



BEST PRACTICE FINANCIAL REPORTING

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In this article, she shares her insights on best practice financial reporting for not for profit organisations. The purpose of best practice financial reporting is simple – to achieve greater transparency in work done by not for profits, how they source and spend their money, and how they are governed. The ultimate benefit is greater public trust in the sector.

So what is best practice financial reporting?

I have set out below in a very simple diagram what, for me, is the essence of best practice financial reporting for not for profits. I have captured in this diagram what I think are some of the fundamentals as well as the components or building blocks to achieving best practice.



The fundamentals

The fundamentals are those around the circumference of the circle:

Openness, honesty and transparency speak for themselves, but the importance of these three words cannot be underestimated. They are the very

cornerstone of high-quality reporting, and if the intentions of management and the Board are not founded and grounded in these three principles, then I would say the approach is flawed from the outset. You need to be committed to being utterly open, honest and transparent in how you report and to not be afraid of exposing warts and all.

Like everything in life, the report needs to be **balanced**. It can be surprising how many annual reports talk, for example, about all the good and positive things which were achieved during the year but make no mention of what didn't go to plan, what went wrong, what the challenges were. You need to talk about the bad as well as the good. Painting an overly positive and rosy picture is not very credible.

Timeliness is everything. Financial reports and annual reports are, by their nature, mainly, but not entirely, historically focused. Leave it too long to report, and the content quickly becomes dated and less relevant. You should ideally aim to publish your annual report within six months of the year-end.

The building blocks

The building blocks are each of the slices of the pie in the diagram.

Compliance

Compliance has to be your foundation, and that foundation needs to be rock solid. Whether you apply Charities SORP, FRS102, Companies Act 2014, you should be fully compliant with the relevant accounting and legislative framework. Not only that, but you want to embrace the spirit of the accounting and legal framework rather than treating it as a tick box exercise.

Every year I am both dismayed and disappointed with the number of reports I read which purport to comply with, say, Charities SORP but which miss some fundamental points of compliance. I thought that this was, perhaps, because Charities SORP is not yet mandatory in Ireland or that it may have been a particular feature of not for profit reporting due, perhaps, to the resource constraints faced by charities. However, I note that the Financial Reporting Council's annual review of corporate reporting similarly notes disappointment in seeing

"a rise in basic errors and non-compliance in a few areas of reporting A number of these points were readily evident and, in our view, should have been identified by a robust pre-publication review process."

So, while it is reassuring to note that charities and not for profits are not in alone in this, I think there is an onus on accountants, auditors, finance professionals and indeed Boards and Audit Committees in ensuring that we get the basics right.

Your Story

To me, annual reports are stories – okay, maybe not the most riveting, edge of the seat type of stories but they are stories nonetheless. They are stories about an organisation, about the work that it does, its people (in the very broadest sense), its finances and, above all, the difference it makes both to its beneficiaries and society at large. We need to tell it like a story though - we need to make it interesting, to make it appealing to the audience, to make it resonate with the audience and to make a lasting impression. Which leads nicely to the next building block

Visual

Too many reports are excessively text-heavy and, let's face it, mind-numbingly dull. If I am an accountant who eats, breathes, sleeps annual reports and financial statements and I'm struggling to get past the first few pages it doesn't bode well for the members of your audience whose bread and butter is not annual reports.

A lot of clients say to me when we talk about visuals that they don't have the money to employ a graphic designer or to get an expensive glossy. I understand that and I don't think not for profits should spend excessive amounts on the annual report. But it is possible to make a report visual and appealing and to deliver your message and your story in a way that is more user-friendly. Simple use of colour, tables, graphs and images can lift an otherwise somewhat monotonous piece of text and immediately make it more user-friendly and more attractive.

My key tip would be to look at annual reports which win awards and use these as a source of inspiration and ideas which can be tailored to your organisation.

Strategy

When I talk about the strategy, I'm talking about more than merely summarising your strategic plan in your annual report. The key to talking about your strategy in your annual report is linking what you set out in your strategic plan to what you have achieved and what you plan to do in the future. Too often, these elements are entirely stand alone, and it can be challenging to see how the achievements or the plans link to the strategic objectives.



Metrics

In recent years, most not for profit organisations have recognised the importance of using metrics in their reporting, and some have implemented measurement tools for the tracking of their achievements. So they talk about the number of service users or beneficiaries or number of courses delivered and so on. But where the vast majority fall down is that they don't put these achievements in the context of what they set out to achieve, what the plan or the target was for the year. So the reader has no way of knowing whether the achievements are good, bad or indifferent.

The use of metrics needs to apply to both financial and non-financial information. The reader needs to know what key performance indicators both management and the Board monitor and to understand whether you achieved these key performance indicators, if not, why not and how this impacts on your future.

Those reports which set out what they achieved in the context of what they planned to achieve and which explain any variance really stand out from the crowd.

Governance

Most organisations capture governance in their annual reports. Not for profits need to demonstrate that

good governance is at the forefront of everything the organisation does, and you need to demonstrate that there is a real commitment to governance rather than it being a tick box exercise.

Case Studies

Case studies and testimonials bring the words on the page to life. They are a very useful tool in demonstrating your impact in a way which resonates with the reader and which strikes a chord. They also serve to shine a light on your beneficiaries.

Continuous Improvement

Lastly then at the very core of the circle is Continuous Improvement. High-quality financial reporting is a process of continuous improvement. I am a strong advocate of always striving to be better and continually raising the bar. There is always something we can learn from others and which we can apply to our reporting. With advances in technology, there is enormous scope for moving away from the traditional glossy report. Some organisations are taking steps to make their reports dynamic and interactive, including click-through information and graphic representations to create a far more meaningful and useful tool for stakeholders.



