



The Irish Association of Non-Governmental
Development Organisations

Dóchas Report on a Review of Annual Reports and Financial Statements of Dóchas Members

March 2011

Table of Contents	Page
1. Review Background	3
2. Purpose of Review	3
3. Review Approach	3
4. Applying this Approach	4
5. Overview of Reporting Circumstances	4
6. Results of Category A Review – Small NGOs	5
7. Results of Category B Review – Medium-Sized NGOs	6
8. Results of Category C Review – Big NGOs	7
9. Results of Category D Review – Trócaire & Concern	8
10. What Dóchas Proposes to do with this Report	9

Appendix

Review of Annual Reports and Financial Statements of Dóchas Members

1. Review Background

In early 2010, the board of Dóchas decided that it would assist its member organisations by conducting a review of their Annual Reports and Financial Statements. Ray McElroy was engaged as an external consultant to carry out this Review.

2. Purpose of Review

To determine the extent to which each member of Dóchas, in presenting its Annual Report and Financial statements, is meeting all relevant obligations in terms of the quality of such information, and the manner of its presentation.

In this regard, the NGO's obligations relate to the extent to which the Annual Report and Financial Statements accord with the Charities SORP requirements. In the case of the small number of other organisations, who do not have charitable status, the Review looked at the extent to which these organisations are reporting adequately and following general accounting principles.

The review took account of how each member organisation is acting and reporting on its corporate governance obligations. The Review focused in particular on the extent to which member organisations are guided by the "**Irish Development NGOs Code of Corporate Governance**", published by the Corporate Governance Association of Ireland, in conjunction with Dóchas. The consultant, Ray McElroy, was asked to review the Annual Report and financial statements of each member organisation from the point of view of the perceived expectations of the principal stakeholders. Appendix 1 summarises how Charities SORP and the Code of Corporate Governance influence charity reporting.

3. Review Approach

The consultant was asked to develop a standard reporting template applicable to the average-sized member organisation. This template should identify what would be appropriate for such an organisation in terms of the content and layout of the financial statements, and what information should typically be presented in the Annual Report, particularly in respect of the Directors' Report element.

As some member organisations present an Annual Report separately from the financial statements, the consultant was asked to identify what reporting would be appropriate for the average-sized organisation whether the annual report and financial statements are integrated in one document, or kept separate.

The consultant was asked to identify enhancements to the standard template that would be appropriate to the larger member organisations, given that these organisations have more complex internal and external environments and associated risks. Such larger organisations are often much more in the public eye, and must work harder to safeguard their reputations.

Given that a large number of member organisations are quite small, the consultant was asked to tone down the reporting obligations of these smaller members.

4. Applying this Approach

The consultant reviewed in detail the Annual Reports and financial statements of 42 Dóchas member organisations. These organisations were broken down into 4 size-based categories, in order to conduct a personalised review of each organisation on a template appropriate to the size of the organisation. The 4 categories were as follows:

A	Organisations with income less than €1 million per annum
B	Organisations with income between €1 million and €3 million per annum
C	Organisations with income between €3 million and €10 million per annum
D	Organisations with income in excess of €10 million per annum

The consultant reviewed the Annual Report and Financial Statements for each member organisation. Where information regarding the affairs of an organisation was not to hand, the consultant located the appropriate information for the latest financial period from the organisation's website and /or from the Companies Office. Information regarding the governance aspects, where relevant to the Review, was secured from the CRO website also.

Using the appropriate template the consultant undertook a review of each member organisation and prepared a report assessing that organisation's Annual Report and Financial Statements, identifying what needed to be done by each organisation to bring these report elements to a level commensurate with the reporting template. A personalised report has now been issued to the senior executive of each organisation, which report is not available to any other party.

5. Overview of the Reporting Circumstances of the Member Organisations

The main purpose in carrying out this Review was to guide each member organisation in reporting to the standards appropriate to its circumstances, to encourage its governing body to take responsibility for these reporting standards, and to prompt the governing body to ensure that it is exercising the level of oversight and governance that makes it possible to report to such standards.

