

Roundtable: the evolving challenges facing non-profit organisations

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In an era of growing needs and shrinking resources, non-profits organisations (NPOs) are increasingly expected to deliver more with less, placing additional strain on their already limited resources.

The International Non-Profit Accounting Guidance (INPAG) is the world's first Internationally applicable Financial Reporting guidance being developed for NPOs. The aim of INPAG is to improve the clarity and consistency of NPO financial reports, resulting in greater credibility and trust in the non-profit sector globally. Currently, only a few countries have accounting standards or guidance that address the unique characteristics of NPOs and the types of transactions they undertake. Many funding organisations have filled this void by developing their own reporting requirements for NPOs, and while all may have their merits, the variety of different requirements can create a heavy burden on the very organisations they want to support. INPAG is being developed by CIPFA and Humentum through the IFR4NPO project, which launched in 2019.

The roundtable provided an opportunity for participants to discuss the challenges faced by the non-profit sector in creating and maintaining trust through financial reporting, particularly how NPOs show how they use their finite resources and create a positive impact for those intended to be helped and the role that technology plays.

Current issues

A key financial reporting challenge is the need to strike a balance between transparency and simplicity. Adhering to multiple reporting standards makes financial reporting complex

and resource intensive. Participants felt that there is a notable difference between small and large charities. Smaller charities primarily cater to trustees and a limited number of members, where a close connection between expenditure and its purpose is crucial. A one-size-fits-all approach to financial reporting can therefore pose difficulties for smaller charities. On the other hand, larger charities can benefit from the advantages of standardised reporting.

Participants were of the view that impact reporting has proven more challenging than anticipated, with a disconnect between the front-end aspirations and the back-end execution. The complexity of impact reporting has led to some NPOs to resort to arbitrary adjustments. Allocating costs to specific projects creates added complexity. The need for translating and mapping data for audit purposes often results in the creation of disconnected documents, with the task of allocating funds for initiatives and determining their overall cost made more challenging.

Participants discussed the challenges of donor reporting where expectations often extend beyond just financial contributions, requesting tangible outcomes. Donors often request specific details, varying formats, and customised reports to present to their trustee boards. Despite the preference for simplicity, the diversity in donor requirements leads to extensive time spent tailoring reports and duplicated efforts. However, meeting these reporting demands is essential for maintaining donor relationships and securing future funding.

Participants agreed that technology can, to a certain extent, help streamline reporting processes, but noting that reporting

to donors goes beyond the content of the financial accounts. Participants agreed that the use of narratives provides a more effective way of describing impact of restricted funds as opposed to the confines of traditional financial accounts.

Participants discussed the challenge of their desire for more standardised reporting with the diverse needs of boards, trustees and donors. Addressing concerns about double funding fraud is a significant incentive for adopting standardised reporting practices, offering a win-win situation for both NPOs and donors.

As a result of budget constraints and the lack of seamless integration between commonly used systems, users frequently transfer data from the different systems into excel for producing their financial reports.

There has been a trend to cloud based approaches within the nonprofit sector over the last 3 years. Investment by NPOs in cloud-based solutions could provide a better option for integration, noting that while the initial setup costs may be high, the benefit from cost savings over time is likely to be greater. Participants discussed the importance of demonstrating tangible benefits in terms of cost savings to trustees, so they are more inclined to support such investments. The benefits of integrating a variety of solutions, rather than a standalone solution to be able to respond to evolving needs was discussed.

Trends in donor reporting

Participants discussed the importance of effective reporting in securing future funding. Some expressed a view that personalised reports tailored to donors' individual requirements rather than standard reporting enhanced the likelihood of attracting future funding. However, the participants acknowledged that the demand for personalised reporting varies among funding organisations. Trustee boards, characterised by different age ranges, exhibit varying inclinations, some favouring traditional requirements and others leaning towards more modern approaches. This diversity is particularly relevant when reporting at the end of a grant agreement.

One participant noted that an emerging trend is hyper-individualisation, akin to the 'Amazon Prime' era, where stakeholders expect immediate access to tailored reports on demand. However, this trend poses challenges, as there is a lack of willingness to cover support costs associated with this type of reporting. The notion that individuals can access anything at any time becomes problematic when resources are limited.

