

Annual reports are not meeting the needs of stakeholders

If charities provided open, clear information in their annual reports, they could reduce bad publicity and end pointless cost-ratio debates, says Precious Sithole.

“FEWER THAN 10 PER CENT OF CHARITIES WERE FULLY COMPLIANT WITH ALL THE SORP’S MANDATORY TAR DISCLOSURES”



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THE RELATIONSHIP between large charities and the mainstream media has been highly contentious over the past few years, with recurring negative coverage of matters around safeguarding, cost ratios, governance failures and abuse allegations. Media discourse undeniably has a powerful impact on public perceptions of charities, so it is of paramount importance for charities to work to regain control of the narrative.

The trustees’ annual report (TAR) is a key public communications tool that provides an opportunity for charities to give an account to their stakeholders of successes, failures and how charitable resources are used. This process of discharging accountability to stakeholders through transparent reporting practices is vital, as empowering stakeholder groups with information helps to ensure that a fair power balance is maintained between the charity and these groups.

Charity stakeholders include but are not limited to staff, volunteers, service users and beneficiaries, communities, funders and creditors.

THE RESEARCH

As part of my MA in Charity Management at St Mary’s University, Twickenham, I carried out research into the extent to which large charities in the UK were discharging accountability to stakeholders through transparent reporting practices in the TAR. The research sought to shine a light on the importance of ethical accounting and taking a stakeholder-led approach to reporting information.

Ethical accounting in this context involves presenting open, honest and complete information to stakeholders, even if it does not display the charity in the best light.

“ A university level of education is needed to understand reports ”

Using the Charity Commission’s downloadable register of charities as a starting point, I constructed a sample of 191 charities using weighted statistical sampling. Then, with the help of a panel of charity accounting experts, I put together a unique disclosure-quality framework to analyse the readability, quantity, quality and clarity of disclosures in the TAR (figure 1).

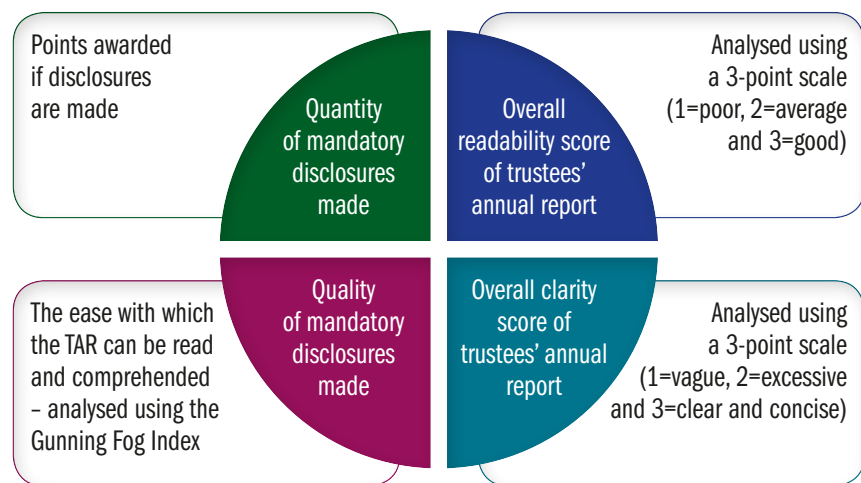
I categorised the charities into the “smallest large” charities with income between £500,000 and £999,999 (SLCs); “medium-sized large” charities with income between £1,000,000 and £4,999,999 (MLCs); and the “largest large” charities with income above £5m (LLCs).

KEY FINDINGS

Readability scores

Using statistical readability software is an objective way to measure the complexity and understandability of language in text form and, of all measures of readability, the Gunning Fog Index is considered to be one of the simplest and most reliable. The index works by summing up the total number of syllables and complex words that appear in each 100-word passage. The readability score it offers generally represents the level of

FIGURE 1: DISCLOSURE QUALITY INDEX



education one would need to be able to read and fully comprehend the text.

The average TAR readability scores for LLCs, MLCs and SLCs were 14.54, 14.75 and 14.1 respectively. Gunning Fog scores between 13 and 17 indicate that those reading the information would need a university level of education to be able to read and fully comprehend the text.

