GUIDELINES FOR ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR NON-GOVERNMENTAL ORGANISATIONS

UPDATED JUNE 2013

Dóchas
The Irish Association of Non-Governmental Development Organisations

GUIDELINES FOR ANNUAL REPORTS AND FINANCIAL STATEMENT FOR NON-GOVERNMENTAL ORGANISATIONS

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1. INTRODUCTION

Dóchas members strive to apply human rights standards in their work. Such standards are based on three key principles of accountability:

- **Participation**: ensuring all those who are affected are involved in decision-making
- **Transparency**: disclosing information relating to governance, finances and performance
- **Standards**: articulating and adhering to professional standards of conduct and performance

This document contains the three separate updated reporting templates, each relating to a particular size of organisation, measured by its annual income. Each reporting template has the common purpose of guiding each member organisation in respect of how it should report on its annual performance

These reporting templates are structured by Dóchas to meet the following imperatives:

1.1 OVERALL APPROACH TO ACCOUNTABILITY, QUALITY AND IMPACT

The most effective NGOs are those that work to their strengths, and are able to mobilise the skills of the people that they serve. Their impact is linked to their responsiveness to people's needs, and it is the strength of their bonds with all those affected by, or interested in their work that matters, rather than their scale of operation.

Development cooperation is based on such trust, and it must extend in all directions. This means within the member's own organisation, with its volunteers and supporters, and between the member organisation and its beneficiaries and local development partners. It must also exist between the member organisation and its institutional donors, as well as with the providers of donations and private grants. All donors, whether governments, institutional agencies, companies, or individuals, must have confidence that the money given is used appropriately and effectively.

Beneficiaries and local development partners must have confidence in the support being provided by the member organisation. They must be encouraged and helped to give feedback to the member organisation where they feel such support is not working, and need to experience that such feedback is acted upon properly.

Dóchas is committed to maximising the impact and quality of its members' work. In this context it promotes NGO cooperation, shared learning and the application of shared standards of practice. Dóchas members endeavour to adhere to the Irish Development NGOs Code of Corporate Governance and to the Charities SORP standard of financial accounting.

Underpinning all of this is trust. Trust can only be established and maintained if there is an appropriate accountability mind-set in each member organisation involved in development cooperation.

The member organisation must be able to demonstrate that its own principles of accountability are migrated into the local development partners, particularly when operating in a jurisdiction with a corruption reputation. What this means for the member organisation is that it must be accountable for its own affairs, while also setting parallel standards of accountability for the wider development sector.

Dóchas members are proud of their diversity, aware that, as 'civil society organisations', Irish NGOs come in all shapes and sizes.

They choose to act in different ways, reflecting the different interests of their supporters and their core values, and dealing with different standards of regulation. However, they are bound by a shared commitment to long-lasting improvements in the lives of the people for whom they are working. These factors make accountability difficult to determine and even harder to impose on such development organisations. Donors dealing with funding applications from this diverse group of NGOs need to know that the organisations are committed to best practice in the areas of accountability, quality and impact.

Dóchas members subscribe to the Istanbul Principles for Development Effectiveness, and are committed to improving transparency and being fully accountable for their actions. Availing of the support of Dóchas and other organisations, they have set professional standards for their work, applying codes of conduct and governance to demonstrate that the sector is self-regulating. Out of this self-regulatory approach, Dóchas has developed a set of core principles of accountability, quality and impact, as well as other policies and practices.

This particular evolution of reporting templates is a working example of how Dóchas is supporting its member organisations to apply The Code of Corporate Governance in tandem with interpreting how best to apply Charities SORP requirements.

1.2 THE IMPORTANCE OF GOVERNANCE

By applying The Code of Corporate Governance, each member organisation is developing good internal structures along corporate professional lines, in order to be able to hold itself accountable from within, to offer transparency to its stakeholders, and to operate more effectively.

1.3 TRANSPARENCY AND PUBLIC ACCOUNTABILITY

Dóchas is encouraging each member organisation to use its Annual Report and Financial Statements as a means of enhancing transparency and public accountability. This is a good practice in terms of preparing for the requirements of the International Aid Transparency Initiatives (IATI).

