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## Improving Your Nonprofit's Annual Report

### Event & Webinar Recording

This resource is based on the content of a webinar held by Carmichael, in association with the Good Governance Awards, on February 9th 2023. The full recording of the event is available [here](#).

The webinar aimed to provide tips and advice to nonprofits of all sizes on how to improve the content and narrative of their Annual Report.

The panel-led session drew on the experience and knowledge of judges and assessors from the Good Governance Awards. They outlined what is required to ensure that an Annual Report is relevant, impactful, and engaging.

The panel consisted of:

- Aedín Morkan: Partner, Audit & Assurance, Mazars
- Níall Fitzgerald: Head of Ethics & Governance, Chartered Accountants Ireland
- Geraldine O'Sullivan: Manager, Kerry Volunteer Centre
- Andrew Madden: Learning & Development Manager, Carmichael

The panel was chaired by Diarmaid Ó Corrbuí, CEO of Carmichael and Founder of the Good Governance Awards.

### The Good Governance Awards

Now in its eighth year, the Good Governance Awards is an initiative that recognises and encourages adherence to good governance practice by nonprofits in Ireland, particularly in terms of annual reporting. The awards were developed by Carmichael with the support of our partners and leading national bodies in the nonprofit sector.

Each year more than 100 nonprofits (including community groups, charities, sports bodies, and social enterprises) enter their annual reports into the awards. These annual reports are then assessed by a volunteer assessor from Carmichael's panel of assessors.

There are 7 categories of entry distinguished by annual income which range from under €100,000 at the lowest end to over €50,000,000 at the highest end. The highest scored entries in each category progress to a full technical assessment of their financial statements and the shortlisted entries are then assessed by a panel of judges who select the winner in each category.

For more detail and template Annual Reports, see the [Good Governance Awards website](#) or contact Róisín McGuigan, Good Governance Awards Coordinator, on [roisin@carmichaelireland.ie](mailto:roisin@carmichaelireland.ie)

## Tips From Panellists to Improve a Nonprofit's Annual Report

### Andrew Madden - GGA Assessor (Carmichael)

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Each annual report entered into the Good Governance Awards undergoes an initial assessment under the headings of transparency, governance, strategy, performance, impact, financials, and the overall quality of the report.

First of all, some annual reports have a narrative account of the year without any accompanying financial statements or vice versa. Annual reports must have both elements.

Under the heading of transparency, some annual reports make no reference at all to the organisation's purpose, mission, vision, values, or origin. These items do not need to be very long but they provide the reader with vital context for your organisation. Often these elements already exist and can be found on the organisation's website but are mistakenly omitted from the annual report. The link to your vision, mission and values should be clear throughout your report. Your purpose informs your strategy which informs the activities you have engaged in and your financial statements should clearly match the activities outlined in the narrative section.

In terms of governance, some reports lack basic detail on board recruitment and induction, board term length, number and function of subcommittees, or how many board meetings there were during the year and what the attendance was. The governance section of your annual report is about reassuring the reader that your organisation is well-run. Using an annual report template can help to make sure you include relevant detail on your governance structure.

When it comes to strategy, performance and impact it is not good enough, particularly for a larger organisation, just to list off activities from the reporting period. Activities should be linked to an overall strategy, which is driven by the organisation's purpose. Annual reports should incorporate quantitative data such as attendance figures and numbers of beneficiaries as well as qualitative data such as testimonials and case studies to demonstrate the organisation's outputs and impact. Make sure to give previous years' performance for context.

Risk management is another essential element of annual reports, again particularly for larger organisations. Outline the risk management systems in place and give the reader an honest overview of the organisation's main risks and how they are managed.

## **Aedín Morkan - GGA Technical Assessor & Judge (Mazars)**

In terms of the top five weaknesses noted in the financial statements reviewed as part of the technical assessment of the GGA:

1. Less than full compliance with Charity SORP (the Statement of Recommended Practice which sets out how charities should prepare their annual accounts and report on their finances), where relevant, is a major weakness. This can take many forms that can be as basic as there being a reference to SORP in the basis of preparation paragraph with no evidence of SORP compliance elsewhere in the financial statements. Alternatively, very often there will be a reference to applying "relevant" aspects of SORP, but no information as to what elements were deemed to be relevant and why other elements were deemed irrelevant. Another weak area in

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terms of less than full compliance with charity SORP would be obvious gaps in terms of the accounting treatment or the accounting treatment not being SORP compliant.

