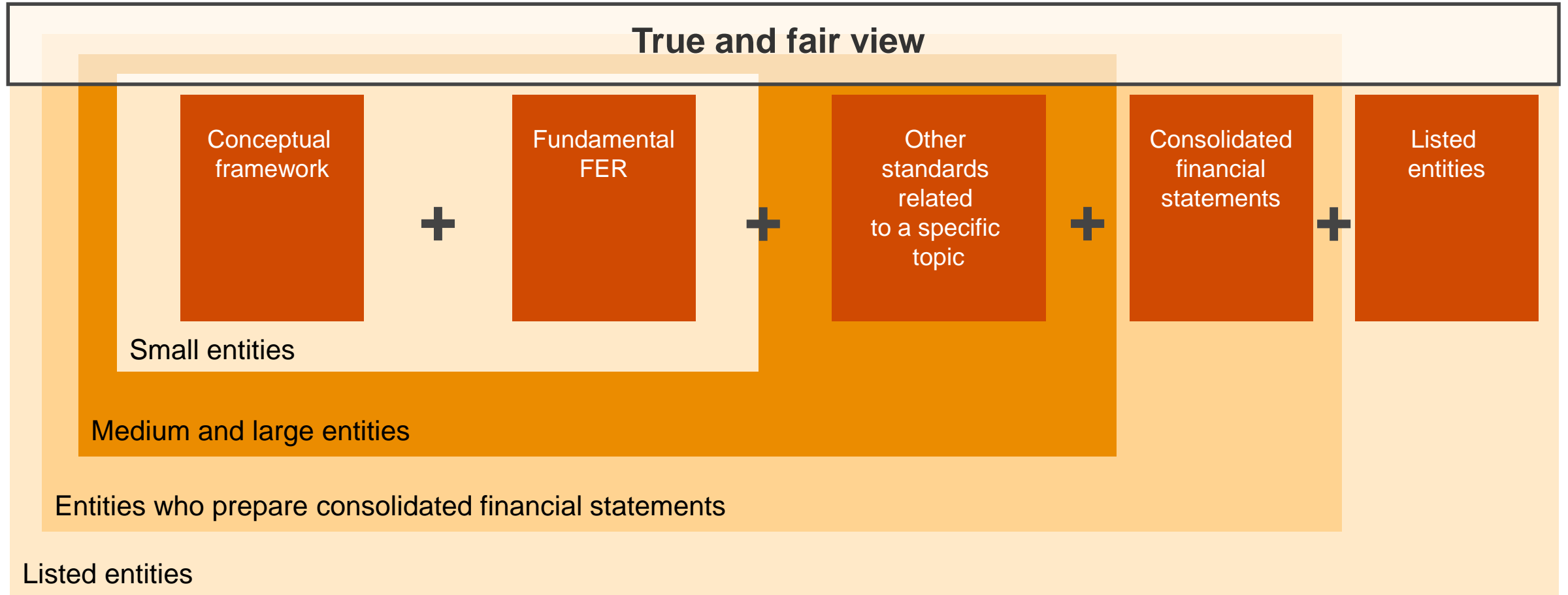
### Users

- Small and medium-sized enterprises (SMEs)
- National scale groups
- Non-profit organizations
- Listed companies using the standards applicable to companies and real estate companies listed on the Swiss stock exchange (SIX) and debt-financed listed companies (e.g., bonds)

### Purposes

- Provision of an adequate presentation of the financial statements giving a true and fair view of the assets, financial position, and results, corresponding to reality (true and fair view).
- Simplification of the comparability of financial statements with other companies and over time.
- Improvement of communication with donors, investors, banks, and other stakeholders.

# Expanded modular structure of the Swiss GAAP FER



# Swiss GAAP FER 21

## Definition

- **FER 21** applies to non-profit organisations (NPOs) – regardless of their legal form – that :
  - provide services in the interest of the general public, in particular services of a charitable nature, independent of the claims of third parties and/or members.
  - raise funds publicly from an undefined number of donors and/or receive restricted contributions from public authorities.
- All Swiss GAAP FER apply, but Swiss GAAP FER has priority

## Basic principles

- True and fair view
- Going concern
- **Accrual accounting**
- Completeness
- Consistency in presentation, disclosure and valuation
- Gross principle (no netting)
- Individual valuation of assets and liabilities
  
- Requirements of Swiss Code of Obligations as well apply in case of **dual reporting**