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1.4 UPDATED REPORTING TEMPLATES AS A SELF-REGULATORY FACILITY

In the absence of a functioning Irish Charity Regulator and the non-mandatory nature in Ireland of Charities SORP compliance, these templates provide a degree of clarity to member organisations and to statutory auditors alike. This helps the sector to effect self-regulation. The templates have the added value that they have seamlessly integrated the requirements of Charities SORP and The Code of Corporate Governance into one complete guidance document. This is of critical importance as the provisions of Charities SORP and The Code of Corporate Governance overlap extensively.

1.5 BOARD OVERSIGHT

The templates are a practical usable tool that can enable boards to exercise their oversight role and to report accordingly on how they are following good practice in relation to risks, liquidity and results management, in the light of The Code of Corporate Governance.

GUIDELINES FOR ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR SMALL SIZED NGOs
UPDATED JUNE 2013

Dóchas recommends that Small sized Non Governmental Organisations (i.e. those with income of less than €1m per annum) use the following format when completing their Annual Report and Financial Statements. In this document Dóchas sets out recommended minimum standards of reporting for small-sized organisations wishing to adhere to these standards.

FINANCIAL STATEMENTS

- For all member organisations adopting Charities SORP it is necessary to state in the Financial Statements if these statements have been prepared in accordance with Charities SORP. Where there is any instance of departure from Charities SORP, these statements must contain a disclosure setting out the circumstances of the departure (ref. FRS 18). Among the other disclosure obligations of Charities SORP, emphasised in The Code of Corporate Governance, is the requirement in the notes to the Financial Statements to disclose the income bands for senior managers.
- Irish charity companies require a Statement of Financial Activities (SOFA), rather than an Income & Expenditure Statement. The SOFA should be in columnar form to distinguish between restricted and unrestricted income, and between expenditure attributable to restricted income, and expenditure attributable to unrestricted income. The incoming resources subheading, and the outgoing resources subheadings, as specified in Charities SORP, should be utilised. However if the organisation has relatively few income and expenditure categories, the full use of the incoming and outgoing subheadings may be unwarranted.
- The Balance Sheet should follow the Charities SORP format, particularly in respect of distinguishing between restricted and unrestricted reserves.
- Irish NGOs that are companies must prepare a Cash Flow Statement as required by Irish company law and Charities SORP.
- Dóchas members are required to clearly show their Total Domestically Generated Voluntary Income in the Incoming Resources section of their Audited Accounts.

Dóchas is committed to maximising the impact and quality of its members' work. In this context it promotes NGO cooperation, shared learning and the application of shared standards of practice. Dóchas members are committed to adhere to The Code of Corporate Governance and to Charities SORP standards of financial and performance accounting.

The Dóchas Code of Conduct on Images and Messages requires that Dóchas members "communicate our commitment to best practice in the communication of images and messages in all our public policy statements".

- The notes to the Financial Statements should include additional details of the incoming resources depicted in SOFA. These details should make it possible to readily identify the costs incurred in securing each category of incoming resources, and the net income secured from fundraising activities. In addition, organisations in receipt of Irish Aid funding must avail of the notes to the Financial Statements to detail the extent of such support, contract by contract. In the same manner the notes to the Financial Statements should include details of the component costs of individual programmes, and the other notes required by Charities SORP to back up the balance of items in SOFA and the Balance Sheet. Of particular importance is a clear note that tracks the movements in individual restricted funds. Consideration should also be given to the inclusion of other SORP disclosure requirements.

DIRECTORS' REPORT

ACTIVITIES UNDERTAKEN, RESULTS ACHIEVED, LESSONS LEARNED AND FUTURE PLANS

- The Directors' Report should include details of the programme and other activities that had been planned in advance for the year now ended, with information on the results for this year and an outline of the circumstances that facilitated or impeded the planned activity. Fundraising should be so reported on as an activity, and there should be particular emphasis on reporting the net outcome of fundraising efforts. There should be a note on the lessons learned as a result of dealing with programme difficulties, and on how these lessons are informing future programme approaches. There should be a follow-on note setting out what activities are planned for the succeeding year. The directors should briefly report here on the systems in place for planning, managing and tracking of programmes. The Directors' Report should state clearly what initiatives the board has developed in the past year, particularly in the areas of compliance with sectoral codes of practice and other initiatives ranging from improving the website, securing new income streams, raising the public profile of the organisation, to acquiring new facilities.

- Typically, this report on these aspects should be not less than two pages, and thereafter with as many pages as necessary to properly inform the principal stakeholders.

