Why charity accounts should tell the story better

Transparent financial reporting in annual charity accounts produces more meaningful information and underpins their long-term stability, but how do you achieve this? Jonathan Orchard, partner, Sayer Vincent examines the key issues to consider when finalising charity accounts

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When the Royal National Lifeboat Institution (RNLI) received negative press attention for spending funds outside of the UK at the same time as cutting costs in the UK, the organisation received many plaudits from peer charities for the effectiveness and robustness of their response.

Implicit in the press reports was the fact that UK donors had been misled - that when donating to RNLI a UK donor would not have expected their funds to be spent on water safety work in countries with the highest drowning rates, such as Bangladesh.

RNLI's ability to respond so effectively was at least in part due to the transparency in its financial reporting.

The 2018 accounts clearly show that £3.3m (2% of total expenditure) was spent on international projects – this shows in its income and expenditure account, and in the financial summary in the narrative report. The impact of its international work appears at least seven other times in the report.

There have been many similar stories in the press about charities in recent years. Some charities have struggled to defend themselves so effectively.

The RNLI example shows the benefits of transparent reporting in terms of getting on the front foot and being open and honest.

Reinforcing trust through the numbers

The theme of this year's Charity Accountants Conference, co-organised by Directory of Social Change and Sayer Vincent, was the role of financial reporting in reinforcing trust in charities.

The opening keynote speech was given by Kate Lee, CEO of children's cancer charity CLIC Sargent.

Lee describes herself as the 'self-appointed fairy godmother of charity reporting' and talked about her Golden Formula of reach versus resources versus impact.

In short, a charity should seek to address the following three questions to demonstrate the impact that it makes and how resources are applied in achieving that:

Golden Formula questions
1. How many people do we reach?
2. What sort of impact do we have?
3. How much do we spend doing that?

But in answering these questions charities must be open and honest. They need to admit their failures as well as their successes. CLIC Sargent has been widely praised for the transparency demonstrated in its annual impact reports.

> *Charities must be open and honest. They need to admit their failures as well as their successes*

Charity SORP

The same principles can and should be applied to the annual trustees' report and accounts. The charity SORP (the accounting and reporting framework that all charities must follow) says specifically that a charity's report and accounts should 'tell the charity's story in a fair and balanced manner, acknowledging both significant successes and failures'.

It is fair to say that many charities do not embrace the overall spirit of the SORP in their external reporting.

Over the years additional reporting requirements have been added – most recently, for example, a statement around fundraising strategy.

The focus naturally becomes making sure all these compliance requirements are met, rather than engaging the reader of the accounts in understanding the charity's story.

The annual report and accounts are an opportunity, in a statutory document, to build a compelling case for support.

The report should tell the story of how a charity raises its funds and then turns its financial resources into social impact and public benefit.

To be fair to RNLI, while it is unreasonable to expect their general public donors to have read its accounts, if they had taken the time to read the first 15 pages or so they would have hasd a clear understanding of impact, core areas of activity (including its international work), and how it raises and spends its money.

If you dive into the detail of the RNLI report and accounts (and there's quite a lot of it), they disclose – as all charities are required to – that 62 of their 2,200 employees are paid in excess of £60,000. They also include all the necessary disclosure around senior management pay and the charity's remuneration policy.

But it is all compliance driven – it fails to make the case as to why it is necessary to pay at this level. I am not questioning the pay levels - I am just observing that in my view the case is not made.

CEO pay levels are one example of an area that has come under external scrutiny where compliant reporting may not be sufficient to keep on the front foot. Other examples include:

- level of resources applied to deliver the stated impact;
- approaches to fundraising methods and associated costs; and
- levels of reserves held and how they can be justified in the context of financial risk.

By addressing some of these questions and raising the report and accounts beyond a compliance document, charities will be better placed to defend themselves in the light of any negative coverage and they will be producing more meaningful information. Who knows – charity accounts might even gain a wider audience.

About the author

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