ACCOUNTABLE REPORTING FOR NONPROFIT ORGANIZATIONS

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Introduction

One only needs to look as far as their local newspaper to observe the increasingly vocal call for the accountability of nonprofit organizations. Whether the issue at hand is administration costs or the need for transparency, stakeholders, including the general public, are taking more interest in organizations that receive "public funds" (whether they be donor dollars, tax benefits, or government grants). Donors, potential partners, and other stakeholders are seeking more and more information in order to make informed decisions. Questions are being asked about executive compensation, administrative costs, and fundraising expenses, to name a few.

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The Canadian Institute of Chartered Accountants' (CICA) Canadian Performance Reporting Board recently published a briefing entitled "Improved Annual Reporting by Not-for-Profit Organizations" (Canadian Institute of Chartered Accountants, 2011) to assist nonprofit organizations in preparing high quality annual reports. The briefing is targeted at management and boards of directors of small- to mid-size nonprofit organizations, but may also be useful for larger entities. The briefing provides guiding principles of reporting, key elements that need to be addressed, and examples from organizations of different sizes.

The preparation of annual reports can be part of an overall strategy to enhance the accountability of organizations. By communicating important information to stakeholders, these reports can serve to foster public trust and build community support. But the type and level of information typically disclosed in an annual report go beyond the reporting requirements that many nonprofit organizations are currently subject to as registered charities and beyond financial statements, which, even combined, only tell part of the story. Annual reports integrate reporting about an organization's strategy, governance, financial and non-financial performance, and outlook for the future into the new realm of narrative reporting, a style of reporting that seeks to tell the organization's story.

This is not to say that financial statements aren't a fundamental part of the story. They are. However, particularly in the nonprofit sector, financial statements do not capture all the information about the organization's performance. Volunteer contributions and community impact, for example, are key elements that are not easily explained in financial terms, but are fundamental to understanding organizational performance.

In the absence of a narrative report, stakeholders or members of the public may draw their own (potentially erroneous) conclusions based on the information that is available. For example, the Canada Revenue Agency's publicly available Registered Charity Information Return requires the disclosure of a significant amount of financial information, but does not require disclosure of the underlying reasons for the organization's performance, the risks it faces, or its outlook for the future.

On the other hand, a narrative report provides an organization the opportunity to explain the accompanying financial information and to present key non-financial measures that demonstrate the organization's performance and achievements. It is an opportunity to tell the public how the organization is delivering on its mission and objectives, and how it plans to meet them going forward; to discuss how activities unfolded over the year, and how they compared both to expectations and to prior years; to discuss what the organization's future goals are and its strategy and expectations for the coming year; and to do so in a fair and balanced manner – openly reporting bad news as well as good.

This is not to say that every organization's report will look the same. Just as nonprofit organizations vary widely in terms of size, complexity, and resources, the appropriate level of detail in reporting will also differ. Short and simple disclosures may be sufficient for a smaller organization to articulate relevant facts and insights that larger organizations would need much more space to achieve. The key is that good reporting should draw the links between the financial data and other key information about the organization's accomplishments in order to give a clear and consistent picture of the organization's performance over the past year and its progress toward its goals. It can help stakeholders understand what the financial statements show and do not show, discuss important information that may not be fully reflected in the financial statements, and discuss important trends and risks affecting the organization.

Guiding principles

An organization's annual report should be guided by the information needs of its stakeholders. The types of stakeholder groups seeking information will vary for each organization, but may include members, donors, funding agencies, service users, volunteers, corporate sponsors, and its local community. The final stakeholder group that all organizations should be aware of is the general public, many of whom consider themselves to be indirect supporters through their taxes, as well as being potential donors or volunteers.

Each organization will have to make a determination about who the primary users of its annual report are likely to be, and to what extent the information presented should be targeted to the needs of specific groups or should be applicable to a more general audience.