2. The second item is where there is a lack of linkage or connection between the financial statements and the directors'/trustees' report and/or the front end of the annual report. Very often the financial statements can seem like an afterthought which are not really integrated into the broader report. The annual report should be a single document with a single, coherent narrative throughout.

3. The third area for improvement would be reserves and linking the reserves policy to your actual reserves. There are four key elements here. Firstly, state what the reserves policy is. Secondly, quantify the current reserves in actual monetary terms. Thirdly, specify the organisation's target level of reserves. Finally, compare the actual level of reserves at the year end to this target and then comment on the variance and the plans in relation to that. If, for example, the actual reserves are less than the target, explain how you intend to get to your target and the timeline for doing so.

4. The fourth area for improvement is the financial review which can sometimes merely repeat in words or tables the contents of the primary statements. The financial review should explain the drivers of the results and the financial position and try to give the reader some insight into what is behind the numbers rather than just reiterating what is evident in the primary statements. There should also be an explanation of anything unusual in terms of the numbers. If there is a deficit in the year or if there's negative funds or designated funds, include an explanation of those items and also consider including trend analysis. Financial statements by their nature have current year and prior year. Including a five-year analysis, or even some organizations include a 10-year analysis, can provide much greater insight into the organization.

5. And then the 5th and final element in terms of the gaps or the weaknesses is a very basic one. It is very easy to get right, but general errors, inconsistencies, sloppiness, typos can seriously let down an otherwise very good report.

In terms of what makes the best financial statements stand out:

1. Full compliance and technical excellence are the foundation of a good annual report. Applying a reduced disclosure framework does not demonstrate either openness or transparency and does not give the reader insight into the finances of an organization.

2. Secondly, it is important to have very clear, very concise accounting policies that are tailored to the organization. Avoid using boilerplate language or copying and pasting from a proforma set of financial statements. For income there should be an accounting policy for each different income stream.

3. Thirdly, when it comes to the description of future plans in the Directors' or the Trustee's report, which is a SORP requirement, very often organizations focus on just the next 12 months but looking beyond that and linking it to current and past activities is important.

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4. Fourthly, the report needs to be visually engaging which can be very difficult with financial information. Simple things like use of shading or colour in the notes to the financial statements can make a huge difference in making it easier to read.

5. Finally, the financial statements need to be balanced. The report should talk about the challenges and the things that did not go to plan, as well as the successes.

## **Níall Fitzgerald - GGA Judge (Chartered Accountants Ireland)**

The best annual reports frame performance in the context of their strategic plan. This means explaining what they hoped to achieve during the year, what they actually achieved, what challenges they faced along the way and how those challenges were handled. This gives the reader great insight into how that organisation is run and the strength of its governance. It is a good idea to present the status of strategic objectives to date and, if applicable, how the remaining parts will be delivered by the end of the strategic plan.

Provide insights into what went well, but also any significant challenges faced along the way. Try and keep the narrative real by calling out the difficulties and challenges that the organisation faced. Where relevant, be open and honest about the fact that some objectives were deprioritised while new objectives may have emerged due to a change in circumstance. That makes the account of what happened real and helps the reader connect with the report and the organisation.

Nonprofits do fantastic work and can have excellent governance frameworks but clarity and conciseness are very important when describing them in the Annual Report. For example, it can be useful to provide the reader insights into the board recruitment process, induction training, term limits and meeting attendance. Some of this data can be summarised nicely in a table.

Sustainability, including diversity, equity and inclusion, is relevant to every organisation and of increasing interest to many readers, especially corporate donors and those making decisions about providing public funding. It can be very useful to provide some insights to what the organisation is doing these areas and how they have considered their broader social or environmental impact in delivering on their primary purpose. There were some excellent examples in this year's shortlisted annual reports of strong links between a nonprofit's strategy, activities and outputs and sustainability impact. For example, some organisations highlighted initiatives they undertook to positively impact achievement of the UN Sustainable Development Goals.