The consultant was requested to summarise the overall findings of the 42 organisational reviews, without divulging any personalised information to Dóchas, or to other parties, in respect of the detail of the individual organisational findings. This summarisation was to take the following format:

- Set out the templates appropriate to small, medium and large member organisations, so that these templates could be used as benchmarks to guide organisations towards the hoped-for improvements in reporting standards.
- Inform Dóchas of the standards of reporting expected from each organisational category.
- Summarise the findings of the Review, and report in general terms on the extent to which member organisations are currently meeting these standards.
- Report with sensitivity on identified shortcomings in reporting standards, as an organisation may have strong board oversight and governance, despite the fact that it is failing to report on these positives.
- Highlight instances of exemplary reporting to help other member organisations to aspire to these standards.
- Identify what Dóchas needs to do to address the findings of the Review, particularly in terms of offering support to members to improve their reporting.

6. Results of Category A Review – Small NGOs

6.1 Profile

Number of organisations	15
Annual income range	€0.14m to €0.91m
Typical staff numbers	3 to 4
Cases of separate Annual Report	3
Number of non-charities	1
Number of non-companies	1
Number registered only in Northern Ireland	2

The review was undertaken against the **Dóchas Template for annual report and financial statements for small-sized organisations**. (see Dóchas website)

6.2 Observations regarding the Review of Category A – Small NGOs

- Irish company law requires guarantee companies, irrespective of size and including charities, to prepare and submit to the Company Registration Office (CRO) full financial statements without availing of the small company arrangements inherent in Section 8 of the 1986 Companies (Amendment) Act. This means that small charity companies cannot submit abridged accounts and must prepare a Cash Flow Statement. Any Northern Ireland Charity Company functioning but not registered in Ireland does not come under this ambit and can avail of small company arrangements under UK company law. However, four of the fifteen organisations in this category incorrectly availed of small company arrangements, submitting abridged accounts to CRO, and did not include a Cash Flow Statement in their financial statements. The respective statutory auditors signed off on these situations.
- Of the balance of 11 organisations, 3 prepared Annual Reports separately from their financial statements, and in these 3 cases the Directors' Reports in the financial statements were wanting in terms of reporting on activities and plans, but made up for this with better than average reporting in these respects in their separate Annual Reports. However, the impact of good reporting in the separate Annual Report is lessened when it is separated from the Directors' Report in the financial statements. In all 3 cases, the reporting on governance, risk management and reserves strategy was most lacking, in both the Annual Reports and in the Directors' Report in the financial statements.
- 2 other member organisations are registered as companies in Northern Ireland and as such have a different legal standing under UK company law, and are able to refrain from including Cash Flow Statements in the financial statements.
- 1 other organisation, while a company, is not a registered charity and consequently is not obliged to conform with Charities SORP, unless it opts to do so to demonstrate its position within this specific charity environment.
- 1 other organisation is an unregistered legal entity but with charitable status, and meets its obligations as a charity to have an annual audit, but which otherwise is not obliged to comply with company law, and has less obligations in terms of meeting Charities SORP

6.3. Overview of Findings for Category A – Small NGOs

The level of compliance with Charities SORP and with the Dóchas sponsored Code of Corporate Governance is quite disappointing across this category of 15 organisations.

- Only 3 organisations prepare SOFA, the balance continuing to prepare Income and Expenditure Accounts or equivalent.

- Only 8 prepare Cash Flow Statements, although in fairness only 12 are so obliged
- Only 5 report on their plans for the succeeding year
- Only 10 report on activities for the year completed
- Only 2 report adequately on how governance is managed by the board
- Only 2 report adequately on the boards' management of risk
- Only 1 reports adequately on the board's management of reserves.
- 1 company reported as being in negative equity and did not include a going concern statement in the financial statements
- In 11 cases, the Directors' Report in the financial statements was one page in length or less.

6.4 The Benchmark Organisation

The **Irish League of Credit Unions International Foundation** is the positive benchmark across all dimensions of reporting.