What does best practice financial reporting look like?

Below are some tangible and practical items which should be included in your annual report. While it may seem onerous to include all of these in your next annual report, a more achievable solution might be to incorporate these into, say, a three-year plan.

One Editorial Voice	Vision, Mission Values	Committee Reports
Conflicts	Cut the Clutter	Board Initiatives
Balance Past/Present/Future	Strong Visual Elements	Impact Reporting
Highlights Infographic	Meeting Attendance	Director/Trustee Bios
Board Tenure	1 Theme 3 Key Messages	Trend Analysis
Environmental & Social Reporting	Measurable Targets/KPI's	Quotes & Testimonials

Many of the elements speak for themselves but to expand on a number:

One Theme, Three Key Messages

These need to be agreed at the outset before anyone puts pen to paper. Any more than one theme and three key messages and the overall message gets lost.

One Editorial Voice

The nature of annual reports is that there are many contributions from different parts of the organisation. Too often those contributions are copied and pasted in without any overall editing of the finished product. As a consequence, the document does not flow from start to finish, and the key messages can get a little muddled. You need to appoint one person with responsibility for editing the final document.

Balance

It is critical to report on the bad as well as the good. While it is important to be optimistic and positive, be careful of painting too rosy a picture. Ensure that the story you tell is reflective of reality and gives a flavour of the challenges and the constraints the organisation faces.

Trend Analysis

While financial statements would usually only present data for two financial periods, this can be somewhat

limiting in terms of the reader's understanding of the organisation over a period of time. Ideally, a summarised version of the key figures for a period of 5 or 10 years provides much greater insight.

Meeting Attendance

Many organisations now present details of the number of meetings attended by each director during the year. It can also be useful, however, to include details of the attendance at Board / Sub-Committee meetings by non-directors (e.g. external audit, internal audit, specialists) as well as per-centage attendance overall.

Choosing not to disclose attendance in the interests of the privacy of directors flies in the face of openness and transparency.

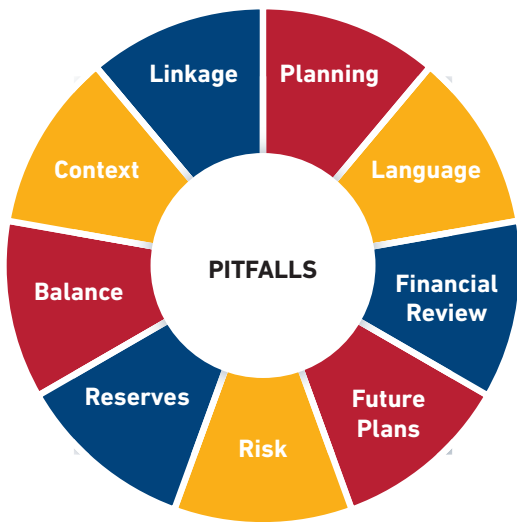
Strong visual elements

Excessively text-heavy reports are unlikely to garner interest or support. Be wary nonetheless of including graphs, tables or pictures just for the sake of it. The use of graphics should enhance the key messages.

Finally, a report which is clear, concise, well written and comprehensive is a hygiene factor and should go without saying.

What are the common pitfalls?

Through my involvement over the past number of years in the Good Governance Awards and the NFP



category for the Published Accounts Awards, I see some common pitfalls which could be avoided.

Planning

'Fail to prepare, prepare to fail.'

Like most things in life, to achieve a good result, you need to have a good plan. You need to plan how you will approach the annual report; you need to identify the inputs that are required and who these need to come from; you need to set out a clear and realistic timeline and deliverables. A project owner and editor are essentials.

Even with those who have plans and timetables, they frequently underestimate what's involved, how difficult it is to get content and the time required in editing other people's content.

Language

Too often boilerplate and pro forma language and wording is used. This is most evident in the Directors' / Trustees' Report and the accounting policies. It is worth investing time and effort in these and making them personal to the specifics of your organisation.

Financial review

The financial review very often just repeats in words or tables what is in the primary statements. You need to 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 in the primary statements. Start with thinking about the key headings or key performance indicators which you as an

organisation and you as a management team focus on. Secondly, think about what might be interesting, informative or useful to the reader and your stakeholder group.

Future plans

The description of future plans tends to be excessively brief and is very often not linked to the strategic objectives and the achievements to date. Plans need to go beyond the next 12 months.

Risk

Many organisations struggle with getting the balance right – being either too high level or excessively detailed – in describing their risk management framework, the risk culture, the principle risks and how those are managed and controlled. The key is to give the reader an insight into how risk management is viewed in the organisation, how well it is embedded, the main risks which are to the forefront of the directors' and management's mind and to explain how those risks are mitigated and managed.

Reserves

Disclosures on reserves are a basic SORP requirement and not a nice to have. Too often reports do not explain the reserves policy; they do not explain how any shortfall versus target will be addressed or, on the converse, do not tell how it is intended to utilise reserves and the timeline for same.

Balance

Very few reports talk about what didn't go well during the year or the challenges they face.

Context

The majority of organisations put significant effort into reporting on achievements, and they go to great lengths to gather data on services, beneficiaries, and so on. However, all of this data is, of itself, a little bit meaningless if it is not put in the context of targets and plans and what the organisation set out to do.

Linkage

Finally, linking the front end (being the Directors' / Trustees' Report, Chairperson's Statement) and the back end (the detailed financial statements) is essential. The report should read as one continuous story from start to finish.



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