Remember to be meaningful and useful, annual reports should be user friendly and easy to read. Prioritise what needs to be communicated in the annual report, bearing in mind the audience, i.e. your key stakeholders.

The nonprofit sector relies on volunteers, including volunteer board members/trustees. The annual report provides an opportunity to raise awareness of your organisation but also to let people know how they can get involved. Very often, prospective board members/trustees will look at an organisation's annual report when considering whether they would like to get involved. Describing the volunteer recruitment or the board appointment process makes provides clarity to prospective

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volunteers, but it also provides comfort to stakeholders (e.g. beneficiaries, members, donors) on the rigour you apply to ensure you have the best people on board.

## **Geraldine O’Sullivan - GGA Judge (Kerry Volunteer Centre)**

It can be very daunting to begin to write an annual report. Do bear in mind the resources available on the Good Governance Awards website including not just template annual reports but also examples of previous winners. It is clear that the winning reports in the past have been those that can communicate the passion, impact, and community behind a nonprofit. The report needs to bring the history, impact, outcomes, staff, volunteers, and services to life for the reader. Testimonials, profiles, and case studies can be particularly powerful.

When addressing challenges and concerns, do so honestly and openly. That was a significant strength of some of the winning annual reports in 2022. Outlining the challenges faced and how they were handled in the past and will be handled in the future gives the reader that reassurance that the is a transparent and well-run organisation.

Start the annual report early in order to review it, seek feedback and improve it further. Ideally the annual report would be written by a small team, including a Trustee, in consultation with a wider group. Make sure to consider how the report will be circulated once approved.

## **Q&A**

Attendees were invited to submit questions for the panellists to answer.

1. “Could you give us some guidance on the salary bands?”
  - a. Aedín Morkan: SORP requires that the financial statements show how many staff fall into each salary band in increments of €10,000 from €70,000 upwards. It is slightly complicated by the fact that DEPR 13/2014 requires the same thing but starting from €60,000 upwards so the simplest thing for many organisations is to report from €60,000 upwards.
  - b. Diarmaid Ó Corrbuí: SORP is not a legal requirement yet in Ireland but will become one for charities with an income of more than €250,000 once the charities amendment bill is passed. For the Good Governance Awards, charities with an annual income of more than €250,000 must provide full SORP-compliant financial statements in order to progress. This does not apply to organisations with a lower annual income than this or to nonprofits which are not charities.
2. “The list of your bankers, solicitors etc are usually in your financial statements. Can the financial statements be submitted in full?”
  - a. Diarmaid Ó Corrbuí: The annual report should include both an activity report and full financial statements in one coherent document. Previously it had been common for organisations to produce a separate activity report and separate financial statements but this is not good practise, particularly for organisations with an income of more than €250,000.

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3. “Who should complete the report? Is it your operational staff? The Board of directors? It is a very time-consuming task, despite the need to be adhering to good governance and transparency. But who should lead on that this producing the report?”
  - a. Geraldine O’Sullivan: Producing the annual report can be very time-consuming but it can also be very worthwhile. It can motivate staff and volunteers and be very helpful in recruiting and retaining them as well as Board members. It can be an opportunity at the start of a New Year to energise the team and remind the wider organisation of what has been achieved. So hopefully when it comes to either self-nominating or picking the team to write the annual report, there will be a very clear sense of purpose and an excitement and enthusiasm about doing it. Ideally it should be written by a small team made up of a combination of staff, Board members and volunteers and then reviewed by a wider team to make sure it is clear, relevant, and accessible.
  - b. Diarmaid Ó Corrbuí: The annual report tells the story of the organisation. Sometimes, you can meet someone from a nonprofit doing outstanding work and the passion and enthusiasm is clear from that one conversation, but the annual report reads like a completely different organisation. The report needs to convey that energy and enthusiasm. Remember to engage the reader and convince them of the importance of the nonprofit’s work and inform them of the challenges in carrying out this work.
4. “It would be helpful to have a simple clear template gives a clear account of what’s required in the annual report”
  - a. Diarmaid Ó Corrbuí: There are template annual reports on the Good Governance Awards website which are tailored for nonprofits of various sizes.
5. “If your organization has a new strategic objective that’s changed or has been updated since the previous report, should we include an explanation of how or why that objective has changed?”
  - a. Níall Fitzgerald: Absolutely an annual report should acknowledge that things may have changed since the previous report or the strategic plan. No plan survives the battlefield. If you look at any organisation which wrote a strategic plan in 2019 or 2020, those plans had to be significantly adapted. Communicate to the reader how priorities have changed and why. Necessary changes are not always in response to something negative such as a crisis but may be from something positive such as an unexpected opportunity or a more urgent need for a particular service that may have developed.
  - b. Diarmaid Ó Corrbuí: Things change all the time and there are very good reasons to adapt. Be upfront and transparent when this happens.
6. “In our annual report we just do a summary of finances is that not OK or should we wait until the audit accounts are ready and combine them? Usually they do not arrive to us until May/June.”
  - a. Andrew Madden: You need to wait until the accounts are ready as they are a vital part of the annual report. The Good Governance Awards are open for entries until mid-September so there is plenty of time on that front.