7. Results of Category B Review –Medium-Sized NGOs

7.1 Profile

Number of organisations	15
Annual income range	€1.09m to €2.75m
Typical staff numbers	10
Cases of separate Annual Report/Review	2
Number of non-charities	2
Number of non-companies	0
Number with twin-legal identities in Ireland/ Northern Ireland	2

The review was undertaken against the **Dóchas Template for annual report and financial statements for medium-sized organisations.** (see Dóchas website)

7.2 Observations regarding the Review of Category B – Medium-Sized NGOs

- 1 of the 15 organisations in Category B incorrectly submitted abridged accounts, while the balance of 14 had no difficulty in this regard. Nevertheless, this organisation and 2 others failed to prepare Cash Flow Statements. The respective statutory auditors signed off on these situations.
- Of the balance of 12 organisations, 2 prepared Annual Reports separately from their financial statements, but both Annual Reports provided meaningful information on actions and plans
- 2 of the 15 were remiss in reporting on their activities, while 9 did not provide any meaningful information on plans for the immediate future.
- 6 of the 13 organisations that presented integrated Annual Reports and financial statements presented a Directors' Report that was two pages or less in size.
- 13 organisations provided unsatisfactory levels of information in respect of governance dimensions; while 10 organisations presented unsatisfactory details regarding risk management in terms of detail. 12 of the organisations provided unsatisfactory detail in respect of reserves strategy and reserves position.
- 2 companies function as legal entities in Ireland and also in Northern Ireland, with separate boards in each jurisdiction, but with common trustees/directors. Both organisations operate using a single management team across the two entities, which effectively operate as one organisation. This arrangement works well from a reporting

perspective, as the combined entities prepare combined management accounts as a top-up to the separate statutory accounts in the separate jurisdictions.

- 1 organisation, a company, is not registered as a charity, while another non charity has exemption from Corporation Tax.
- 1 other organisation is an unregistered legal entity but with charitable status, and meets its obligations as a charity to have an annual audit, but is otherwise not obliged to comply with company law, and has less obligations in terms of meeting Charities SORP.

7.3. Overview of Findings for Category B

The quality of reporting is significantly better than in Category A, but there are some disappointments:

- 9 organisations prepared SOFA, the balance of 6 continuing to prepare Income and Expenditure Accounts or equivalent.
- 12 of the 15 organisations prepare Cash Flow Statements, although 1 of the 3 non compliers is not strictly obliged to do so.
- 5 of the 15 report in the Directors' Report or in the separate Annual Report on the plans for the succeeding year
- 12 of the 15 report on activities for the year completed
- Only 2 of the 15 report adequately in the Annual Report or in the financial statements on how governance is managed by the board
- 5 of the 15 report adequately on the boards' management of risk
- 3 of the 15 report adequately on the board's management of reserves.
- In 7 of the 15, the Directors' Report in the financial statements was two pages or less in length.

7.4 The Benchmark Organisations

Suas Educational Development and **CBM Ireland** are the positive benchmarks across all dimensions of reporting.

8. Results of Category C Review – Big NGOs

8.1 Profile

Number of organisations	10
Annual income range	€3.45m to €8.70m
Typical staff numbers	22
Cases of separate Annual Report/Review	5
Number of non-charities, or exempt companies	1
Number of non-companies	0
Number with twin-legal identities in Ireland/ Northern Ireland	2

The review was undertaken against the **Dóchas Template for annual report and financial statements for large-sized organisations**. (see Dóchas website)

8.2 Observations regarding the Review of Category C – Big NGOs

- All 10 organisations in Category C prepared complete and unabridged financial statements, and all prepared Cash Flow Statements. However, two organisations failed to prepare SOFA
- 4 organisations prepared Annual Reports separately from the financial statements
- 8 produced reports on their activities, while only three produced information on their plans for the immediate future.

