

# Carmichael.



## Good Governance Awards

### Improving the standard of nonprofit reporting

The fifth annual Good Governance Awards concluded on 19 November 2020 with the announcement of the winners of the annual report awards across six categories. These categories are based on turnover including a new category this year for very small nonprofits with an annual turnover of less than €50,000. One of the main aims of the Governance Awards is to improve the overall standard annual reporting in the charity and non-profit sector and to provide specific feedback to all entrants alongside guidance on how to improve their annual reports, including their financial statements and disclosures.

Each of the annual reports goes through a very rigorous assessment but underpinning the many assessments and checklists there are some key elements or features which are essential in the eyes of the assessors and judges.



In the spirit of improving standards, we have compiled a summary of the top ten judges' recommendations arising from their assessment of this year's shortlisted annual reports. We have also included the top ten comments from our technical assessors in relation to annual reports that were not shortlisted.

We hope that the below observations and feedback comments will help in improving the standard of annual reports, including financial statements next year.

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## Recommendations from the Judging Panel

1 Ensure the annual report tells a story, in a way which is easy to follow and easy to navigate.

2 Make the link between the charity's purpose, objectives, and expenditure apparent throughout the report.

3 Focus on clarity and conciseness. The length of some annual reports raised questions concerning the additional value being added with very detailed accounts of activity.

4 Use metrics and key performance indicators (KPIs) to describe achievements. Provide context by disclosing the targets against which KPIs are measured and, where applicable, disclose the prior year's KPIs. Including a trend analysis of KPI performance over, say, a three-to-five-year period, was highlighted by the judges as good practice.

5 Report on the organisation's governance structures and processes and describe how adherence to good governance is embedded throughout the board and the organisation. This should include disclosing board members' tenure and the approach to board succession planning.

6 Avoid generic risk reporting and emphasise the key and specific risks the organisation faces, how these are being managed and expand into detail on what the board consider to be the current fundamental areas of risk.

7 Include a clear explanation of what reserves are held by the organisation, including an indication of whether these are high, low or within expectations of the board. Material movements between reserves should be explained.

8 Provide a clear explanation for a deficit, if it arises, including whether this position is likely to persist and what actions or measures are being taken to address the underlying cause(s).

9 For non-profits organisations that work with vulnerable adults and children, ensure that safeguarding (measures to protect the health, well-being and human rights of individuals, which allow people to live free from abuse, harm and neglect) is addressed in the annual report. There were some excellent disclosures on safeguarding included by some of the shortlisted organisations this year.

10 Disclose how the charity or non-profit organisation is addressing matters relating to sustainability, cyber security, data protection, diversity, and inclusion. These matters are of increasing interest to the readers of these reports..

## Recommendations from the Assessors' Panel

- 1** Ensure that there is a link between the non-financial narrative and the financial statements in the annual report. They should not read as two standalone documents.
- 2** Review the report for consistency. There were notable instances where the financial statements reported a deficit but there is either no mention of this in the narrative of the annual report or a deficit of a different magnitude is referred to in the narrative. Some reports included a very upbeat and positive narrative describing the organisation's many achievements, with little or no mention of the challenges, but the financial statements presented a different story.
- 3** Ensure basic governance disclosures are included, such as providing an explanation of the operation of committees and the recruitment, induction and qualifications of board members and their tenure on the board.
- 4** Prepare an annual report that includes both the non-financial narrative and the financial statements to facilitate readers getting a better understanding of the financial position and key drivers for financial performance.
- 5** Disclose the organisation's mission, vision and values and link these with disclosure of the organisation's objectives for the financial period, key performance indicators, etc.

6 Ensure the annual report includes transparency in relation to the various sources of funding accessed by the organisation during the financial period.

7 Ensure the income and expenditure account, or statement of financial activities (for those that apply the Charities SORP (FRS 102)) is presented showing restricted and unrestricted funds separately.

8 Review, before submission, the financial statement disclosures to ensure they are complete (required disclosures are included), consistent with the information presented in the financial statements and elsewhere in the annual report and provide any additional information necessary to assist the readers understanding of the organisations successes and challenges faced during the financial period.

9 In addition to describing the organisation's activities, describe the key risks and challenges faced by the organisation during the financial period.

10 Opt-out of the right to prepare financial statements in accordance with Section 1A of FRS 102 or to file abridged or abbreviated financial statements. This is sub-standard to good governance practice for charities and non-profit organisations reliant on government grants, fundraising from the public or other sources of charitable or voluntary donations (e.g., philanthropy or people volunteering their time to help others).