

## Improving Your Annual Report

On the 27th of February 2024, Carmichael hosted a webinar on how nonprofits can improve their annual reports and financial statements.

The panel consisted of:

- Nina Arwitz: CEO of Volunteer Ireland
- Aedín Morkan: Audit Partner at Mazars Ireland
- Senan Turnbull: Consultant and trainer specialising in nonprofit annual reports

The panel was chaired by Róisín McGuigan: Services Manager at Carmichael and Coordinator of the Good Governance Awards.

The three panellists shared some of their pointers for improvement and the session finished with a Q&A, also included here.

### **Nina Arwitz, CEO of Volunteer Ireland on “What makes an excellent report?”**

The first thing to think about is who is reading the report. That might be funders, potential donors, or potentially Board members. We recently got a new board member with a finance background, and he told us that the first thing he did when he considered volunteering his time with us is he read our annual report. Also remember that the report is for the people we serve and are working with. So, think about how to make sure your report is inclusive and easy to understand for all who want to read it. So, you should be using plain English, and a simple design. You can get reports that are fancy and have lots of colours and design, but it is really about design which makes it easier for people to follow the report. The National Adult Literacy Agency (NALA) have some great guidelines and training on this. Less is more.

A pet peeve of mine is around reports claiming to report on “impact” but actually looking at outputs or outcomes instead. Outputs are what you do, so maybe 20 people attended a training. Outcome is the short-term result, like people learned things. Impact is long-term change as a result. If you do not have data on impact right now, just rename that section to something like “What we did.”

Another thing that stands out to me is organisations who accumulate large reserves and do not give a clear explanation. You need to explain why you are sitting on that money.

Trends over time is a really important element of a great annual report. Put your key performance indicators (KPIs) into context, ideally with graphs, visuals, or tables. Include a brief explanation of those trends.

Lastly, have the courage to be honest. I love reading reports where organisations are honest about when something did not work out, and what they learned from it. That shows that an organisation is mature and transparent, and that the organisation is learning and changing.

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## **Aedín Morkan on “What is now expected in an annual report in terms of financial statements?”**

The expectation is that there's full financial statements in the annual report documents, so not abridged financial statements. You should not avail of the exemptions of Section 1A to produce simplified accounts. Whatever framework you are applying it is essential that you comply with it fully.

Organisations exceeding a €250K turnover should be applying charities Statement of Recommended Practices, which is shortened to “SORP” (see definition above). Organisations should embrace the spirit of transparency and openness that underpins SORP. Financial statements should be part of the annual report and it should be one single document. The financial statements should be integrated with the front end of the document to connect as one single document. It should also be easy to navigate and accessible.

Aspects that distinguish the award winners would be the financial review that captures financial performance and financial position but can also be understood by non-financial readers. It is also important that you are not just repeating in words what is in the numbers but providing insight and context.

Another great element to include is trends over time; the requirement is to provide two years of information, but if you could provide, say, five years, it gives a lot more context. Information that can allow the reader to see not only where you are coming from, but also where the organisation is going to.

It is also beneficial to have clear, concise accounting policies that are tailored to your organisation. For example, different income streams are not necessarily all treated the same or accounted for in the same way. You only need the accounting policies which are actually relevant to your organisation. There is no need to include someone else's “boilerplate” policies if you do not have those same items in your accounts.

## **Aedín Morkan on “How should one navigate a conversation with their accountant/auditor about bringing the financial statements up to scratch (implementing SORP, not using Section 1A etc.)?”**

I think most accountants or auditors would probably welcome feedback from their clients through an open and frank conversation. Remember that organisations are the client and in a lot of cases it is not pro bono, and you are paying for a service. Ensure that you are clear on specifics of what the agreed service is. Go through your letter of engagement or contract. Have an open conversation to talk about redefining the scope of that service if needed.

The question of whether you avail of exemptions or file full financial statements, and whether you implement SORP, are decisions for the Trustees/Directors, not for the accountants or auditors.

Another thing to add is that there are certain things that your auditor cannot really do, like writing the trustees' report. They can certainly provide an outline structure or provide guidance, but things like, say, the content on achievements of the organisation during the year must come from the organisation itself.

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## Senan Turnbull on “Where should someone start when trying to refresh their annual report?”

The first thing to do is remember that improving your annual report is an extra, voluntary piece of work so do not be too hard on yourselves.

Have a look at the Good Governance Awards website and look at the winning reports from the same income category as your organisation. That could act as a template or as an example of where you would like to end up, but most of those excellent annual reports have been improved incrementally over many years so bear that in mind.

When improving an annual report, remember that the Board need to be involved, it cannot be led solely by staff (if you are lucky enough to have staff).