- Of the 6 organisations that presented integrated Annual Reports and financial statements, 4 of these prepared Directors' Reports that were one page or less in length.
- 7 of the 10 organisations provided unsatisfactory levels of information in respect of governance dimensions; while 7 organisations presented unsatisfactory details regarding risk management information, and 7 produced poor information on reserves strategy and circumstances.
- 2 companies function as legal entities in Ireland and also in Northern Ireland, with separate boards in each jurisdiction, but with common trustees/directors. Both organisations operate using a single management team across the two entities, which effectively operate as one organisation. This arrangement works well from a reporting perspective, as the combined entities prepare combined management accounts as a top-up to the separate statutory accounts in the separate jurisdictions.

8.3. Overview of Findings for Category C

The quality of the reporting in the financial statements is very high, but there were disappointing outcomes overall in terms of the level of information in the Directors Reports, particularly in relation to level of reporting on governance, risks and reserves.

- 8 organisations prepared SOFA, the balance of 2 continuing to prepare Income and Expenditure Accounts.
- All 10 prepared Cash Flow Statements.
- 3 reported in the Directors' Report or in the separate Annual Report on the plans for the succeeding year
- 8 reported on activities for the year completed
- 3 reported adequately in the Annual Report or in the financial statements on how governance is managed by the board
- 3 reported adequately on the boards' management of risk
- 3 reported adequately on the board's management of reserves.
- 4 prepared Directors' Reports of one page or less.

8.4 The Benchmark Organisation

Oxfam Ireland and **Self Help Africa** are the positive benchmarks across all dimensions of reporting.

9. Results of Category D Review – Trócaire and Concern

9.1 Profile

This category contains Trocaire and Concern Worldwide.

Both organisations have established very high standards of financial reporting and their Annual Reports incorporating financial statements have been consistent award winners. Both organisations were pathfinders in terms of interpreting Charities SORP and in reporting comprehensively on activities, plans, governance, reserves and risk management.

The two organisations have very different governance structures, and the consultant has taken the opportunity to communicate his views to the two organisations in respect of the quality of their reporting.

Because of the scale of operation of these two organisations, there are no real comparables between these organisations and those in the other three categories. They are both very complex international organisations, each adding distinction to the whole international development sector in Ireland.

10. What Dóchas proposes to do with this Report

The board of Dóchas has carefully considered the outcomes of this Review, and has sought further insights from the consultant in respect of these outcomes. The Board takes the view that this is a meaningful report, which needs to be made available immediately to all Dóchas members, so that their boards can understand what the sectoral standards are for reporting and governance, and in the case of each individual organisation what needs to be done to meet these standards.

The Board of Dóchas recognises that it has responsibility to support its members to self-regulate the sector, and thereby to ensure that the shortcomings in standards are addressed. Accordingly, Dóchas will take the following initiatives:

- Write to each member organisation requesting that the senior executive tables the consultant's private report for a discussion initially with the board chairperson, and subsequently with the full board. Dóchas will require that each board determines the extent to which the organisation should adopt the consultant's report, and put steps in place to make this happen. The overall Review document provides a context for the consultant's private report to each member organisation.
- Dóchas requests the board of each organisation to reflect on the extent to which it is overseeing the affairs of the organisation, and taking overall responsibility for its continued growth and success. Dóchas will request a report from each board in due course, advising how its organisation is governed.
- Dóchas will formally publish the Templates used for this report, to clarify the standards that are applicable to our member organisations.
- Dóchas will invite representatives of all member organisations to a conference to review the outcomes of this Review, and to thereby advance the process of getting the boards of these organisations to strengthen board governance and oversight, and to improve reporting.
- The Dóchas Director will communicate with the Institute of Chartered Accountants in Ireland in respect of the poor overall adherence by member organisations to Charities SORP, and the disappointing reporting standards in the Directors' Reports. One of the issues to be discussed with the Institute is the reality that auditors serving many of the Dóchas member organisations, particularly the smaller organisations, are not attuned adequately to what the reporting requirements are for this sector, and are not defining and insisting on proper reporting standards by their sector clients. Dóchas requires the Institute to set standards for its member firms in respect of charity auditing.
- Dóchas will seek to establish a panel of advisers to help its members to address the issues concerning their reporting shortcomings, and will seek funding to support the costs involved. (The Dóchas Consultants Register already contains the contact details of a good number of such advisors)

