EnPress Publisher

Journal of Infrastructure, Policy and Development 2024, 8(11), 7988.
https://doi.org/10.24294/jipd.v8i11.7988

Article

Enhancing financial transparency in non-profit organisations: Challenges and integration of IFRS for SMEs, IFR4NPO, and GRI standards

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CITATION

Rodriguez-Galindo R, Yasnó-Triana C, Ultreras-Rodríguez A, et al. (2024). Enhancing financial transparency in non-profit organisations: Challenges and integration of IFRS for SMEs, IFR4NPO, and GRI standards. Journal of Infrastructure, Policy and Development. 8(11): 7988. https://doi.org/10.24294/jipd.v8i11.7988

ARTICLE INFO

Received: 15 July 2024
Accepted: 6 September 2024
Available online: 15 October 2024

Abstract: This study examines the challenges and needs faced by non-profit organisations (NPOs) in Colombia regarding the adopting of the International Financial Reporting Standards (IFRS) for small and medium enterprises (SMEs), particularly focusing on sections 3 and 4. Employing a mixed-method approach, the research combines qualitative and quantitative methods. Surveys were conducted with Colombia NPOs, official documents were analysed, and comparative case studies were performed. In-depth interviews and participant observation were also utilised to gain a comprehensive understanding of the obstacles and current practices within the Colombian context. The findings reveal that NPOs in Colombia encounter significant difficulties in adopting IFRS due to the complexity of the standards, lack of specialised resources, and the need for specific training. Internal challenges such as deficiencies in staff qualifications and training, resistance to change, and technological limitations were identified. Externally, ambiguities in the legal framework and donor requirements were highlighted. The case study illustrated that, while there are similarities between IFRS for SMEs and the IFR4NPO project, specific adaptations are essential to address the unique needs of NPOs. This research underscores the necessity of developing additional guidelines or modifying existing ones to enhance the interpretation and application of IFRS in Colombia NPOs. It is recommended to implement proactive strategies based on education and legislative reform to improve the transparency and comparability of financial information. Adopting a more tailored and supported accounting framework will facilitate a more relevant and sustainable implementation, benefiting Colombian NPOs in their resource management and accountability efforts.

Keywords: NPO; IFSR; SMEs; financial statements

1. Introduction

The International Financial Reporting Standards (IFRS) have established themselves as a cornerstone in contemporary financial management, providing a framework that ensures transparency and comparability in financial reporting (Kyriakou, 2022). Historically, this approach has been primarily applied to for-profit entities, aiming to protect investors from unethical financial reporting practices (Epstein and Jermakowicz, 2010; Roszkowska, 2020). However, Non-Profit Organisations (NPOs) also require an appropriate accounting framework that reflects their unique characteristics and meets their informational needs (Crawford et al., 2018; Zainon et al., 2013). The interdisciplinary challenges in nonprofit financial reporting, as highlighted by LePere-Schloop and Nesbit (2023a), underscore the complexity of applying these standards within NPOs, which operate under different principles compared to for-profit entities.

NPOs play a crucial role in the social and economic fabric of various regions, particularly in developing countries where their impact can be significant in terms of community development and sustainability (Chowdhury et al., 2019; Farooq et al., 2020). The evolution of nonprofit research, as mapped by LePere-Schloop and Nesbit (2023a) reveals that while there has been significant progress, gaps remain in understanding how these organisations navigate financial reporting challenges, particularly in adopting standards like IFRS for SMEs. The application of such profit-oriented frameworks to NPOs, as discussed by McMillan (2002) requires careful consideration to ensure they align with the operational realities and non-distribution constraints that define these organisations.

The implementation of specialised accounting standards for NPOs has been addressed by various institutions and countries (Crawford et al., 2018) with initiatives such as the Statements of Financial Accounting Standards (SFAS) in the United States and the Statements of Recommended Practice (SORP) in the United Kingdom (Albaz et al., 2022; Cordery et al., 2019). These initiatives have attempted to address the specific needs of NPOs, yet there is still no single international guideline to steer the financial reporting of these entities (Amagtome and Alnajjar, 2020). This lack of uniformity presents significant challenges for NPOs, which must navigate a complex and often inconsistent regulatory landscape (AbouAssi and Bies, 2017). Previous research has examined the adoption of IFRS for SMEs in the non-profit sector, revealing that NPOs face numerous challenges in adopting these standards (Crawford et al., 2018; Lopez-Arceiz et al., 2021; Soares et al., 2023). These challenges include a lack of knowledge and understanding of the standards, the perception of their complexity, and resistance to change (Bebbington et al., 2001; Cordey et al., 2019; Mita et al., 2017; Soares et al., 2023). Furthermore, research on the specific adoption and application of Sections 3 and 4 of IFRS for SMEs by NPOs, is scarce, limiting the understanding of compliance and the specific challenges in this regional context (Handley, 2022; Riahi and Khoufi, 2019).

In Colombia, NPOs play a pivotal role in the social and economic structure, particularly in regions where there are approximately 188 non-profit associations primarily focused on agricultural activities (Bernal et al., 2021; Bradford et al., 2018; Vergara-De et al., 2015). These associations are vital for vulnerable communities, addressing social issues such as poverty, food access, and sustainable development (Choto et al., 2020). They also receive state grants and international cooperation funds to support community-benefiting projects. However, to maintain and increase these resources, transparent and comparable financial reporting is essential (Crawford et al., 2018; Fadel and Ibrahim, 2022; Sinclair, 2010). The transparency and comparability of financial information are crucial for multiple stakeholders, including members, employees, social investors, donors, and government entities (Gilchrist et al., 2023; Ortega-Rodríguez et al., 2020; Roslan et al., 2017). Despite the existence of a legal and regulatory framework in Colombia that establishes the structure for the adoption and application of IFRS for SMEs by NPOs (Law 1314 of 2009, Law 2069 of 2020, Decree 1670 of 2021), there remains a gap in understanding how these entities can effectively adopt and apply Sections 3 and 4 of IFRS for SMEs. The current regulations require NPOs to comply with financial statement presentation requirements and provide information about their financial position according to these international standards (Cordery et al., 2019; Roslan et al., 2017; Zainon et al., 2013). However, the lack of a specific guideline for the non-profit sector and the inherent complexity of IFRS pose significant challenges for their effective implementation.