Often annual reports comprise of lists of achievements and nice photographs, but without necessarily providing any real insight. An annual report that is heavily biased towards just activity, does not tell the full story. An annual report is an opportunity to tell an organisation's story in a way that connects with the reader, especially if that reader was not familiar with the organisation beforehand. It should read in a very relaxed non-technical way while also making sure that the information being given is relevant and accurate. Keep in mind that an annual report is, at its most basic, an opportunity to tell your story.

One thing that is often missing is the governance piece. The reader needs to know who is running the organisation. The ultimate responsibility for the running of an organisation lies with the Trustees or the Board so they need to be highlighted in the report, not just the coordinator or the staff member who runs the day-to-day operations. It is important that you tell us about who these people are; provide a profile and a photo, perhaps a little bit of dialogue to create that connection between the reader and the organisation.

Detail the work done by the organisation and the challenges faced by the board as opposed to only operational challenges. For example, a challenge could be becoming fully compliant with governance standards as required by the charity regulator. Similarly, there might have been a challenge around a continuous funding line and the report could show how the board deal with that.

Also, a good feature to provide is an attendance summary for Board and committee meetings, but keep in mind to notify members the year before you intend to record and publish this in your annual report so as to give fair notice.

It is also good to detail board subcommittees as it demonstrates activities that happen behind the scenes. Not telling that story is a missed opportunity as it is the bedrock underpinning of the service provided by the organisation and it is discouraging for a member of a subcommittee to not see their work presented in the report.

One of the most important elements to include when it comes to reporting on activities is the target for the year, and it is important to be honest. A target which was not reached is not necessarily a failure. Explain

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to the reader what the challenges were, how you dealt with it and what the plan is going forwards. Targets are essential as figures without the context of a target or previous performance mean little.

## **Question & Answer Session**

### **Can you recommend a few annual reports that we use as 'best practice'?**

Take a look at previous [Good Governance Awards Winners](#).

### **Is the Annual report a legal requirement?**

If your organisation is a Company, it will be required to file financial statements with the CRO each year and these financial statements will include a “Director’s Report” with some key updates on the organisation’s performance that year. Funders may also require some kind of organisational annual report, or a report relevant to the programme they funded.

However, a good annual report will expand that “Director’s Report” to cover much more than the bare minimum and, combined with the financial statements, will provide a true insight into the organisation, its performance, and its governance. This expanded Director’s Report is not a legal requirement, but it is good practise.

### **Does integrating financial statements into the report create issues for Auditors who must then approve the whole document?**

Auditors need to be informed ahead of time that their document will form part of a larger document and in turn they must be allowed to read the full document. They would be looking to see that all the information in the document is consistent. But no, it is not unusual to have the auditor’s report included as part of this document, once agreed upon ahead of time.

### **The idea of one report sounds ideal, however the Government Department which funds the company requests the Approved Financial Statements (AFS) only. Would we then need two separate documents?**

You can record an organisation’s activity in the directors’ report section of your financial statements. That way it is all in one document. It forms part of your financial statements, it is approved by your board and your auditors have seen it and then you can give it to your funders.

### **How important is design and quality photography to tell your story in your annual report?**

The design cannot disguise poor content and quality in a report, so that should be the primary focus for any report. Beyond that, the design can enhance the report by making it more accessible and easier to read. Photography can be helpful in expressing to the reader what the organisation does and inspire a real sense of the organisation at heart; a photo can tell a thousand words. Keep it simple, choose a design style that is not complicated or distracting from the content; it is a document that is meant to be read by the widest possible audience.

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## **Do you think SORP will become a requirement going forward for sports bodies/not for profits?**

Regardless of whether it is a legal requirement or not, it is a positive to be SORP compliant. It indicates an organisation's confidence to be as transparent and accountable as possible. The fact of whether it is a mandatory requirement or not is neither here nor there, as it demonstrates the organisations ambition or exceeding the minimum standards and aiming for the highest standards. So, if your organisation is thinking about being SORP compliant, the recommendation would be to do so as it is not at all about any requirements to do so.

The only exception would be for organisations with a turnover of well under €250K per year, who may find it impractical to implement SORP.

## **Is there a good practical guide to the SORP requirements?**

There is not one single document on Charity SORP, as by its nature it is technical, and it is not one size fits all. If an organisation is thinking about implementing Charity SORP you should get someone in to talk to your finance team or Board of Directors and give an overview of what is required and things like how accounting for income and expenditure might be affected, splitting out funds between restricted / unrestricted, writing the directors' report etc.