Hans Zomer
March 2011

Appendix 1

A Note on Charities SORP and the Code of Corporate Governance for Irish NGDOs

Charities SORP

SORP, the Statement of Recommended Practice, Accounting and Reporting by Charities (2005) was developed, in accordance with Accounting Standards Board guidelines, by the Charity Commission for England and Wales, and by the Scottish Regulator. While Charities SORP has no jurisdiction outside UK, most Irish charities have voluntarily adopted it in order to follow respected practice in relation to accounting and reporting, and most particularly to satisfy their stakeholders in this regard. The Accounting Standards Board is satisfied that the Charities SORP does not conflict with accounting standards or with current accounting practices.

Adopting Charities SORP voluntarily is prudent, therefore, for Irish NGDOs, because it provides a best practice approach in respect of accounting and reporting. NGDOs generally have critical stakeholders who are expecting this level of accounting and reporting as a prerequisite of remaining in such a stakeholder relationship.

For an Irish NGDO, therefore, it is an issue of determining the extent to which it should comply with the Charities SORP standards. This judgment rests with the directors as constituting the board, which must determine how much of Charities SORP is appropriate and warranted in respect of the accounting approach, and the subsequent annual financial statements and annual report.

In general terms Charities SORP requires, inter alia, the following in the financial statements and annual report:

- The Financial Statements (and particularly the Statement of Financial Activities) to be presented in a specified layout that distinguishes, for example, between specific categories of income and specific categories of expenditure
- Details of the objectives, aims, strategy and major activities undertaken by the entity
- Reports on achievements and performance in an informative and meaningful manner, pertinent to the affairs of the specific NGDO
- A statement of directors' responsibilities regarding the financial statements, in compliance with accounting practices
- A clear statement and details in respect of the NGDO's reserves policy
- A risk management statement, outlining what the board has undertaken in respect of identifying and understanding its risks, what steps have been put in place to quantify and rank risks, and what initiatives are imbedded at board level to oversee the most highly ranked risk exposures.

Code of Corporate Governance

The second guidance document in determining appropriate information and content in the financial statements and annual report is the Code of Corporate Governance for NGDO's, which Dóchas co-authored in 2009 in conjunction with the Corporate Governance Institute of Ireland. This Code was developed to help each Dóchas member to determine an appropriate approach to its governance obligations. The existence of this Code is invaluable to NGDO's, releasing them from the necessity that would otherwise exist to interpret the Combined Code on Corporate Governance, which is primarily directed at the boards of public listed companies, and which would be an excessively cumbersome tool for most NGDO's to interpret and to apply appropriate elements.

Members of Dóchas are encouraged by Dóchas to adapt the Code to their specific circumstances. The Code requires each NGDO to adopt the principles contained in this Code, such adoption to be at the discretion of the boards of the entity, regarding what elements of the Code are appropriate to the scale, and nature of activities of the entity, and the requirements of its stakeholders. The Code stipulates that an NGDO board must state, in its financial statements and annual report, the nature and extent of such adoption. The Code permits an NGDO to determine the appropriate degree of adoption, explaining in the annual financial statements and annual report the extent of adoption and non-adoption, using the principle of comply or explain.

The Code is about requiring the board to demonstrate (through its stewardship and in its annual reporting) how well the entity is governed, and consequently the annual report should, inter alia, detail:

- How the NGDO operates
- How it is held accountable
- The circumstances determining the extent of adoption or non-adoption of the Code by the directors, given that the Code is not mandatory
- How the entity is led and controlled by the board
- The board's collective responsibility for performance, for solvency and for meeting its obligations
- The board's specific responsibilities
- The board's arrangements for its own periodic review and for renewing the board's directors
- How the board has delegated its responsibilities to its CEO and to its committees, clearly showing how the board oversees all such delegations
- How the board and directors' integrity is overseen
- How the company meets its obligations to be open to all its stakeholders.