- The Dóchas Code of Conduct on Images and Messages requires that Dóchas members "communicate our commitment to best practice in the communication of images and messages in all our public policy statements".

GOVERNANCE

- ★ The Directors' Report should include a section on governance to demonstrate that the board is properly governing the organisation. This section should describe the division of responsibility between the board and the organisation's management, and include the responsibilities that the board reserves to itself and does not delegate to management. It should set out how the board oversees the strategic direction of the organisation and the steps the board takes to ensure that the organisation is setting and reaching targets, confirming that it is signing off on annual plans and budgets, and is reviewing the outcomes of the statutory audit.
- ★ The Directors' Report on governance should also demonstrate how the board delegates responsibility to board committees, and explain the steps it takes to supervise such delegations. The core issue here is to demonstrate that the board is proactively overseeing the affairs of the organisation. The Report should mention the number of members of the board. It should refer to mechanisms for internal stakeholders (e.g. organisation members) and employees to provide recommendations or directions to the highest governance body.
- ★ All Dóchas members must state in their annual accounts that they subscribe to the principles contained in The Code of Corporate Governance, and – where relevant – describe where their governance practices deviated from the Code.

All Dóchas members must state in their annual accounts that they subscribe to the principles contained in The Code of Corporate Governance, and – where relevant – describe where their governance practices deviated from the Code.

RISKS

- ★ The Directors' Report should briefly describe the steps taken by the board to identify the principal risks facing the organisation. It should state what approach is taken to identify and assess risks, and describe what risk management arrangements have been put in place, including systems of monitoring and control, to ensure critical risks are avoided or their impact mitigated.
- ★ There should be a degree of formality about this process and a simple risk register should be maintained and utilised by the board for regular board reviews.
- ★ The Company Secretary should table one specific risk element for discussion at each meeting of the board's Finance and Audit Committee, so that over time the main risks get this level of attention.
- ★ The board at each meeting should consider the outcomes of this Committee's deliberations.

RESERVES

- The Directors' Report should contain a short report on the board's approach to managing the organisation's reserves.
- At a very minimum, an organisation should have a reserves policy, and the board should report each year in the Directors' Report on the status of the organisation's reserves, and how these match up with reserves policy.
- There should be particular emphasis on the board's strategy in relation to designated reserves, particularly that element of unrestricted reserves that is aspired to so that the organisation could continue operations for an extended period in the event of a significant setback affecting core income.
- There should also be a note on what other purposes are determined for the balance of the designated reserves, and an explanation of the policy regarding general reserves.
- The core issue here is the extent to which the board concerns itself with managing its unrestricted reserves, and this is most critical where funding is received from institutions such as Irish Aid, and which is conditional on a specified level of self-financing either from current unrestricted income, or from available unrestricted reserves. The report on reserves should explain the linkages between identified risks and designated reserves.

GUIDELINES FOR ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR MEDIUM SIZED NGOs
UPDATED JUNE 2013

GUIDELINES FOR ANNUAL REPORTS AND FINANCIAL STATEMENT FOR MEDIUM SIZED NGOs

UPDATED JUNE 2013

Dóchas is committed to maximising the impact and quality of its members' work. In this context it promotes NGO cooperation, shared learning and the application of shared standards of practice. Dóchas members endeavour to adhere to The Code of Corporate Governance and to Charities SORP standards of financial accounting.

Dóchas recommends that Medium sized Non Governmental Organisations (i.e. those with income between €1m and €3m per annum) use the following format when completing their Annual Report and Financial Statements. In this document, Dóchas sets out recommended minimum standards of reporting for medium-sized organisations wishing to adhere to these standards.

FINANCIAL STATEMENTS

- For all member organisations adopting Charities SORP it is necessary to state in the Financial Statements if these statements have been prepared in accordance with Charities SORP. Where there is any instance of departure from Charities SORP, these statements must contain a disclosure setting out the circumstances of the departure (ref. FRS 18). Among the other disclosure obligations of Charities SORP, emphasised in The Code of Corporate Governance, is the requirement in the notes to the Financial Statements to disclose the income bands for senior managers.
- Irish charity companies require a Statement of Financial Activities (SOFA), rather than an Income & Expenditure Statement. The SOFA should be in columnar form to distinguish between restricted and unrestricted income, and between expenditure attributable to restricted income, and expenditure attributable to unrestricted income. The incoming resources subheading, and the outgoing resources subheadings, as specified in Charities SORP, should be utilised.
- The Balance Sheet should follow the Charities SORP format, particularly in respect of distinguishing between restricted and unrestricted reserves.
- Irish NGOs that are companies must prepare Cash Flow Statements as required by Irish company law and Charities SORP.
- Dóchas members are required to clearly show their Total Domestically Generated Voluntary Income in the Incoming Resources section of their Audited Accounts.
- The notes to the Financial Statements should include additional details of the incoming resources depicted in SOFA. In the same manner these notes should include details of the component costs of individual programmes, and the other notes required by Charities SORP to back up the balance of items in SOFA and the Balance Sheet. These details should make it possible to readily identify the costs incurred in securing each category of incoming resources. In addition, organisations in receipt of Irish Aid funding must avail of the notes to the Financial