## **We received a large grant last year more than €250k. Our usual income would be less than €250k. Do we need to prepare our financial report in line with SORP or can we give an explanation about the extra income. It will bridge 2 years as we did not spend all the money in the one year.**

At the moment it is not a legal requirement for organisations over €250K to apply SORP, but if it were a regular occurrence then the organisation should investigate implementing SORP as that would be best practise. If it is just a once off payment, then the organisation could account for it via one or two lines in your annual report.

## **If you have a few people contributing content to your trustees' report, is there a good way to make the whole report sound like it is coming from one voice?**

Have one person leading on pulling the document together, proofreading and editing so it has a consistent voice. Also, the use of plain English is a real benefit for an annual report to reach it widest audience. The National Adult Literacy Agency (NALA) have guidance and training courses on plain English ([Editing and Training Services - NALA](#)).

## **Which is better: A great, well run, and governed organisation with an OK report or a great annual report at the cost of actual effectiveness? Is chasing awards taking time away from core functions?**

Prioritising an annual report over the consistency and good governance of an organisation would be a bad idea. An annual report is a voluntary and natural addition and a means of expressing to a wider public what an organisation does. The benefit of having an annual report is it helps you recruit volunteers, board

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members, funding, etc. It also proves to be a time of reflection for an organisation; a time to evaluate if there has been mission drift, etc.

## **Is it necessary to do a large print run of hard copies of annual reports in an age where everything is online?**

A decision as to whether to print hard copies or only have the report available online is entirely for each organisation to make given its context, ambition and costs. The fewer copies that are printed the more expensive each copy will be. The number of hard copies you need should be carefully planned for so that there aren't copies left around that were not distributed.

Obviously online copies should be available. Include a QR code to the Report in as many places as you can so that the report is brought to the attention of the maximum number of potential readers.

## **How many pages should it be? Or a guideline for small charities?**

There is no optimum number of pages. If you ignore the 15-20 pages where the auditors' report is pasted into the overall report then I'd suggest that you would need at least 12/15 pages of text to cover all of the other aspects of what a report should include. This would be a good start for say a small organisation producing a report for the first time. In the years ahead this could be added to but more and more pages do not necessarily mean a better report. It should read well, give interesting and accurate information and cover all of the topic areas we have referred to in this webinar.

## **Should testimonials, feedback from clients/service users/volunteers be included?**

Yes of course! It's great to bring your story to life. Just make sure it is anonymised and doesn't identify anyone, unless you have permission – see more on this below.

## **When using photographs of service users do you have any thoughts on using names etc.?**

Using names can be great as it brings a story to life, but you must ask permission to use names and photos of people. Make sure they don't feel pressured to give consent, and always get them to sign a consent form. Remember they can remove consent at any time, and make sure you're very specific about where you'll be using the photos and name.

There is also a duty of care. We shouldn't use service users' names or photos or other identifiers if we think there's likely to be backlash or abuse e.g.: with migrants, trans people. And if we do, we should be there to support them and have a clear policy in place for how to deal with it.

## **Do you have any advice on accounting for service in kind/pro bono 'income'- how to put a value on different supports?**

This very much depends on the nature of the service. In most instances it is possible to ask the provider of the service for an indicative value for the service provided (for example if you receive pro bono legal services).

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## Would you be at a disadvantage if you divulge less in the financial statement?

It depends on what is being left out. Less is not necessarily more in this case! However, it's a balancing act about providing enough information to be informative but not providing excessive information which makes it difficult to read, difficult to digest or difficult to see the wood for the trees. I would be guided by the principles of openness and transparency and aim to provide a well-rounded account of the organisation for the year under review.

I would also caution against divulging less for fear of admitting failure – being open about challenges, what went wrong, and things which didn't go to plan all display an honesty and an openness which isn't always apparent in annual reports.

## Definitions

1. What do we mean by an “annual report and financial statements”?

One document, produced annually, which includes:

- Charity Trustees'/Directors' Annual Report (which should provide information on an organisation's origins, objectives, activities, and performance and should also outline how the organisation handles risk, reserves, and remuneration);
- Statement of Financial Activities (SOFA);
- Statement of Financial Position (Balance Sheet);
- Notes to the Financial Statements.

2. What do we mean by “SORP”?

The Charities SORP is a Statement of Recommended Practice that sets out how charities should prepare their annual accounts and report on their finances. Under proposed legislation, Charities with income or expenditure of more than €250,000 will be required to have their financial statements prepared in accordance with Charities SORP and have an annual audit.

Reference: [guidance-on-charities-sorp.pdf \(charitiesregulator.ie\)](#)

## Additional resources:

- [Template Annual Reports](#)
- [Improving Your Annual Report \(2022 Resource\)](#)