To put this into context, according to research carried out into language complexity by Yasseri et al in 2012, the Wall Street Journal had a Gunning Fog score of 10.8 (+/-0.2), while the British National Corpus had a score of 12.1 (+/-0.5). The average Gunning Fog scores of the charities are well above those of these relatively complex publications, which could be a hindrance to some stakeholder groups.

Financial statements are generally expected to be technical in nature to be fully compliant with financial reporting standards; however, the TAR as a standalone document can and should remain accessible to the vast majority of stakeholders.

Quantity of mandatory disclosures

Disappointingly, fewer than 10 per cent of the charities sampled were fully compliant with all the SORP mandatory TAR disclosures. By mandatory I mean where the term “must” is used in the SORP, rather than merely “should”.

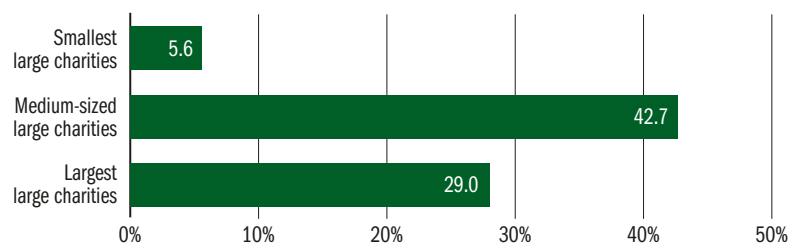
The reporting of information with regards to objectives and activities, for example, was generally poor across the board. It was also common practice for charities to focus disproportionately on financial performance, without taking into account significant balance sheet activities. Even charities with materially significant liabilities or low liquid resources shown in their financial statements failed to discuss these issues in their TAR financial review.

Clarity and quality

The reports of MLCs were found to be the most balanced in terms of acknowledging both successes and failures, with 42.7 per cent presenting good quality reports that were concise and yet still informative (figure 2).

Conversely, only 5.6 per cent of the SLCs’ reports were considered to be of good quality. This was primarily due

FIGURE 2: PERCENTAGES OF DISCLOSURES CLASSED AS GOOD QUALITY



to the TARs being very vague, leaving the reader with more questions than answers. The use of standardised text was also noted as a significant issue, including the use of disclosures that appeared to have just been copied directly from Charity Commission guidance and pasted straight into the TAR for compliance purposes. As a result, SLCs were able to meet the minimum level of compliance for some of the “must” requirements, but little effort was actually put into presenting information that would help stakeholders to gain a clear picture and understanding of how well the charity was being governed.

“Reporting on objectives was generally poor”

At the other end of the spectrum were LLCs, which presented excessively long reports, with more than half presenting TARs in excess of 10,000 words. The reports were therefore tedious to read and appeared to have been prepared with funders in mind, as opposed to stakeholders in general. Reporting focused heavily and disproportionately on significant successes of the charities, with little or no mention being made of any significant failures.

RECOMMENDATIONS

If complied with, the TAR as a tool has the necessary headings that would enable a charity to give a full and detailed account to stakeholders. When preparing the TAR, trustees should consider the following:

- Downloading the SORP from the Charity Commission’s website and

ticking off each “must” requirement to ensure compliance with mandatory reporting requirements;

- Taking into account the quality of information presented and considering whether enough information has been included in the report that would help the reader to gain a reasonable understanding of the charity’s structure, legal purposes, objectives, activities, financial performance and financial position; additionally, information with regards to progress against set objectives should be clearly set out;
- Using simple language, as well as avoiding jargon that is specific to the individual charity and/or sector, which external stakeholders may not understand;
- Avoiding the use of information that has not been summarised, such as an entire SWOT analysis, PESTEL analysis or balanced score card. Some of this information may be better placed on the charity’s website as opposed to in the TAR;
- Ensuring that the narrative in the TAR remains open and honest by providing a fair and balanced review of both successes and failures. This also includes disclosing issues of misconduct that pose a threat to the reputation of the charity if undisclosed and not properly addressed.

By presenting this information transparently, charities could reduce unnecessary negative media coverage as, more often than not, it is the issues that are unaddressed and deliberately concealed that tend to make headlines in the news.

Likewise, transparent reporting could enable meaningful comparisons to be made between similar charities, and potentially end futile cost ratio debates. ●