While the information contained in an annual report, as well as its format and presentation, will differ from organization to organization, there are some key principles that the CICA guidance suggests should guide the development of all reports:

- Focus on the mission – clearly articulate the organization's mission and objectives and relate performance and financial results to progress towards achieving the mission

- Tell the story – supplement, complement, and integrate the information in the financial statements to tell the story of the organization in a meaningful way

- Have a strategic perspective – focus on the organization's plan for achieving its mission and its outlook for the future and address risks that could affect that plan

- Account for stewardship – report on management and use of resources with clear references to outcomes achieved

- Meet stakeholder needs – information should be complete, understandable, accessible, and relevant to the needs of stakeholders

- Be fair and balanced – balance positive and negative information, take responsibility for shortfalls as well as successes, disclose risks and challenges as well as accomplishments. (CICA, 2011, p. 6)

Key elements

Organizational purpose

Background information helps readers understand the organization and environment in which it operates – it is the setting for the organization's story. This could include a brief background on the organization and its activities, an explanation of the geographical area or population served, a description of the particular sector, and any significant implications of the regulatory framework the organization works within.

Mission/Vision

The organization's vision and mission should be central to the annual report. After all, that's what the organization is all about. The mission can be referenced throughout the report, as it relates to the information presented, including financial information. The report should explain how the activities and programs over the past year moved the organization closer to achieving its vision, and how the organization's financial results and the stewardship of its resources support its ability to deliver on its mission.

Strategy

The next step is to describe the organization's strategy, which involves identifying long-term goals and objectives, and the scope of activities or programs through which these are to be achieved. This can provide helpful context for the stakeholder. The organization's strategic plan should include the milestones, measures, or markers used by management to determine whether progress is being made. These measures may be financial or non-financial, but in both cases, emphasis should be on outcomes (what the organization has achieved) and impacts (what difference has been made), rather than outputs (what the organization has done). These measures demonstrate to stakeholders what their funding has achieved rather than just telling them how it was spent.

Goals and performance

Once the strategy has been outlined, the next step is to reflect on the results of this strategy, including how the activities of the year related to the organization's strategy and mission. Organizations striving to be truly accountable can go beyond the standard annual report's anecdotal success stories, providing greater detail and context. Reports that demonstrate true accountability will be balanced and clearly address areas in which objectives were not achieved. Taking ownership of outcomes, both positive and negative, is an important aspect of accountability.

Risks and opportunities

Reporting on outlook can flow naturally from the discussion of the organization's performance and its successes and failures in achieving its goals. Integrated into the discussion of future goals can be a review of the risks facing the organization, including the factors both within and outside the control of the organization, which may affect its ability to meet its goals.

In dealing with risk and risk mitigation, organizations need to identify opportunities and ensure that potential negative consequences are managed. Accordingly, this section of the narrative should also address significant opportunities. For example, one organization providing emergency medical transport noted that its service agreement with a government agency provided the opportunity for further integration in emergency preparedness.

Many organizations are uncomfortable providing information about risks. However, effective reporting of risk and risk management can go a long way toward both managing expectations and building trust with stakeholders. This is not to say that every potential risk should be discussed – only the most important should be addressed in the report. For example, one organization's annual report addressed the long-term concern around ongoing stable funding. This was a significant risk to the organization, given that (a) certain special funding that they were receiving was only for a two-year period; (b) 80% of their funding came from government grants and contributions; and (c) there were large federal and provincial deficits that could impact future government funding. The annual report compared government funding to other sources of revenue and noted the organization's fiscal strength, which could be quantified by reviewing the financial statements posted on the organization's website. Disclosing the risk in this manner helped to facilitate stakeholders' assessment of the organization's resilience. Therefore, done correctly, effective risk disclosure can not only help stakeholders identify areas of potential need and assess the organization's sustainability but can also help them understand the organization's resilience and ability to respond to risks.

Financial and non-financial highlights

CICA recommends that annual reports contain the complete financial statements, including the notes to the financial statements. If audited statements exist, they must be readily available if they are not included in the report. Many organizations, however, choose to disclose only summary financial information. In that event, it is important that the summary financial information relate back to and be consistent with the complete financial statements and any information disclosed elsewhere, such as in reports to funders and regulatory filings. Inconsistent information can hurt an organization's credibility with stakeholders and its reputation in the community.

Narrative reporting should integrate the financial information into the organization's story and relate the financial data to the non-financial information. Narrative reporting presents an opportunity to capture important points not included in the financial statements and can be used to explain things that may not be readily evident. The narrative should explain the "whys" and connect the dots – it should not just repeat the information contained in the financial statements.