This study aims to address this gap by evaluating key requirements and criteria, analysing current adoption and compliance practices, identifying obstacles, and developing a representative case study within the Colombian context. The purpose of this research is twofold: to enhance the understanding of how IFRS for SMEs, specifically Sections 3 and 4, is adopted and implemented by NPOs in Colombia, and to identify the internal and external challenges these organisations face. Given the critical role of accurate financial reporting in improving the quality of financial information, this research is crucial for enhancing the legitimacy and trust in non-profit associations, where financial transparency is increasingly seen as a hallmark of good governance.

This study will significantly contribute to strengthening the legitimacy and trust in non-profit associations, where financial transparency becomes an indicator of good governance. Investors and donors increasingly demand transparency and confidence through the disclosure of reliable and comprehensive information. The relevance of this research is also underscored by its novelty in the specific context of a region of Colombia where these associations form the social and economic foundation of many communities. The qualitative approach will allow an in-depth exploration of the unique challenges faced by these organisations in the region. The methodology employed in this study, which includes in-depth interviews, participant observation, and document analysis, will facilitate a rich and detailed understanding of the processes, obstacles, and opportunities. This will not only enhance donor confidence and foster collaboration among organisations but also provide a solid and reliable database that could drive more effective government policies and investment decisions. This study will not only enrich the academic field related to accounting and regulation of non-profit associations but also have a tangible social and economic impact on the region.

The structure of this article is as follows: Section 2 presents the theoretical approach, including a discussion on NPOs, IFR4NPO, IFRS for SMEs, and the challenges associated with their adoption. Section 3 details the materials and methods used in this study. Section 4 presents the results, focusing on the adoption and compliance with IFRS, as well as the obstacles faced by NPOs. Section 5 provides a discussion of the findings, and Section 6 concludes the study, offering future research directions.

2. Theoretical approach

2.1. Non-profit organisations (NPOs)

NPOs are organisations whose primary purpose is to promote social, cultural, educational, religious, health, or public welfare causes rather than generating economic benefits for their owners or shareholders (Salamon and Anheier, 1997; Worth, 2020). They operate within the third sector, positioned between the public and private sectors (Evers and Laville, 2004; Salamon and Sokolowski, 2016). These entities are funded through various sources such as donations, public funding, grants, sponsorships, and the sale of goods and services (Connolly and Hyndman, 2013; Garcia-Rodriguez and Romero-Merino, 2020; Salamon and Anheier, 1997). Since they do not pursue profit, any surplus generated is reinvested in the organisation to support its activities and advance its goals (Anheier, 2014). The intersection of public administration, public policy, and nonprofit studies, as explored by LePere-Schloop and Nesbit (2023b), underscores the complexity of managing NPOs within different regulatory and policy frameworks, which is crucial when considering the adoption of IFRS for SMEs. NPOs face numerous challenges in terms of accountability, transparency, and financial management (Connolly and Hyndman, 2013; Ortega-Rodríguez et al., 2020). Clear and comprehensible financial reporting is crucial to ensure the trust of donors, funders, and other stakeholders, as well as to improve efficiency and effectiveness in resource allocation (Ebrahim, 2003; Hyndman and McConville, 2016; Lokman et al., 2023). To meet these challenges, NPOs must follow a specific financial reporting framework tailored to their needs and characteristics (Breen et al., 2018; Crawford et al., 2018).

2.2. IFR4NPO: International financial reporting for non-profit organisations

The International Financial Reporting for Non-Profit Organisations (IFR4NPO) project aims to develop a set of international financial reporting guidelines tailored to NPOs, considering their differences from for-profit entities (IFR4NPO, 2021). Some of the specific aspects requiring consideration in the financial reporting framework for NPOs include the classification and presentation of donation income, restricted and unrestricted funds, as well as the measurement and recognition of assets and liabilities related to charitable projects and activities (Connolly and Hyndman, 2013; IFR4NPO, 2021). Accountability and transparency are fundamental to the legitimacy and success of NPOs (Connolly and Hyndman, 2016; Ebrahim, 2003). These organisations must demonstrate to their stakeholders, such as donors, beneficiaries, and regulators, that the resources they receive are used effectively and efficiently to achieve their objectives (Santo-Pérez et al., 2022). Additionally, NPOs must comply with various legal and regulatory requirements depending on their jurisdiction and activities (Anheier, 2014; Breen et al., 2018). This can include the submission of audited financial statements, as well as reports on activities and achieved results, which vary by jurisdiction and type of organisation (Cordery et al., 2019; Keating and Frumkin, 2003).