Statements to detail the extent of such support, contract by contract. Of particular importance is a clear note that tracks the movements in individual restricted funds.

- Consideration should also be given to the inclusion of other SORP disclosure requirements.

DIRECTORS' REPORT

ACTIVITIES UNDERTAKEN, RESULTS ACHIEVED, LESSONS LEARNED AND FUTURE PLANS

- The Directors' Report should generally provide a good level of detail of the activities that had been planned for the year now ended, with information on the results for that year, and reasonably extensive information on circumstances that facilitated or impeded the planned activity. There should be a detailed note on the lessons learned as a result of dealing with programme difficulties, and on how these lessons are informing future programme approaches. The Report should provide a good picture of what activities were planned for the succeeding year, generally with each activity or programme being highlighted. The organisation should report here on the systems in place for planning, managing and tracking of programmes.

- The information on these aspects should be extensive enough to inform the principal stakeholders. The report should include a review of financial performance, covering income achievements and the nature and cost effectiveness of fundraising efforts, and a review of the programmes that absorbed the bulk of the resources expended. There should be a performance summary using key performance indicators.

- The Directors' Report should state clearly what initiatives the board has developed in the past year, particularly in the areas of compliance with sectoral codes of practice and other initiatives ranging from improving the website, securing new income streams, raising the public profile of the organisation, to acquiring new facilities.

- Larger organisations in this category should include information about the organisations' performance over recent years in terms of maximising the amount of income that translates into programme expenditure.

- The Dóchas Code of Conduct on Images and Messages requires that Dóchas members "communicate our commitment to best practice in the communication of images and messages in all our public policy statements".

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GOVERNANCE

- The Directors' Report should include a section on governance, which sets out how the board oversees the strategic direction of the organisation and the steps the board takes to ensure that the organisation is setting and reaching its targets, it is signing off on annual plans and budgets, and is reviewing the outcomes of the statutory audit.
- The Directors' Report should describe the division of responsibility between the board and the organisation's management, and demonstrate how the board delegates responsibility to board committees (including finance and audit committees), and explain the steps the board takes to supervise such delegations. The functions of board committees should be defined and explained in the Directors' Report or in a referenced generic document that can be readily accessed by stakeholders. The Report should mention the number of members of the board. It should refer to mechanisms for internal stakeholders (e.g. organisation members) and employees to provide recommendations or directions to the highest governance body.
- The Directors' Report should explain how the board has adopted The Code of Corporate Governance, to the extent warranted by the scale of the organisation's operations, the nature of activities, and the information requirements of stakeholders. The Report should describe where the organisation's governing practices deviated from the Code.
- The Directors' Report should set out what the board does in terms of selecting and inducting its directors, and how it takes steps to equip the directors to function properly as board members. If the Directors' Report fails to outline the board's governance approach, it means that stakeholders are unable to ascertain if the board is properly governing the organisation. If the organisation is in receipt of significant state and institutional funding, it must demonstrate in the governance statement that the faith placed in the organisation by such funders is well founded and that the board is controlling everything with a strong hand.

RISKS

- The Directors' Report should describe the steps taken by the board to identify the principal risks facing the organisation. It should state what approach is taken to identify and assess risks, and describe what risk management arrangements have been put in place, including internal processes and systems of monitoring and control.
- There should be a degree of formality about this process and a comprehensive risk register should be maintained and utilised by the board for regular board reviews.

- The Company Secretary should table one high-rated risk element from the risk register for discussion at each meeting of the board's Finance and Audit Committee, so that over time the main risks get this level of attention.
- The board at each meeting should determine what actions are necessary as a result of the Committee's deliberations.