Given the current interest by stakeholders in all aspects of fundraising, including the methods used by organizations and the associated costs and compliance with external programs such as those of Imagine Canada, the annual report can provide an excellent opportunity for organizations to put their own methods and measures into perspective. For example, in United Way Toronto's (2010) Report to the Community, the financial information shows pledge losses at 1.55% of the total revenue campaign. Using the narrative, the organization points out that they managed these pledge losses so as to contain them at a rate lower than the previous fiscal year, ensuring more dollars flowed to the community. Providing this narrative gave stakeholders the explanation necessary to contextualize the declining state of funding.

The choice of information inclusion and the way in which financial information is presented in the annual report is important. Rather than attempting to discuss every line of the financial statements, organizations should focus on a few key issues that will be most useful to their stakeholders, making the information more understandable for those without a financial background, with the use of tools, charts, ratios, and trends over time.

Organizational structure and leadership

Stakeholders are interested in the structure and leadership of the organization – but not simply as a list of names. The most effective reports focus on how management and the organizational structure support the organization in achieving its mission. This allows stakeholders to assess the strengths of the organization's leadership and the mechanisms in place to ensure effective stewardship.

Leadership responsibilities and the organization's relationship to other organizations (chapters, subsidiaries, et cetera.) can be explained so that stakeholders can see where decision-making power and accountability lie.

The strengths of the management team can be highlighted and changes in the senior leadership of the organization can be disclosed along with any major trends in staffing. Succession planning is also often an important issue that merits discussion.

Another key area of stakeholder interest in the current climate is that of executive compensation. While all organizations may consider including a discussion about the organization's compensation practices and philosophy, organizations may vary in how much detail they include in their report, particularly given varying legislation and regulations.

Governance

Boards, board structures, and governance vary widely throughout the nonprofit sector and disclosures can play a significant role in improving stakeholders' understanding of the organization. Annual reports may address a number of governance issues, such as board mandate, governance structure, a list of board members, and even compliance with external standards or best practices relating to governance, which can provide a competitive advantage when compared to other organizations. Discussion of the organization's board of directors can also help stakeholders assess the strength and sustainability of the organization, as well as leading to improvements in governance arrangements as the organization works to demonstrate best practice. Ultimately, this can also help board members protect their reputation.

Writing the report: The logistics

Given the number of potential areas to be covered in the annual report, organizations need to determine what information will be most useful to stakeholders to best communicate the organization's story. Financial statements, organizational objectives, board meetings, media coverage, other filings, comparator or exemplary disclosures, and external factors that played a role in the year's results and which may affect next year's performance can all be considered to help determine the most important and relevant issues to cover in the report.

Organizations also need to consider who will take responsibility for reporting. This will vary largely depending on the size and type of organization. A large organization may have a dedicated person on staff in charge of communications or public relations, as well as a communications committee of the board, whereas a small organization may rely on the Executive Director, a volunteer, or a board member or committee to prepare the annual report. Regardless of who drafts the report, it should be approved by the Executive Director and the full board of directors.

In terms of the structure and format of the report, the key is to make the information understandable and accessible. The tone of the document is of critical importance and should reflect a fair and balanced approach. It should be written in plain language and should be understandable to somebody who is not familiar with the organization. Effective reports often have an introductory section or executive summary that contains the overall message and a summary of key information. The use of colour, charts, tools, and so on can help break up large blocks of text and highlight key facts. As well, including feedback from users about programs and services will help to heighten readers' interest in the report.

Many organizations print hard copies of their report, which are made available to members and other stakeholders at annual general meetings, major fundraising events, and other opportune times. An increasing number, however, are choosing to report electronically, and are making the report available on their website or on CharityFocus, a new one-stop web portal for information about Canada's 85,000 plus registered charities. Depending on the organization's stakeholders, other forms of communication, such as additional languages or Braille, may also be necessary.

While there are no legal or regulatory requirements regarding the timing of the report, it should be issued within a reasonable period of time following the finalization of the financial statements for the period in question. The longer the delay in releasing the report, the less valuable the information will be to the organization's stakeholders. Many organizations issue the report in time to make it available to members at the organization's annual general meeting.

Developing an annual report or revamping an existing one may strike some organizations as yet another thing that takes time and focus away from the organization's mission. However, effective reporting is a key way to demonstrate accountability which, in turn, improves stakeholder relations, helps to attract volunteers, partners, and funders, and builds and maintains the trust of the community – all of which are critical to the organization's ability to successfully deliver on its mission.

References

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