2.3. IFRS for SMEs

The IFRS for SMEs were issued by the International Accounting Standards Board (IASB) in July 2009 (IASB, 2009). These standards are designed to meet the needs and capabilities of SMEs, which constitute most economic entities worldwide (Bautista-Mesa et al., 2019; Needles and Powers, 2013). The IFRS for SMEs are a simplified version of full IFRS, with fewer disclosure requirements and simplified measurement options (IASB, 2009). Despite these simplifications, they maintain the primary objective of IFRS: to provide high-quality, transparent, and comparable financial information to help external users make informed financial decisions (Epstein and Jermakowicz, 2010; Perera et al., 2023). For NPOs, the IFRS for SMEs are particularly relevant. These entities face unique challenges in presenting their financial information, such as the need to be accountable to a variety of stakeholders, including donors, volunteers, beneficiaries, and regulators (Connolly and Hyndman, 2013).

The IFRS for SMEs can provide NPOs with a robust and internationally recognised financial reporting framework, thereby enhancing the transparency and comparability of their financial information (Hyndman and McConville, 2016). Section 3 of the IFRS for SMEs, titled “Financial Statement Presentation,” sets out the general requirements for the presentation of financial statements, including the basis for classifying items in the financial statements and the overall considerations for presenting financial information (IASB, 2015, 2020). This section is particularly relevant for NPOs, as it provides guidance on how to present financial information in a manner that accurately and fairly reflects the entity’s financial position (Hyndman and McMahon, 2010).

Section 4, “Statement of Financial Position,” provides specific guidelines on the presentation of this financial statement, which is one of the main reports that entities must prepare under IFRS for SMEs (IASB, 2015; IASB, 2021). While IFRS for SMEs provides a simplified accounting framework, it still demands a solid understanding of financial principles, such as those discussed by McMillan (2002) in the context of profit-driven entities. Adapting these principles for NPOs requires careful consideration of their unique operational models. This section is essential for NPOs, as the statement of financial position provides a snapshot of the entity’s assets, liabilities, and equity at a given point in time, which is crucial for assessing the entity’s solvency and financial management (Connolly and Hyndman, 2013).

2.4. Adoption and implementation of IFRS for SMEs in NPOs

The degree of adoption and compliance with IFRS for SMEs in NPOs varies significantly depending on factors such as the organisation’s size, resource availability, and accounting training (Mvunabandi, 2023). Although specific data is not available, studies suggest that the adoption of IFRS for SMEs in NPOs in similar regions may be low due to a lack of awareness and understanding of these standards and the benefits they can bring (Öztürk, 2022). Despite the lack of specific data, there is growing evidence indicating a need and desire to adopt IFRS for SMEs in the NPO sector, as these standards can enhance the transparency and comparability of financial information and facilitate accountability and decision-making (Connolly and

Hyndman, 2013). The growing body of research in nonprofit studies, as mapped by LePere-Schloop and Nesbit (2023a), highlights the need for deeper integration of accounting standards in nonprofit research, particularly to address the specific challenges faced by NPOs in different regions. However, adopting these standards can also present significant challenges and costs, including the need to adapt information systems and train staff on the requirements and procedures of IFRS for SMEs (Ebrahim, 2013).

2.5. Challenges and obstacles to adoption

NPOs face several challenges and obstacles in adopting and implementing IFRS for SMEs. Firstly, many NPOs lack the necessary resources and training to effectively adopt and apply these standards (Ebrahim, 2013). This can be particularly problematic in areas covered by Section 3 "Financial Statement Presentation" and Section 4 "Statement of Financial Position," which require a detailed understanding of the criteria and requirements of IFRS for SMEs. Additionally, adopting IFRS for SMEs may entail a shift in the organisation's culture and mindset towards accrual accounting, which can be difficult to achieve without strong and sustained commitment from the organisation's management and stakeholders (Connolly and Hyndman, 2013). Finally, adopting IFRS for SMEs can involve significant costs, including the costs of adapting information systems and training staff, which may be prohibitive for some NPOs (Ngo et al., 2024). To overcome these challenges and obstacles, NPOs may require support and guidance from regulators, accounting professionals, and other relevant actors. They may also benefit from adopting a gradual and flexible approach to implementing IFRS for SMEs, allowing them to tailor the implementation of these standards to their specific needs and capacities (McGee and Fassina, 2016). Additionally, NPOs may need to seek innovative and cost-effective ways to obtain the necessary training and resources to adopt and apply IFRS for SMEs. This could include forming partnerships and networks with other organisations and professionals and utilising online technologies and platforms to access training and information (Ebrahim, 2013). Finally, NPOs may consider how they can use the adoption of IFRS for SMEs as an opportunity to improve the quality and transparency of their financial information and strengthen their accountability and decision-making processes. Despite the associated challenges and costs, adopting IFRS for SMEs can provide significant benefits for NPOs, including increased trust and legitimacy with stakeholders and greater capacity to attract and retain funding (Connolly and Hyndman, 2013).

3. Materials and methods

3.1. Study approach

The study adopted a mixed-methods approach, combining qualitative and quantitative methods to provide a comprehensive understanding of the adoption and implementation of IFRS for SMEs in NPOs. This approach allowed for a detailed evaluation of the requirements, the degree of adoption, the obstacles, and the development of a comparative case study (Yin, 2014). The study is descriptive in nature, aiming to understand the characteristics and dynamics associated with the implementation of IFRS for SMEs in NPOs, as well as to describe the current state of adoption and the challenges faced. Additionally, documented case analyses and a comparative case study were conducted to evaluate the implications and outcomes of implementing these standards in detail.

3.2. Methodological design

The methodological design of the study is structured into four phases, each corresponding to one of the specific objectives outlined.