Effective design can facilitate the reporting process, particularly where currency translation also poses a reporting challenge.

Participants discussed the benefit of establishing long-term relationships and maintaining open communication with donors,

where the ability to report and address inquiries significantly contributes to a stronger relationship between the fundraising team and donors.

During the pandemic, a number of participants said they experienced a temporary decrease in reporting demands for core funding, where they felt that donors recognised the urgent needs of charities, prompting them to remove restrictions, thus enabling them to have a positive impact, but the trend is shifting back to regular reporting.

Many participants have experienced the need to invest time and resources in fulfilling reporting requirements for unrestricted grants even where detailed tracking of each expense is not mandatory. While there is a push for more relaxed reporting standards, particularly in annual reports, it is acknowledged that this shift may take time to be universally adopted, especially for organisations that receive government funding.

Several foundations and trusts are collaborating to simplify the application process (through standardised due diligence), and it would be beneficial if the reporting system could also be streamlined. It is crucial for donors and NPOs to engage in conversations to synchronise their processes. The current challenge in the sector around resource constraints was recognised by all, with many small charities facing difficulty in maintaining 100% compliance with accounting standards.

Small charities and shared services

Fragmentation is a significant issue across small charities, making collaboration and coordination challenging. The majority of small charities are led by volunteers, and outsourcing tasks to a professional team is often impractical, potentially costly and so unlikely to occur. The concept of shared services is also challenging due to variations in donors and systems used by different small charities, but pooling resources could lead to simplifications. Achieving uniformity in reporting practices is also more difficult due to differing perspectives among trustees.

Economic challenges persist, limiting what charities can allocate for expenses, especially for obtaining quality professional advice or services. Although technology is essential, the real challenge lies in finding the time and resources required for implementation, especially in areas like project management. Despite these challenges, there is a positive shift for some small charities transitioning from Excel to more advanced systems.

Sustainability reporting

Only a small percentage of charities are actively discussing Environmental, Social, and Governance (ESG) reporting. While the concept is on the horizon, the majority of the sector is not actively considering it, viewing it as more theoretical. This may be due to a lack of bandwidth, particularly among smaller charities, which currently find it challenging to engage with

ESG reporting. Compliance concerns may be a factor, where participants expressed the view that the primary worry revolves around reputation.

Reputation is a critical consideration for organisations, impacting both their public image and their ability to access funding. The agenda set by grant providers and funders may shape expectations regarding operational policies, further influencing how organisations approach ESG considerations.

For many small charities, the approach is to wait for directives and then attempt to comply, given their limited resources. Some charities are incorporating ESG policies when applying for specific grants, but actual reporting remains a comparative challenge.

It was noted that while there is interest in sustainability reporting, the lack of mandatory requirements diminishes the willingness to invest. Organisations are currently more focused on operational challenges, such as financial sustainability, rather than the environmental impact of their operations. While planning to mandate narrative reporting in INPAG, this does not include sustainability reporting recognising that this is challenging for many organisations.

Data and digital information

Participants felt that a specific universal platform could be helpful as long as it is user-friendly, citing an existing platform that has potential but currently creates challenges. They also noted the requirement for PDF documents, or wet ink signatures by some regulators and the lack of information-sharing. This includes lack of sharing across HMRC, Charities Commission

and Companies House. Participants agreed that standardisation and communication among regulators could alleviate the burden of generating multiple reports for different entities, although progress in this direction is gradual.

Participants acknowledged the challenges they face from data silos, however, abandoning reliance on spreadsheets, a main cause of data silos, requires dedicated resources. While there is an opportunity to use non-financial information to support financial data, it is still challenging to overcome issues like exchange rates, which result in data discrepancies. Efforts are being made to leverage existing resources or processes but there was still a reliance on consolidating data into a spreadsheet by integrating information from multiple systems.

Summary

The roundtable discussion illuminated the multifaceted challenges faced by non-profits in financial reporting, from the need for international guidance to the intricacies of donor reporting and the emerging realm of sustainability reporting. While technology offers potential solutions, its adoption faces hurdles, especially among smaller organisations with limited resources. The evolving landscape calls for collaborative efforts to streamline reporting processes, standardise practices, and navigate the complexities of donor expectations and emerging sustainability considerations.