# Swiss GAAP FER 21

## Funds accounting

### Structure of balance sheet

- Assets
- Liabilities
  - Short- and long-term liabilities
  - **Restricted funds**
- Entity's funds (equity)
  - Capital of the organisation
  - Unrestricted funds
    - Internally generated **unrestricted funds**
    - Internally generated **restricted funds**

### Distinguishing Fund Capital from Organizational Capital

- Fund capital consists of funds that are **subject to a purpose restricted** by third parties. Examples include donations to support a clearly defined project or funds collected in a campaign to support victims of a natural disaster.
- Organizational capital consists of **funds without third-party usage restrictions** or with purposes imposed by the organization itself.
- In the context of Swiss GAAP FER 21, this distinction is important for financial reporting as it affects how these funds are presented in the financial statements.
- **Fund capital is often reported separately** from organizational capital due to the restrictions placed on its use.

# Swiss GAAP FER 21

## Funds accounting - exemple

- Green Future Foundation receives on 15 March 2023 a donation of CHF 50,000 from a donor to be used exclusively for reforestation in a specific region affected by deforestation.
- A month later, the NGO starts spending the donation on the reforestation project. They spend CHF 20,000 on saplings and planting materials.

### **Question:**

*What journal entries should be made upon the receipt of the donation and the utilization of the funds?*

# Swiss GAAP FER 21

## Funds accounting - exemple

*Solution:*

*Funds accounting - exemple*

### Receipt of Donation:

Debit	Credit	CHF
Cash	Donation	50'000
Change in Fund Capital	Fund reforestation	50'000

### Utilization of funds:

Debit	Credit	CHF
Paid Contributions and Donations	Cash	20'000
Fund reforestation	Change in Fund Capital	20'000

# Swiss GAAP FER 21

## Funds accounting - exemple

*Solution:*

Same case under Swiss GAAP FER only

### Receipt of Donation:

Debit	Credit	CHF
Cash	Deferred income	50'000

### Utilization of funds:

Debit	Credit	CHF
Paid Contributions and Donations	Cash	20'000
Deferred income	Income	20'000

# Swiss GAAP FER 21

## Entity's capital accounting- exemple

- Green Future Foundation receives a donation of CHF 100'000 from an inheritance to support its foundation purpose
- The Foundation Board decides at its meeting on August 22nd to use these funds for a major project in the future.

### **Question:**

*What journal entries should be made upon the receipt of the donation and after de decision of the Foundation Board?*

# Swiss GAAP FER 21

Entity's capital accounting- exemple

*Solution:*

*Entity's capital accounting - exemple*

## Receipt of Donation:

Debit	Credit	CHF
Cash	Donation	100'000

## Decision of the Foundation Board

Debit	Credit	CHF
Transfer to the entity's capital	Restricted equity – major project	100'000

# Swiss GAAP FER 21

## Fund Capital and Organizational Capital – Disclosure

- The statement of changes in capital presents the balances and the **changes of the positions of the fund** capital and the organizational capital on a **gross basis**.
- The **purpose** of the positions of the fund capital and the restricted organizational capital **must be disclosed**. Similar positions may be aggregated.
- **Transfers** between designated funds **must be individually disclosed and justified**.
- The purpose of a fund (as well as restricted capital) must be indicated by a **meaningful designation** and, if necessary, explained in the notes to the financial statements.

## Consolidation

- A non-profit charitable organization must consolidate other organizations it **controls** in accordance with Swiss GAAP FER 30 (without size criteria).
- A non-profit charitable organization particularly controls another organization if:
  - it can appoint or de facto holds a majority of the highest governing body
  - has a significant directive right based on contractual or statutory provisions.

# Swiss GAAP FER 21

## Learning from the practice

### What we have seen

- Free capital and Fund capital allocation
  - An appeal for donation is to **vague** regarding to a donation that **is to be used freely**
  - Restricted donation are **not accounted as such**
  - Allocation between free and fund capital is necessary for all donations
- Change in Fund
  - restricted donations in the operating statement **cannot be reconciled** with the fund accounting.
  - Only restricted donations that were not used in the reporting year are **allocated to the fund capital (net instead of gross allocation)**
  - Self-restricted capital is reported as fund capital instead of restricted organizational capital.
- Contract with donors is not clear enough regarding requirements

### Good practices

- Fundraising activities and accounting for unrestricted donations **to be verified in detail**
- **Gross** accounting of restricted funds
- No negative funds
- Transfer to be explained
- Understanding the contract and donors requirements are key to ensure an accurate accounting and reporting.
- Difference between a donation and a grant