Phase 1: Analysis of Key Requirements and Criteria

A documentary review was employed to systematically examine and synthesise relevant information concerning IFRS for SMEs, specifically focusing on Sections 3 and 4. The population for this phase consisted of official documentation, standards, and guidelines related to IFRS for SMEs, including government regulations, academic literature, and implementation reports. The sample was purposefully selected based on criteria such as relevance to the research objectives, recent publication date, and the authority of the issuing body. This included official IFRS documents, Colombian government regulations and guidelines, and scholarly articles that provided insights into the adoption and implementation of these standards by NPOs. Content analysis was conducted to systematically examine and code the textual and visual content of the selected documents. This process involved several steps:

- Selection of Documents: Documents were selected based on their relevance, publication date, and authority of the issuer. This ensured that the sample included the most pertinent and up-to-date information.
- Coding Process: The content of each document was coded according to predefined categories, which were derived from the IFRS standards themselves and the specific context of SMEs and NPOs. These categories included themes such as financial statement presentation, compliance requirements, and challenges in implementation.
- Analysis and Synthesis: The coded data was then systematically analysed to identify recurring themes, patterns, and key criteria related to the adoption of IFRS for SMEs. The results were summarised and classified according to these categories, providing a structured overview of the key requirements and criteria.
- Narrative Synthesis: Finally, a narrative synthesis was developed to integrate the findings, highlighting the main issues identified in the analysis and providing a comprehensive overview of the key requirements and challenges associated with the implementation of IFRS Sections 3 and 4 in NPOs.

Phase 2: Evaluation of the Current Degree of Adoption and Compliance

A descriptive quantitative approach was employed to identify and describe the degree of adoption and compliance with IFRS for SMEs among non-profit organisations (NPOs) in Colombia. The population for this phase consisted of 217 NPOs operating in various sectors, including agriculture, education, healthcare, and social services, within a specific region of Colombia. The research was conducted between [insert specific months and year], ensuring that the data collected was both recent and relevant to current practices.

The sample was selected through purposive sampling to capture a diversity of cases and experiences across different sectors and sizes of NPOs. This method allowed for the inclusion of organisations that were representative of the broader population in terms of their operational focus, geographic location, and financial capacity. Additionally, a form of stratified purposive sampling was employed to ensure that the sample included NPOs from various sectors, providing a balanced representation. The final sample size consisted of [insert sample size] NPOs, carefully chosen to reflect the diversity and complexity of the population.

The structured questionnaire used for data collection was developed based on the variables related to the knowledge and understanding of IFRS, training and resources, adoption and implementation, challenges, policies and procedures, and perceived impacts and benefits. The questionnaire was validated through expert judgement, where experts in accounting standards and NPO management reviewed the questions to ensure they accurately measured the intended variables. Reliability was assessed through a pilot study with a small subset of NPOs, where the consistency of responses was evaluated. Necessary adjustments were made to enhance the clarity and effectiveness of the questionnaire.

Statistical analysis was employed to quantitatively describe the variables, with the results presented in frequency tables and graphs. This analysis provided insights into the current degree of adoption and compliance with IFRS for SMEs among NPOs, highlighting key trends, challenges, and areas for improvement.

Phase 3: Analysis of Obstacles and Barriers

In this phase, a comprehensive case analysis was conducted to examine the specific challenges and obstacles faced by NPOs in implementing IFRS. The sample consisted of cases documented in both international and national academic and professional literature, including academic articles, technical reports, case studies, and documentation from recognised organisations.

Material Gathering Process: The literature was gathered through a systematic bibliographic review, utilising several academic and professional databases such as Scopus, Web of Science, Google Scholar, and specialised repositories related to accounting and non-profit management. The search was conducted using specific keywords, including "IFRS for SMEs," "NPOs adoption challenges," "financial reporting in non-profits," "implementation barriers," and "IFR4NPO." Filters were applied to include only peer-reviewed articles, reports published by reputable organisations, and case studies documented within the last ten years to ensure relevance and currency.

Data Analysis Process: The analysis focused on identifying both internal and external obstacles reported in the literature. The barriers and obstacles described were highlighted by both academic literature and practical case studies. In the academic literature, these barriers were typically identified through empirical research methods such as surveys, interviews, and case studies conducted by the cited authors. The sources of these findings were explicitly noted in the analysis, distinguishing between obstacles identified through empirical research and those observed in practical, real-world applications.

Coding and Categorisation: The gathered material was systematically coded and categorised to identify patterns, similarities, and differences among the analysed cases. The coding process involved categorising obstacles into internal challenges (e.g., organisational culture, staff training, technological limitations) and external challenges (e.g., regulatory ambiguity, donor requirements, economic conditions). The coding categories were derived both inductively, from the data, and deductively, based on the theoretical framework established in earlier phases of the study.

Synthesis and Reporting: The synthesised information was compiled into a comprehensive report, integrating the most relevant findings. This report provided a detailed overview of the common barriers faced by NPOs in adopting IFRS, highlighting both the theoretical insights and practical challenges documented in the literature. The final analysis offered a nuanced understanding of how these barriers manifest in different contexts and provided a foundation for the recommendations and strategies proposed in the discussion section of the study.

Phase 4: Development of Case Study

In this phase, a comparative case study and content analysis were employed to evaluate the financial statements of a specific Non-Profit Organisation (NPO), with a focus on comparing the IFR4NPO guidance with IFRS for SMEs (Yin, 2014).

Contextualisation and Characteristics of the NPO: The selected NPO operates in the agricultural sector in a rural region of Colombia, where it plays a crucial role in supporting local communities through sustainable farming practices and food security initiatives. The organisation has grown to become a key player in the region, particularly in empowering small-scale farmers and promoting environmental conservation. The NPO receives funding from both national and international donors and has been recognised for its transparent management practices. The decision to participate in this study stemmed from the organisation's commitment to improving its financial reporting practices and aligning with international standards.