RESERVES

- The Directors' Report should contain a report on the board's approach to managing the organisation's reserves.
- The Directors' Report should be quite specific regarding how the unrestricted reserves are overseen by the board.
- The board should report each year in the Directors' Report on the status of the organisation's reserves, and how these match up with an explicitly formulated reserves policy.
- There should be particular emphasis on the board's strategy in relation to designated reserves, particularly that element of unrestricted reserves that is aspired to so that the organisation could continue operations for an extended period in the event of a significant setback affecting core income.
- There should also be a note on what other purposes are determined for the balance of the designated reserves, and an explanation of the policy regarding general reserves.
- The core issue here is the extent to which the board concerns itself with managing its unrestricted reserves, and this is most critical where funding is received from institutions such as Irish Aid, and which is conditional on a specified level of self-financing either from current unrestricted income, or from available unrestricted reserves. In determining the purposes for components of the designated reserves, there should be an explanation of how these designations have been influenced by the highest rated risks identified by the risk assessment process.

The core issue here is the extent to which the board concerns itself with managing its unrestricted reserves, and this is most critical where funding is received from institutions such as Irish Aid, and which is conditional on a specified level of self-financing either from current unrestricted income, or from available unrestricted reserves.

GUIDELINES FOR ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR LARGE SIZED NGOs
UPDATED JUNE 2013

GUIDELINES FOR ANNUAL REPORTS AND FINANCIAL STATEMENT FOR LARGE SIZED NGOs

UPDATED JUNE 2013

Dóchas recommends that Large sized Non Governmental Organisations (i.e. those with income between €3m and €10m per annum) use the following format when completing their Annual Report and Financial Statements. In this document, Dóchas sets out recommended minimum standards for large-sized NGOs, wishing to adhere to these standards.

Dóchas is committed to maximising the impact and quality of its members' work. In this context it promotes NGO cooperation, shared learning and the application of shared standards of practice. Dóchas members endeavour to adhere to The Code of Corporate Governance and to Charities SORP standards of financial accounting.

FINANCIAL STATEMENTS

- For all member organisations adopting Charities SORP, it is necessary to state in the Financial Statements if these statements have been prepared in accordance with Charities SORP. Where there is any instance of departure from Charities SORP, these statements must contain a disclosure setting out the circumstances of the departure (ref. FRS 18). Among the other disclosure obligations of Charities SORP, emphasised in The Code of Corporate Governance, is the requirement in the notes to the Financial Statements to disclose the income bands for senior managers.
- Irish charity companies require a Statement of Financial Activities (SOFA), rather than an Income & Expenditure Statement. The SOFA should be in columnar form to distinguish between restricted and unrestricted income, and between expenditure attributable to restricted income, and expenditure attributable to unrestricted income. The incoming resources subheading, and the outgoing resources subheadings, as specified in Charities SORP, should be utilised. Because of their scale and complexities these organisations will be able to fully exploit the components of SOFA. In some cases organisations will find that the incoming resources and expenditure sub-headings in SOFA may not adequately allow identification of all categories of income and expenditure, and in such cases the organisation will avail of the notes to the Financial Statements to elaborate on these details
- The Balance Sheet should follow the Charities SORP format, particularly in respect of distinguishing between restricted and unrestricted reserves. The amount of detail in the Balance Sheet in respect of reserves will be quite significant, reflecting the complex trail of income and expenditure that impacts on the reporting of year-end reserves.
- Irish NGOs that are companies must prepare a Cash Flow Statement as required by Irish Company law and Charities SORP.

- Dóchas members are required to clearly show their Total Domestically Generated Voluntary Income in the Incoming Resources section of their Audited Accounts.
- The notes to the Financial Statements should include additional details of the incoming resources depicted in SOFA. In the same manner these notes should include details of the component costs of individual programmes, and the other notes required by Charity SORP to back up the balance of items in SOFA and the Balance Sheet. These details should make it possible to readily identify the costs incurred in securing each category of incoming resources. In addition, organisations in receipt of Irish Aid funding must avail of the notes to the Financial Statements to detail the extent of such support, contract by contract. Of particular importance is a clear note that tracks the movements in individual restricted funds.
- Consideration should also be given to the inclusion of other SORP disclosure requirements.