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7. "Is the salary "basic" on bands or including pension etc? Is it a legal requirement? Are there issues with identifying individuals? Do you put in salary bands for under €70k?"
  - a. Aedín Morkan: The term used is emoluments, so anything that that an individual receives by way of emoluments, not just salary, would be included. It is not a legal requirement yet but is part of charity SORP and will become law for charities with an income of more than €250,000 once the Charities Amendment Bill is enacted. If you are purporting to comply with SORP then it should be included. In terms of identifying individuals, if there is one outlier it is generally the CEO.
  - b. Diarmaid Ó Corrbuí: As CEO of Carmichael, I am the only one in my salary band in the organisation but my remuneration is also disclosed in the annual report separately anyway.
8. "What is your recommendation on how to publish your accounts? Would you send out printed copies or e-mail or send them out?"
  - a. Geraldine O'Sullivan: It depends on your audience, the size of your nonprofit and the message. You might choose to do a media release to maximise the benefit from the report. You might use excerpts for social media. Certainly, have the report on your website.
9. "When is the best time to publish? We usually launch at the beginning of December to get the brand out there for fundraising reasons. But we feel that we are talking about things that happened in 2021 and we are now probably at December 23. So what would your advice be there?"
  - a. Geraldine O'Sullivan: You do need to wait for the report to be complete and approved but you could consider releasing activity statistics or something relevant a little earlier, if it is the financials that are delaying things. If you do end up publishing in January, you can take that as an opportunity to create some momentum for the coming year by demonstrating what you have achieved in the past.
  - b. Níall Fitzgerald: I get a sense from some nonprofits that they feel their annual reports are released into a void and are not read by many. By way of insight, Chartered Accountants Ireland has a process to prepare its annual report in a manner that involves a lot of people in the organisation feeding in their highlights from the year, etc. Once published there is communication around that, but more importantly, the annual report is referenced and leveraged throughout the year. It is published in full online but also referenced in speeches, extracts and insights are shared and used to create social media content or to feature in presentations. The report is valuable internally but it is also extremely valuable externally to convey the value of the organisation and elements of the report can be leveraged for different purposes. It is a useful exercise to think about the value of the report to all key stakeholders, and that includes people in the organisation also.
10. "There are legislative reports for HIQA, CRO (Companies Registration Office), CRA (Charities Regulatory Authority) and many more. Is there any way to have a "Governance Passport" that would cover all legislative requirements. We are "reported out" really. There are so many bodies and duplication."
  - a. Andrew Madden: Nonprofits can have multiple funding streams and then have lots of different reports due in different formats at different times of the year which can be really challenging. Unfortunately, each

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body has its own reporting requirements and there is no indication at the moment that a common system will be introduced.

- b. Diarmaid Ó Corrbuí: The Wheel and the Charities Institute Ireland have both lobbied for more coordination in governance compliance reporting requirements. It is very time-consuming and expensive especially for smaller nonprofits.
11. “What is your view on showing links to short videos that may be relevant to some of the users of the report, in the interest of keeping it easy to read and not too long?”
- a. Andrew Madden: It can be excellent especially in terms of using elements from the report on social media. Those videos or images can draw traffic to the annual report.