Selection and Evaluation Process: The NPO was chosen based on its willingness to participate and provide access to its most recent financial statements. The selection was also influenced by the organisation's relevance to the study's objectives, particularly its active role in a sector that is both socially significant and reliant on donor funding. The financial statements provided by the NPO were subjected to a detailed evaluation, with specific criteria established to assess their alignment with IFRS for SMEs and IFR4NPO guidelines.

Methodological Approach: The evaluation involved a content analysis of the NPO's financial statements, supported by interviews with the preparer of these statements, who provided insights into the organisation's accounting practices and challenges. This qualitative data enriched the analysis by offering a deeper understanding of the practical issues faced by the NPO in implementing international financial reporting standards.

Comparative Analysis: A tabular comparison was conducted to systematically assess the alignment of the NPO's financial statements with both IFRS for SMEs and IFR4NPO guidelines. This comparison focused on key areas such as financial statement presentation, recognition and measurement principles, and disclosure requirements. The analysis aimed to identify gaps, inconsistencies, and areas of strong alignment, providing a clear picture of how closely the NPO's financial reporting practices adhere to international standards.

This case study not only provided practical insights into the implementation of IFRS for SMEs and IFR4NPO within the context of a Colombian NPO but also highlighted the unique challenges and opportunities faced by non-profits in the agricultural sector. The findings from this phase contributed to the overall understanding of how these standards can be adapted and applied in similar organisations, offering valuable lessons for other NPOs in the region and beyond.

4. Results

4.1. Adoption and compliance with IFRS for NPOs

The study on the adoption and compliance with IFRS for SMEs in NPOs reveals a series of challenges and perceptions regarding the implementation of these accounting standards. The main findings from the first part of the study results are summarised below:

- Complexity in Determining Fair Value of Donations: One of the most notable aspects is the complexity faced by NPOs in determining the fair value of in-kind donations. According to the survey results, 38.5% of respondents are neutral, 38.5% agree, and 15.4% disagree with this statement. There were no respondents who strongly agreed or strongly disagreed, highlighting the perceived difficulty in this task.
- Comparison of Financial Statements: Another critical area identified is the complication in comparing financial statements due to the diversity in the objectives and sectors of NPOs. Most respondents agree (38.5%) or remain neutral (30.8%) about the statement that comparing their financial statements with those of other NPOs is complicated, while 23.1% disagree. This finding underscores the variability and specificity of each entity, making standardisation and comparability of financial reports challenging.
- Limitations in Resources and Trained Personnel: The limitations in trained personnel and resources are also a significant challenge for the effective implementation of IFRS. 38.5% of respondents remain neutral, 30.8% strongly agree, and 23.1% agree that these limitations affect their ability to implement the standards. Only 7.7% disagree, highlighting the need for more training and resources to meet accounting standards.
- Challenges in Time and Resources: Adopting IFRS involves a considerable challenge in terms of time and resources. Most respondents agree (38.5%) or are neutral (30.8%) with this statement, while 23.1% disagree, emphasising the significant effort required to implement these standards in NPOs.
- Satisfaction of Financial Information Regarding the capacity of IFRS to meet the demands of financial information users of NPOs, 38.5% of respondents remain neutral, 30.8% agree, and 23.1% disagree that IFRS fully meet these demands. This result suggests a perception that current standards may not be entirely aligned with the specific needs of financial information users in these entities.
- Alignment with Specific Regulations: There are significant challenges in aligning the specific regulations of NPOs with IFRS. 38.5% of respondents agree with this statement, 30.8% remain neutral, and 23.1% disagree. This highlights the need to adjust accounting standards to be more congruent with the particularities of NPOs.

- Restriction in Mission Presentation: IFRS may restrict the ability of NPOs to present financial statements that adequately highlight their mission. 46.2% of respondents hold a neutral perspective, while 23.1% agree, 15.4% disagree, and 15.4% strongly disagree with this statement. This finding suggests that current standards may not allow for a complete representation of the mission and objectives of NPOs in their financial reports.
- Reflection of Commitments and Responsibilities: The commitments and responsibilities linked to the mission of NPOs are not adequately reflected in the financial statements. 38.5% of respondents disagree, 30.8% are neutral, and 23.1% agree with this statement. Only 7.7% strongly disagree, underscoring the need for greater integration of mission-related commitments in financial reporting.
- Appropriate Use of Restricted Donations: Ensuring that restricted donations are used appropriately is a challenge for NPOs. 61.5% of respondents hold a neutral position on this statement, 23.1% agree, and 15.4% disagree, indicating a general perception of difficulty in complying with donor-imposed restrictions.

The complexity in determining the fair value of donations, the variability in comparing financial statements, and the limitations in resources and trained personnel are some of the main obstacles. Additionally, the perception that IFRS do not fully meet the demands of financial information users and the challenges in aligning specific regulations highlight the need for adjustments in accounting standards to better suit the particularities of NPOs. These findings suggest that while IFRS provide a valuable accounting framework, their effective implementation in NPOs requires specific attention and additional resources.

4.2. Obstacles faced by NPOs in the adoption and implementation of IFRS

The implementation of IFRS for SMEs in the financial reporting of NPOs faces various challenges. Below is a synthesis of the main obstacles identified in the study, based on internal and external factors:

4.2.1. Internal obstacles

- Qualification and Training of Personnel: The lack of trained and specialised personnel in NPO accounting is one of the main challenges (Cordery et al., 2019). The literature suggests that regulatory frameworks only provide transparency for specialised accountants, and their complexity can be opaque for other qualified but non-specialised accountants (Crawford et al., 2018; Vélez, 2020). This represents a significant challenge in finding accountants who understand international accounting standards, affecting the effective implementation of IFRS (Cañón and Restrepo, 2016).
- Information Systems and Technologies: Office tools present significant disadvantages for NPO accounting, including the application date of international standards, translation and interpretation difficulties, and constant changes in standards (Gil, 2019). These obstacles require resources and adaptability, necessitating proactive strategies to ensure a successful transition.
- Accounting and Financial Processes: Implementing IFRS requires access to

financial resources to acquire specific software and train personnel. Small enterprises, which form a large part of the economy, face difficulties due to a lack of skilled labour and high associated costs (León, 2022).