DIRECTORS' REPORT

ACTIVITIES UNDERTAKEN, RESULTS ACHIEVED, LESSONS LEARNED AND FUTURE PLANS

- Most of the organisations in this category have a big story to tell about programme planning and results. The Directors' Report should provide a good level of detail of the activities that had been planned for the year now ended, with information on the results for that year, and quite extensive information on circumstances that facilitated or impeded the planned activity. Where possible such circumstances should be well illustrated. There should be a detailed note on the lessons learned as a result of dealing with programme difficulties, and on how these lessons are informing future programme approaches. The Report should provide a good picture of what activities were planned for the succeeding year, generally with each activity or programme being highlighted. The organisation should report here on the systems in place for planning, managing and tracking of programmes. All of this should be described within the wider context of the organisation's longer term strategic planning, which underpins the annual plans and performance.

- The information on these aspects should be extensive enough to inform stakeholders and acknowledge the contributions of the principal stakeholders. When reporting on completed activities, the directors should provide a review of the financial performance aspects, including income achievements and associated difficulties. There should be a report on the impact of the programmes and other activities, supported by a graphical summation of the outlays. In all cases this review should include a set of key performance indicators that demonstrate, for example, the cost efficiency of fundraising and overhead spend, and the co-funding ratios in respect of grant-aided programmes. Such key performance ratios should also be employed in-house and imbedded into management accounting reports to the board.
- The Directors' Report should state clearly what initiatives the board has developed in the past year, particularly in the areas of compliance with sectoral codes of practice and other initiatives ranging from improving the website, securing new income streams, raising the public profile of the organisation, to acquiring new facilities.
- The Dóchas Code of Conduct on Images and Messages requires that Dóchas members "communicate our commitment to best practice in the communication of images and messages in all our public policy statements".

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GOVERNANCE

- The Directors' Report should include a section on governance, setting out how the board oversees the strategic direction of the organisation, and the steps the board takes to ensure that the organisation is setting and reaching its targets, that it is signing off on annual plans and budgets, and is reviewing the outcomes of the statutory audit.
- Given the greater complexity of these organisations, the Directors' Report should clearly state what authority is specifically reserved to the board and not delegated to management, over and above the matters normally reserved to the board. Such exceptional matters would include acquisition and disposals of property, integration with another organisation, and use of financial instruments.
- The Directors' Report should describe the division of responsibilities between the board and the organisation's management, and demonstrate how the board delegates responsibility to board committees (including finance and audit committees), and explain the steps the board takes to supervise such delegations.

- The functions of board committees should be defined and explained in the Directors' Report or in a referenced generic document that can be readily accessed by stakeholders. There should be an explanation of the committees formed by the board to relieve it of the detail of governance and of how such committees inform the board of their deliberations. It should refer to mechanisms for internal stakeholders (e.g. organisation members) and employees to provide recommendations or directions to the board.
- The Directors' Report should explain how the board has adopted The Code of Corporate Governance, to the extent warranted by the scale of the organisation's operations, the nature of activities, and the information requirements of stakeholders. The Report should describe where the organisation's governing practice deviated from the Code.
- The Directors' Report should set out what the board does in terms of objectively selecting and inducting its directors, and how it takes steps to equip the directors to function properly as board members. Organisations in this category will require directors with relevant skills and experience, capable of functioning in the key board committees. The Directors' Report should clarify that the replacement of chairpersons and of directors is the specific responsibility of a designated board committee.
- If the Directors' Report fails to outline the board's governance approach, it means that stakeholders are unable to ascertain if the board is properly governing the organisation. If the organisation is in receipt of significant state and institutional funding, it must demonstrate in the governance statement that the faith placed in it by such funders is well founded and that the board is controlling everything with a strong hand.

RISKS

- Most organisations in this category have a heightened exposure to financial, organisational, and environmental risks in comparison to the medium and smaller organisations. The financial risks are unique for most organisations in this category, as they result from the level of treasury management and from the financial transactions undertaken internationally by such an organisation. Such risks include interest rate risk, foreign exchange risk, liquidity risk and credit risk. The Directors' Report should report annually on these recurring risks, since they are largely the consequences of an organisation's treasury and currency operations, and the directors should reaffirm that these recurring financial risks are managed and overseen by the board, and that all financial and treasury transactions are managed in a non-speculative manner.

