



Voluntary Sector Reporting Awards 2011

CA-QUEEN'S CENTRE FOR GOVERNANCE

BEST PRACTICES IN CHARITY ANNUAL REPORTING

Lessons from the Voluntary Sector Reporting Awards

The not-for-profit sector in Canada is large and very diverse, ranging from religious organizations, to sport clubs, to cultural organizations of all types and sizes. According to a recent survey, there are over 160,000 not-for-profit and voluntary organizations in Canada, 56 percent of which were registered charities. Yet obtaining information about these organizations can be a daunting task. Research has shown that the information filed with the Canada Revenue Agency (Form T3310) and made public on the CRA website is often incomplete, inaccurate and not internally consistent. This is the only mandatory information required to be released by government regulation.

The low quality of this information makes organizations' annual reports and audited financial statements that are voluntarily provided (note: in some provinces audited financial statements are required) even more important in

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order for organizations to be transparent and accountable to the donating public.

Canadians believe that charities need to be transparent and accountable. A 2008 study by the Muttart Foundation called *Talking About Charities* found that nearly 100 percent of Canadians surveyed believe that it is important for charities to provide information about what they do. However, Canadians gave charities a failing grade on reporting.

A third of Canadians said they were not sure where the money they donate to charities is really going. Only

half of Canadians think charities do an excellent or good job in providing information about the programs and services they deliver. Only three in ten say charities do an excellent or good job in providing information on how they use donations.

Voluntary Sector Reporting Awards

Free information. Free feedback. Great prizes.

Donors, funders and boards are all looking for more transparency and good governance. You can give them that, and more by entering your Annual Report in the Voluntary Sector Reporting Awards. The VSRAs, created by the CA-Queen's Centre for Governance in partnership with the Institute of Chartered Accountants of Ontario and sponsored by PwC, annually recognize the Ontario's best non-for-profit Annual Reports. Entry is simple and free. Winners in each category will receive a \$5,000 prize. Everyone who enters get free information about best practices. 2011 Nominations close July 31st. Some restrictions apply. See website for details.

www.annualreportaward.ca

Top Ten Best Practices

1. Include a strong introduction, with a table of contents, to significantly help orient the reader to the activities of the organization. An executive summary is a “must have.”
2. State clearly the organization’s mission and relate the activities back to the mission throughout the report.
3. Give a clear statement of performance objectives and targets and describe how they link to the mission.
4. Disclose your organization’s risks, issues and challenges in the context of the mission.
5. Tell the reader how your organization governs itself and how that governance structure reflects the mission of the organization.
6. Have management discuss the financial information in light of the organization’s mission, vision and values; link that discussion to present operations, risks and future plans; all should be written in a concise “discussion and analysis” section of the report.
7. Post the annual report and the audited financial statements (if not included in the annual report) on your website in an easy to find area.
8. Decide on your primary audience and write the annual report for them using plain language appropriate to that audience.
9. Balance carefully the “too much information” approach versus “lack of content” approach to arrive at a happy medium in the annual report. Ensure that one person edits the report so that it is internally consistent both with regards to content and to writing style.
10. Avoid committee reports in favour of one broad-based board report that tells the organization’s story in a compelling and integrative manner. The committee reports can be posted to the website if they are considered important disclosures.

Only one in four think charities do an excellent or good job in providing information about charities’ fundraising costs. Half of respondents in the report said they wanted more information about the work charities do, “even though it may require more money to be spent on communications.” The need for better annual reporting in the not-for-profit sector is clear.

Best practices for financial reporting transparency in the private sector are highlighted in several awards programs, such as the Canadian Institute of Chartered Accountants Annual Report Excellence Awards. These awards have been expanded to highlight excellence in Crown Corporation reporting; however, there were no equivalent awards in the broader not-for-profit sector.

In 2007, the CA-Queen’s Centre for Governance proposed to highlight best practices in financial reporting transparency by staging a competition among voluntary sector organizations headquartered in Ontario. The Voluntary Sector Reporting Awards (VSRAs) focused on charities, excluding those in the MUSH

sector (municipalities, universities, school boards, and hospitals).

Here are some key things to think about from the judging process of the Voluntary Sector Reporting Awards.

Accessibility and availability

You need to consider whether your organization’s annual report and the audited financial statements should be available online. In the VSRAs, most organizations in the finalist round included their annual reports on their websites, but several did not post the audited financial statements. The reasons given for excluding the audited statements were not persuasive. Even when posted, some of the reports were difficult to find on their website.