- Change Management: Resistance to change within organisations is a significant obstacle (León, 2022). This challenge can lead to difficulties in adoption due to the magnitude of change in data management and financial reporting.
- Quality of Previous Financial Information: Although IFRS may not be the most appropriate for NPOs, it is not necessary to create a new framework from scratch (Sánchez and Santiago, 2015). There are possibilities such as those framed in the American FASB that could be adapted.
- Continuous Evaluation: Continuous evaluation and improvement present both opportunities and challenges in the implementation of IFRS (Patiño et al., 2017). The diversity of organisations makes it difficult to generalise results and apply standardised accounting norms.

4.2.2. External obstacles

- Legal and Regulatory Framework: The lack of clarity in the regulations governing NPOs is a critical challenge (Muñoz, 2018). There is no clear definition of entities with NPO characteristics, creating ambiguity in regulatory interpretation (Patiño et al., 2017). Financial standards need to be adapted to reflect the real activities and budget accountability of NPOs (Breen et al., 2018).
- Economic Environment: The absence of accepted accounting practices in some countries affects the comparability and consistency of financial reporting (Crawford et al., 2018). This limits donors' ability to assess the financial performance of NPOs based on their proposed objectives.
- Donor Standards and Expectations: Transnational funders expect local NPOs to comply with international practices, beliefs, and values in their grant applications and accountability reports (Cordery et al., 2019). The lack of clarity in processes can negatively affect the expectations and requirements of stakeholders.
- Availability of External Resources: Implementing IFRS involves challenges and high costs in terms of training, operational load, and acquiring new technologies (León, 2022). Small enterprises, which often view the process as a formalisation requirement, face significant difficulties due to the lack of sufficient external resources.

The implementation of IFRS for NPOs presents multifaceted challenges ranging from staff training to adapting to ambiguous legal frameworks. Organisations must adopt proactive strategies to overcome these obstacles, including improving training, managing change effectively, and ensuring the availability of adequate resources. Clarity in regulations and alignment with donor expectations are essential for a successful transition to international standards. A detailed review of these challenges provides a solid foundation for developing strategic solutions that enable NPOs to comply with IFRS and enhance their financial performance and transparency.

4.3. Scenarios and challenges in adopting IFR4NPO: Case study of an NPO

The adoption of IFR4NPO presents a series of unique scenarios and challenges for non-profit organisations (NPOs). This case study, focused on a specific NPO, highlights key aspects of this process, exploring how IFR4NPO adapts to the operational and reporting needs of NPOs compared to the widely used IFRS for SMEs. The following comparison (**Table 1**) outlines major areas of convergence and divergence, such as revenue recognition, financial instruments, and the presentation of financial statements under both frameworks.

Table 1. Comparison: IFRS guidelines for SMEs vs. IFR4NPO special purpose.

Category	IFRS for SMEs	IFR4NPO
Revenue Recognition	Revenue is recognised when it is probable that future economic benefits will flow to the entity and can be measured reliably.	The approach is based on the control of received resources and associated conditions. Both guidelines require the probable flow of economic benefits, but IFR4NPO may have specific criteria for recording donations and grants.
Financial Instruments	Simplified compared to full IFRS, addressing recognition, measurement, derecognition, and disclosure of basic financial instruments.	Adapted to reflect common types of transactions in NPOs, including in-kind donations and other non-monetary supports. Both guidelines align on the disclosure and measurement of basic financial instruments, though IFR4NPO is tailored to the nature of non-profit transactions.
Property, Plant, and Equipment	Allows the cost model and revaluation model. Depreciation is based on the pattern of expected future benefits.	Proposes the cost model only, with specific guidelines for handling donations of property, plant, and equipment. The main difference is that IFR4NPO does not permit the revaluation model.
Leases	Recognition of operating and finance leases with specific criteria for their classification.	Although still under development, it is expected to adopt a similar approach to IFRS with possible specific adaptations for NPOs.
Measurement of Assets and Liabilities	Utilises historical cost, fair value, and other measurement models depending on the type of asset or liability.	While similar in many aspects, it foresees adaptations to the needs and characteristics of NPOs, especially concerning in-kind donations and assets held for social benefit.
Presentation of Financial Statements	Requires financial statements including the statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flows.	Similar in many aspects, but with additional reports or explanatory notes specific to NPOs to reflect their operational model and reporting needs.

Table 2. Comparison: IFRS guidelines for SMEs vs. IFR4NPO case study.