# Swiss GAAP FER 28

Effective for annual periods beginning on or after 1 January 2024, earlier application is permitted

- Applies to all FER preparers except for NGOs applying FER 21
- Broad definition of government grant covering aid and subsidies but excluding taxes or levies
- Recognition criteria: reasonable assurance of compliance with grant conditions/possibility of a reliable estimate
- No transition guidance: change of accounting policy as per FER Framework/30

	Grants related to assets	Grants related to income (i.e. all other)
Balance sheet	<ul style="list-style-type: none"><li>• Net → offset against the asset; or</li><li>• Gross → allocated to deferred income</li></ul>	<ul style="list-style-type: none"><li>• Possibly recognition as accrual</li></ul>
Income statement	<ul style="list-style-type: none"><li>• Reduction of depreciation; or</li><li>• Income (optional, if presented gross in BS)</li></ul>	<ul style="list-style-type: none"><li>• Separate line item; or</li><li>• Other income</li></ul>
Cash flow statement	Investing	Operating
Disclosures	<ul style="list-style-type: none"><li>• Accounting policy including specification of the above policy choices</li><li>• Information necessary to understand the grant (e.g. nature and extent, other forms of non-monetary government support, conditions, repayment obligations)</li></ul>	

# Swiss GAAP FER 28

Effective for annual periods beginning on or after 1 January 2024, earlier application is permitted

## FER 28/1

A government grant is **compensation provided by a public institution for services provided or expenses incurred in the course of an entity's operating activities**. Through this, the entity receives a specific economic benefit.

## FER 28/5

“Government grants related to income must be recognised in profit or loss according to plan over the periods in which the entity recognises the related expenses.

They are presented in the income statement **either separately or under the heading ‘Other operating income’**. In objectively justified cases and if doing so does not result in a misleading presentation, government grants may be offset against the corresponding expenses.”

## What's the issue ?

It might not be clear to all affected preparers that they receive government grants (or even that those are a major part of their income).

### Examples:

- Hospitals
- Schools and universities

Those preparers might have presented this source of income historically as revenue



## What's the impact ?

- As of 1 January 2024 (and applied fully retrospectively) income from government grants needs to be presented either *separately* or as *‘other operating income’*.
- Presentation as revenue is no longer acceptable



# 3

## Audit of NGOs and donor reporting

# Ordinary vs Limited statutory examination

Criterion	Ordinary audit	Limited statutory exam.
<b>Professional qualifications</b>	Licensed audit expert / auditor under state oversight	Licensed auditor / audit expert
<b>Independence</b>	<p>Strict requirements as per CO 728</p> <p>Rotation as per CO 730a</p>	<p>Similar requirements. Exception: involvement in accounting and other services, pursuant to CO 729</p> <p>No duty to rotate</p>
<b>Subject of the audit</b>	<ul style="list-style-type: none"> <li>• Separate financial statements</li> <li>• ICS</li> </ul>	<ul style="list-style-type: none"> <li>• Separate financial statements</li> </ul>
<b>Audit scope</b>	Full scope audit, as per CO 728a	Limited to specific audit procedures, as per CO 729a

# Ordinary vs Limited statutory examination

Criterion	Ordinary audit	Limited statutory exam.
<b>Reporting</b>	<ul style="list-style-type: none"> <li>• (Summary) audit report as per CO 728b</li> <li>• Confirmation concerning the ICS</li> </ul>	<ul style="list-style-type: none"> <li>• (Summary) audit report as per CO 729b</li> </ul>
<b>Level of assurance</b>	High	Moderate
<b>Auditing Standards</b>	SA-CH 2022 based on ISAs	Separate, specific audit standard for limited statutory examination
<b>Reporting to Governance</b>	Detailed report (CO 728b) <ul style="list-style-type: none"> <li>• Accounting</li> <li>• ICS</li> <li>• Audit results</li> </ul>	Optional

# Donor reporting

## Important and common issues

### Relevance

- NGOs are Funded by public or private donations
- High expectations from donors regarding transparency and accountability
- Several types of reports can be issued using different standards
- Expectation gap identified between the Donor and the grant recipient

### Common issues

- Misunderstanding from grant recipient on what to do
- Lack of details in Donors requirements
- Determine which type of reports should be issued
- Accounting is not aligned with requirement of donors
- Identified which attribute should be tested for each type of expenses

# Types of report

**ISA 805**

Audit of single financial statements and specific elements, accounts or items of a financial statement

**ISAE  
3000**

Assurance Engagements other than Audits or Reviews of Historical Financial Information