Reports should be in an easy-to-find place, such as “About Us” or “Publications,” with links from other relevant areas. There should be a minimum of three years of annual reports and audited financial statements available, and they should be posted promptly.

Based on VSRA judging, usually no more than three messages can be effectively communicated in one annual report.



Annual reports should also provide a readily accessible means for people to provide feedback, to comment on the organization's activities or find out how to get involved with (i.e., volunteer with or donate to) the organization.

A key issue in the accessibility of information is deciding who the primary and secondary target audiences are for the annual report and financial statements.

For example, the audience could be donors, funders (such as government agencies), clients, volunteers or even the staff. The primary audience is an explicit choice that needs to be carefully made and adhered to by all contributors to ensure the consistency of language and presentation throughout the report.

Clarity

In a quarter of the annual reports in the 2009 VSRA finalist round, judges could not readily determine the purpose of the organization. Without a clear purpose, readers may find it difficult to determine how their donations will benefit their community. VSRA judges found that most organizations did not consistently weave their mission, vision and/or purpose with the activities they reported on. The organizations often presented the mission statement early in the report and never referred to it again.

Improving clarity involves a number of different strategies.

Communications strategy: Most organizations would benefit from having an overall communications strategy for their annual report. A "point" person should be assigned with responsibility for the annual report's overall content. The organization also needs to consider the number, length, content and consistency of the messages included in the annual report.

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Based on VSRA judging, usually no more than three messages can be effectively communicated in one annual report. Also, judges noticed that a number of annual reports included numerous reports (i.e., the Chair's, the Chief Executive Officer's, various program heads, etc.) that overlapped each other, contained inconsistent messages and featured too many messages.

Executive summary: All annual reports should include an executive summary located at the beginning. The VSRA judges found many annual reports had what appeared to be multiple summaries of the rest of the report. The purpose of the executive summary is to summarize the entire contents of the report for reader. It should be only one page in length.

Amount of information: The VSRA judges found that many annual reports had too much information and many had too little. One recommendation to reduce the size and density of the annual report is to include some detailed information (such as lists of contributors) as a separate appendix. The organization then gives readers the option to access more detailed information if they wish.

Sometimes important things are left out of an annual report. Even for "member-focused organizations", it should not be assumed that every reader knows exactly what the organization does and why.

User friendliness

Annual reports need a clear narrative. The report should discuss:

- how the mission, goals, and programs interact

Seven things to avoid

1. Not providing a strong introduction so a reader can size up an organization quickly.
2. Lack of stated performance objectives and targets, such as budgets and the non-financial indicators of mission accomplishment.
3. Not stating the risks, issues and challenges.
4. Non-disclosure of the governance structure.
5. Lack of clarity in fundraising costs.
6. Lack of discussion and analysis about the relationship between the financial reports and the organization's service results.
7. Poor quality financial information that either does not agree with audited financial information, misuses auditors' reports or leaves out pertinent details.

- the successes and disappointments in working towards achieving the mission
- the risks and challenges the organization faces
- how the organization intends to deal with them.

VSRA judges found that in some annual reports there was a tendency to have too many separate activity reports instead of one overall management report that told the organization's story. When many different styles of writing are combined with a multiplicity of reports, it is hard in some cases to understand the organization as a whole.

Finally, there is a need to integrate the financial statement numbers into the story presented in the annual report in order to tie the two together.

If the full set of financial statements are not present in the annual report then clear reference must be made to their availability on the organization's website. A clear financial summary is required in any annual report, including one that features the full set of financial statements. Treasurers' reports, financial highlights and financial statement footnotes should be written in language that is understandable.

In all annual reports, whether they include the full financial statements or not, there must be a clear statement of the revenues and expenditures, including a clear statement of what fundraising expenses were as opposed to program expenses.

Impact

An annual report needs to use financial and non-financial information to relay the impact the organization is having on the community it serves. The VSRA judges believe there is a greater need for organizations to acknowledge risks, issues, and challenges in annual reports. This is an opportunity missed for many organizations.

Informing the reader and potential donor of the risks, issues and challenges could give potential donors some context and insight as to how their contribution can make a very real impact.

Some organizations seemed to view the annual report as more of a creative writing project or an advocacy advertisement rather than an accountability document. Beautiful pictures, the latest graphic design and "cool" colour schemes do not make up for lack of content.

Lessons from the Voluntary Sector Reporting Awards



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