Category	IFRS for SMEs	IFR4NPO
Cash and Cash Equivalents	Defines these assets as those immediately available to the entity without restrictions.	Similar, but may vary due to donor fund restrictions. Both frameworks recognise the importance of classifying these assets, but IFR4NPO requires more specific disclosures about restrictions.
Investments	May include a variety of financial assets and investment properties.	Classified as held-to-maturity or at fair value, with possible restrictions on the use of income. Both frameworks converge on initial recognition but diverge on disclosures regarding use restrictions.
Receivables	Measured at amortised cost, considering provisions for bad debts.	Similar, but with a greater emphasis on disclosing information on how receivables support the organisation's activities.
Inventories	Valued at acquisition or production cost, or at net realisable value.	Similar, but with specific disclosures for restricted or donated inventories. Both guidelines agree on the need to value inventories at cost or net realisable value, whichever is lower.
Property, Plant, and Equipment	Recognised at acquisition cost plus accumulated depreciation.	Similar, but with additional disclosures on how assets support the organisation's mission and any usage restrictions.
Financial Liabilities	Classified as current and non-current, measured at amortised cost.	Similar, but with additional focus on the transparency of conditions and the impact of these liabilities on the organisation's mission.

In analyzing the case study's financial statements based on IFRS for SMEs and IFR4NPO guidelines, significant convergences and divergences emerge. **Table 2** further illustrates these differences, focusing on categories such as cash equivalents, investments, and financial liabilities. These variations reveal how IFR4NPO tailors its guidelines to reflect the unique transactions and financial realities faced by NPOs.

The case study demonstrates that while the adoption of IFR4NPO shares common ground with IFRS for SMEs, the specific adjustments in IFR4NPO are crucial to capturing the unique nature of NPO transactions. This differentiated approach enhances the relevance, comparability, and transparency of financial reporting, ultimately aligning financial disclosures with the organisation's mission and objectives.

5. Discussion

The findings of this study provide a comprehensive insight into the adoption and implementation of IFRS for SMEs within NPOs, particularly focusing on those. Several key points have emerged from the analysis, each highlighting critical areas where challenges and opportunities coexist.

One of the most prominent findings is the complexity associated with the determination of the fair value of donations, which has been a significant challenge for NPOs (Ortega-Rodríguez et al., 2020). This complexity is exacerbated by the lack of adequately trained personnel who can navigate these accounting standards. The literature supports this, noting that while regulatory frameworks are designed to ensure transparency, they often require specialised knowledge that may not be readily available within NPOs (Cordery et al., 2019; Crawford et al., 2018). This points to a critical need for increased training and capacity-building initiatives to enhance the competencies of accounting personnel in NPOs (Jain and Dhir, 2021).

Resource constraints, both in terms of financial resources and technological capabilities, are also significant barriers to the effective implementation of IFRS (Bui et al., 2020; Ultreras-Rodríguez et al., 2024). The study reveals that many NPOs struggle with the high costs associated with acquiring necessary software and training staff. This finding aligns with existing research that highlights the financial and operational burdens faced by smaller organisations in adopting complex accounting standards (Bakr and Napier, 2022; León, 2022). Addressing these limitations requires strategic investments in technology and training, possibly through external funding or collaborative efforts among NPOs.

The ambiguity in the legal and regulatory framework governing NPOs further complicates the adoption of IFRS (Polo-Garrido et al., 2022; Závodný and Procházka, 2023). The lack of clear guidelines and definitions creates an environment of uncertainty, making it difficult for NPOs to align their financial reporting practices with international standards (López-Arceiz et al., 2021; Muñoz, 2018; Patiño et al., 2017). This underscores the necessity for regulatory reforms that provide clear, actionable guidelines tailored to the unique needs of NPOs (Bakr and Napier, 2022). Such reforms should aim to harmonise local regulations with international standards, ensuring that NPOs can meet global expectations while remaining compliant with local laws (Masum and Parker, 2020).

The study also highlights a significant gap between the current financial reporting practices of NPOs and the expectations of stakeholders, including donors and regulatory bodies (Gilchrist et al., 2020). While IFRS for SMEs offers a robust framework, its application within NPOs may not fully meet the informational needs of all stakeholders (Mvunabandi, 2023). This finding is critical as it suggests that merely adopting international standards is not sufficient; there must also be an effort to ensure that these standards are interpreted and applied in ways that enhance the transparency and accountability of NPOs (Cordery et al., 2019).

Another critical aspect to consider is the non-distribution constraint inherent in NPOs. Unlike for-profit entities, NPOs are prohibited from distributing profits to owners or stakeholders, which significantly influences their financial management and reporting practices (Fontes-Filho et al., 2016; Gee et al., 2023). This constraint can create challenges in applying IFRS for SMEs, as these standards are primarily designed for entities where profit distribution is a key concern (Bautista-Mesa et al., 2019; Kamotho and Kaudo, 2023; Perera et al., 2015). For instance, the treatment of surplus funds, which must be reinvested into the organisation's mission, may require specific adaptations within the IFRS framework to ensure that financial reports accurately reflect the unique operational realities of NPOs (Albuquerque and dos Santos, 2023; Breen et al., 2018; Silva et al., 2023). Addressing this constraint is crucial to ensure that the financial reporting framework aligns with the fundamental principles of non-profit organisations (Cordery et al., 2019; Gilchrist and Simnelt, 2019).

The comparative analysis between IFRS for SMEs and IFR4NPO provides valuable insights into how tailored guidelines can better serve the financial reporting needs of NPOs (Pariag-Maraye et al., 2022). The case study illustrates that while there are significant overlaps between the two frameworks, IFR4NPO offers specific adaptations that make it more suitable for NPOs (Breen et al., 2023). For instance, IFR4NPO's approach to recognising donations and its emphasis on mission-related disclosures are particularly beneficial for NPOs. This highlights the importance of developing and adopting accounting standards that reflect the unique operational realities of NPOs, thereby improving the relevance and comparability of their financial reports (Bakr and Napier, 2022; López-Arceiz et al., 2021).