**ISRS  
4400**

Engagements to Perform Agreed-Upon Procedures Regarding Financial Information

# Types of report

	<b>ISA 805</b>	<b>ISAE 3000</b>	<b>ISRS 4400</b>
Objectives	Provide assurance on a specific element or account of a financial statement.	Provide assurance on aspects other than historical financial information.	Carry out specific procedures and report our factual findings.
Scope	Subject to International audit standards (ISA).	Determined by the auditor based on the grant agreement.	Determined by the client and management.
Level of assurance	Reasonable (positive) assurance	Reasonable (positive) or limited (negative) assurance	No assurance provided



# Types of report

	<b>ISA 805</b>	<b>ISAE 3000</b>	<b>ISRS 4400</b>
<b>Reporting</b>	Standard format based on ISA requirements.	No standardised format. Opinion/conclusion are clearly expressed.	Report on factual findings without any conclusion or recommendations.
<b>Report distribution</b>	Not restricted unless specified in the report	Restricted distribution. Can be made available to specific third parties	Restricted distribution to parties who signed the engagement letter.

# Types of report

	<b>ISA 805</b>	<b>ISAE 3000</b>	<b>ISRS 4400</b>
<b>Pros (+)</b>	<ul style="list-style-type: none"><li>• Provide direct audit assurance</li></ul>	<ul style="list-style-type: none"><li>• Flexible assurance standard</li><li>• Topics covered by engagement can vary</li></ul>	<ul style="list-style-type: none"><li>• Specific procedures are followed and detailed in the report</li></ul>
<b>Cons (-)</b>	<ul style="list-style-type: none"><li>• Specific procedures performed not detailed in the report</li></ul>	<ul style="list-style-type: none"><li>• Time consuming</li></ul>	<ul style="list-style-type: none"><li>• Does not provide assurance</li></ul>

# What do we see in Practice

- **ISA 805 is the most used reporting framework**
- **Some donors request ISAE 3000, ISRS 4400 or ISAE 2400 reports**
- **Recommendations:**
  - Seek clarifications
  - Ensure accounting framework is aligned with donors requirements
  - Involve the auditor early in the process
  - Submit a draft audit report to get feedback



# 4

Concluding remarks

# Good governance recommendations

## Financial function / Management

- **Budgeting and Financial Planning:** Develop a comprehensive annual budget that aligns with the NGO's strategic objectives. Monitor actual income and expenses against the budget and adjust plans as necessary.
  - **Financial Reporting:** Prepare timely and accurate financial reports that comply with accounting standards (like Swiss GAAP FER for Swiss NGOs) and provide a clear picture of the NGO's financial position.
  - **Internal Controls:** Implement strong internal controls to prevent fraud and misuse of funds. This includes segregation of duties, authorization requirements for expenditures, and regular financial audits.
- **Compliance:** Stay informed and compliant with all legal and regulatory requirements that affect the NGO.
  - **Risk Management:** Identify, assess, and manage risks that could impact the organization's finances or reputation.
  - **Donor Reporting:** Ensure that donor funds are tracked and reported accurately, respecting any restrictions or requirements set by the donors.
  - **Service organization:** Ensure you have a good understanding of the scope of services performed by service organization (IT, Payroll, accounting)

# Good governance recommendations

## Governance body

- **Oversight:** Exercise diligent oversight over the NGO's activities and finances, ensuring resources are used effectively towards the organization's mission.
  - **Policy Development:** Establish clear policies for financial management, conflict of interest, whistleblower protection, and other key governance areas.
  - **Board Composition:** Include members with a mix of skills and experiences, including financial expertise, to provide well-rounded guidance and decision-making.
- **Board Meetings:** Hold regular meetings to review financial reports, strategic initiatives, and critical organizational decisions.
  - **Evaluation:** Regularly evaluate the performance of the board, individual board members, the CEO/Executive Director, and the organization as a whole.
  - **Audit Committee:** If the NGO is large enough, an audit committee comprising board members with financial expertise should be formed to liaise with the auditor and oversee all audit-related activities.
  - **Other Committee:** Depending on the size and structure of the organization, other committee should be put in place.

We're happy to take  
your questions...

... and thank you for  
your participation.

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# NEXT CONFERENCES

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- 14 November** Greycells, une ressource et des compétences au service des ONG, Maison internationale des associations
- 12 December** Introduction aux normes régulant la propriété intellectuelle sur des biens matériels et immatériels produits par des associations, Maison internationale des associations



**Thank you for your attention  
and participation**

# CONTACT

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