- The balance of critical risks are often much less visible, and by their nature occur without fanfare and at the most inconvenient times. The Directors' Report for any such organisation should therefore describe carefully the steps taken by the board to identify such risks facing the organisation. It should state what approach is taken to assess these risks and install risk management arrangements. The latter should include systems of monitoring and control, to ensure critical risks are avoided or their impact mitigated. Particular emphasis should be placed on risks that could impact on the communities or individuals that the organisation is working with, as well as risks to staff, and reputational risks that could damage the capacity of the organisation to continue in operation.
- There should be a high degree of formality about this process and a comprehensive risk register should be maintained and utilised by the board for regular board reviews of risks.
- The board must demonstrate that it conducts a periodic and formal review of risk exposures, using a formal methodology.
- The Directors' Report should specify that the initiatives taken by the board (or delegated by the board to board committees, or to management) to mitigate or control identified significant risks are imbedded into the internal processes and procedures of the organisation, and are a recurring theme at board meetings and at meetings between the Chairperson of the board and the senior management.

There should be a high degree of formality about this process and a comprehensive risk register should be maintained and utilised by the board for regular board reviews of risks.

RESERVES

- In the case of most of the organisations in this category, reserves are a core dimension of the balance sheet. The unrestricted reserves need to be analysed into a set of designated reserves appropriate to the needs and challenges of the organisation, other than those unrestricted reserves to be regarded as general reserves.
- The designated reserves should particularly provide a cushion to allow the organisation to survive any sudden and significant interruption in income flow, capable of tiding the organisation over for at least three months.
- There should also be a note on what other purposes are determined for the balance of the designated reserves, and an explanation of the policy regarding general reserves, as some of the latter may be completely illiquid, being invested in assets and working capital.

- The core issue here is the extent to which the board concerns itself with managing its unrestricted reserves, and this is most critical where funding is received from institutions such as Irish Aid, and which is conditional on a specified level of self-financing either from current unrestricted income, or from available unrestricted reserves. In determining the purposes for components of the designated reserves, there should be an explanation of how these designations have been influenced by the highest rated risks identified by the risk assessment process.
- The directors must offer a detailed reserves policy to its stakeholders, which policy should get to the heart of the reserves strategy of the organisation, defining a roadmap capable of bringing reserves to the target levels defined in the reserves policy.
- Restricted reserves are also of concern to the board, as these reserves carry obligations for the organisation, contractual or otherwise, to the providers of these funds to disburse these restricted reserves in a manner compatible with the restrictions. The Directors' Report should demonstrate to those providing such reserves that proper tracking of unused restricted reserves is in place, and that these reserves will be properly reported on until they are fully expended.

APPENDIX 1

A NOTE ON 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 charity companies 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 remains satisfied that Charities SORP does not conflict with accounting standards or with current accounting practices.

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

For Dóchas members, therefore, it is an issue of determining the extent to which it should comply with 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.

Adopting Charities SORP voluntarily is prudent for Dóchas member organisations because it provides a best practice approach in respect of accounting and reporting.

APPENDIX 1

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 member organisation
- A statement of directors' responsibilities regarding the financial statements, in compliance with accounting practices
- A clear statement and details of the organisation'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.

APPENDIX 2

THE CODE OF CORPORATE GOVERNANCE

The Code of Corporate Governance is about requiring the board to demonstrate (through its stewardship and in its annual reporting) how well the entity is governed

The second guidance document in determining appropriate information and content in the financial statements and annual report is the Irish Development NGOs Code of Corporate Governance ("The Code of Corporate Governance"), which Dóchas co-authored in 2009 in conjunction with the Corporate Governance Association of Ireland (CGAI). The Code of Corporate Governance 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 of Corporate Governance to their specific circumstances. The Code requires each organisation 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, nature of activities of the entity, and the requirements of its stakeholders. The Code stipulates that the organisation's board must state, in its financial statements and annual report, the nature and extent of such adoption. The Code permits an organisation 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 of Corporate Governance 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 organisation operates
- How it is held accountable
- The circumstances determining the extent of adoption or non-adoption of The Code of Corporate Governance by the directors, given that the Code is not mandatory in Ireland
- How the entity is led and controlled by the board

APPENDIX 2

- The board's collective responsibility for performance, for solvency and for meeting its obligations
- The board's specific reserved 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, to its committees, and to its volunteers where appropriate, 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.

Every effort has been made to ensure that this document complies with the NCBI Clear Print Guidelines. Should you encounter a difficulty in accessing this publication please inform Dóchas at media@dochas.ie as we will be continuing to work to improve our documentation.

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