Based on these findings, several strategic implications and recommendations emerge:

- Enhanced Training Programs: Develop comprehensive training programs tailored to the needs of NPOs, focusing on the practical application of IFRS and IFR4NPO.
- Investment in Technology: Encourage investments in technology to streamline accounting processes and improve accuracy in financial reporting.
- Regulatory Reforms: Advocate for regulatory reforms that provide clear and specific guidelines for NPO financial reporting, aligning local laws with international standards.
- Stakeholder Engagement: Engage stakeholders in the development and implementation of accounting standards to ensure that their informational needs are met.
- Collaboration and Networking: Foster collaboration among NPOs to share resources, knowledge, and best practices in financial reporting.

6. Conclusion

The findings obtained throughout this research illustrate in detail the critical needs and challenges faced by small and medium-sized enterprises, especially NPOs such as the associations. This study has meticulously identified the key requirements and criteria of IFRS for SMEs, particularly Sections 3 and 4. These standards establish a structured, comprehensive, and robust accounting framework for the recognition, measurement, presentation, and disclosure of financial statements, ensuring the necessary transparency and comparability in financial information. However, the documentary review has revealed several notable challenges in adapting these standards to address the particularities of NPOs, especially in areas such as revenue recognition, donations, measurement of assets and liabilities, and handling restricted funds. This suggests an urgent need to develop additional guidelines or modify existing ones to improve their interpretation and promote a more suitable application of these standards in the specific context of NPOs.

This research has demonstrated the complexity and challenges associated with the adoption of IFRS for SMEs in NPOs, highlighting the critical need to adapt and improve accounting standards for these organisations. Doing so would facilitate their transition to comprehensive global accounting standards such as IFRS for SMEs and the IFR4NPO project. While IFRS for SMEs provides a robust and sufficient framework, the proposed adaptations in IFR4NPO significantly enhance the relevance and usefulness of financial information for NPO stakeholders. This underscores the importance of developing a continuous support framework that addresses both internal and external barriers, thus ensuring a pertinent and sustainable implementation of accounting standards in the NPO sector, particularly in the study area and with a view towards scalability. In the long term, these efforts will ensure accounting processes with greater transparency, accountability, and increased productivity in resource management associated with the non-profit sector.

While this research provides valuable insights into the adoption and implementation of IFRS for SMEs in NPOs, it is essential to recognise its limitations. The study is geographically focused on a specific region of Colombia, which may limit the generalisability of the findings to other contexts or regions. Additionally, the reliance on self-reported data from NPOs could introduce biases, as respondents may have differing interpretations or levels of understanding regarding the application of IFRS. Furthermore, the analysis did not extensively explore the long-term impacts of IFRS adoption on NPOs' financial sustainability and mission fulfillment. Future research should aim to address these limitations by expanding the geographic scope, employing longitudinal studies, and integrating more diverse data sources to enhance the robustness of the findings.

Future research directions

For the future development of the field, it is essential that research explores the integration of IFR4NPO, Global Reporting Initiative (GRI), and IFRS S1 and S2 reporting frameworks to establish a coherent and comprehensive financial and sustainability reporting system specifically tailored for NPOs. The implementation of GRI standards provides a solid foundation for sustainability reporting, covering economic, social, and environmental dimensions. Integrating these standards with IFR4NPO could enrich the representation of the social and environmental impact of NPOs. A pertinent example is the GRI 413-1 indicator, which focuses on community engagement and development programs, and could be used by NPOs to illustrate how they engage local communities and assess their social impact, offering a broad view of their contribution to community development.

Furthermore, IFRS S1 and S2 standards, developed by the International Sustainability Standards Board (ISSB), set guidelines for sustainability reporting and the assessment of climate-related risks and opportunities. Integrating these standards with IFR4NPO could facilitate greater harmonisation of sustainability disclosures between the business sector and non-profit entities, allowing for a more uniform and transparent presentation of the impact, risks, and sustainability of NPOs. As noted by LePere-Schloop and Nesbit (2023a), nonprofit research could benefit from a more interdisciplinary approach, integrating insights from accounting, public administration, and other social sciences to create more robust financial reporting standards for NPOs. For example, if an NPO undertakes agricultural development projects in drought-prone regions, IFRS S1 and S2 standards would enable it to report on how changes in climate patterns might affect agricultural productivity and what strategies have been implemented to mitigate these risks. When analysing organisational resilience, these standards could also help the NPO communicate what climate adaptation measures are being implemented, thus providing stakeholders with a clear understanding of how the organisation prepares for climate risks and its approach to ensuring the long-term sustainability of its activities.

These research efforts will not only expand the understanding and applicability of accounting and sustainability frameworks in NPOs but also provide crucial tools to improve the transparency, accountability, and social impact of these organisations, thereby facilitating their effective contribution to sustainable development.

Author contributions: Conceptualization, RRG, CYT, DOV, ACH and CRG; methodology, RRG, CYT, DNL, SCS and AUR; software, GEV, ASM and RRL; validation, DOV, RRL, GEV, DOV and CRG; formal analysis, RRG, CYT, DOV and RRL; investigation, RRG, CYT, DOV, RRL, DNL, SCS, AUR and GEV; resources, RRG, CYT, DOV and RRL; data curation, RRG, CYT, LFR, DNL, SCS and AUR; writing—original draft preparation, RRG, CYT, DOV, RLL, DNL, SCS, AUR, GEV, ASM, RRL, DVO and CRG; writing—review and editing, RRG, CYT, DOV, PSMC, ACH, ASM, RRL and CRG; visualization, RRG, CYT, DOV, ACH and CRG; supervision, RRG, CYT and CRG; project administration, RRG, CYT and CRG. All authors have read and agreed to the published version of the manuscript.

Conflict of interest: The authors declare no conflict of interest.

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