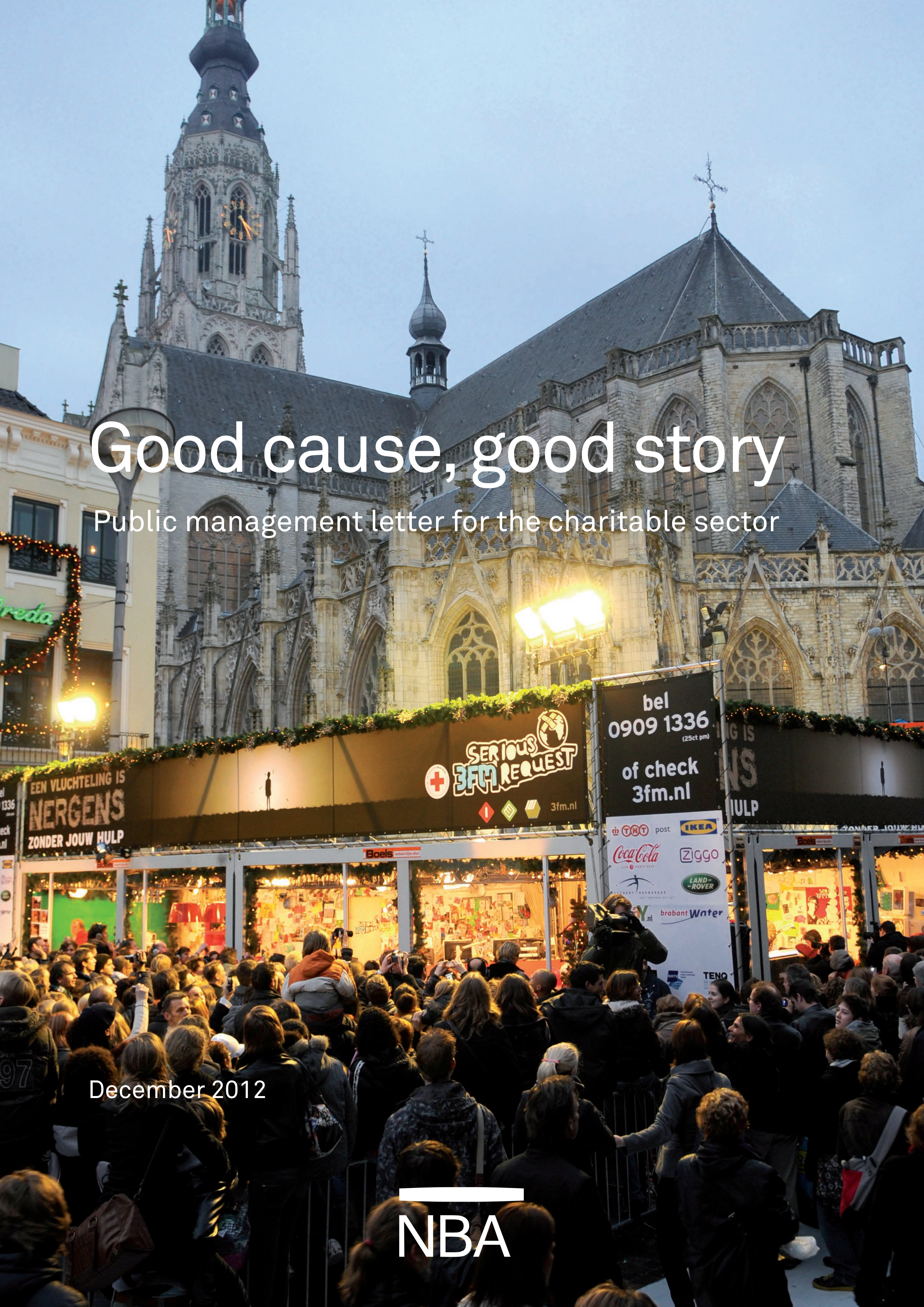
Good cause, good story

Public management letter for the charitable sector



December 2012

NBA

Nederlandse
Beroepsorganisatie
van Accountants

NBA

The Royal NIVRA and NOvAA are set to merge, resulting in the establishment of a new organisation, the NBA (Nederlandse Beroepsorganisatie van Accountants - The Netherlands Institute of Chartered Accountants). The NBA's membership comprises a broad, varied occupational group of over 20,000 professionals working in public accountancy practice, at government agencies, as internal auditors or in organisational management. Integrity, objectivity, professional competence and due care, confidentiality and professional behaviour are fundamental principles for every accountant. The NBA assists accountants in fulfilling their crucial role in society, both today and in the future.

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To the directors and supervisors of
charitable organisations and other stakeholders

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Date	Subject	Reference	Appendices
13 December 2012	PML		

Dear directors and supervisors,

The public management letter (PML) *Good cause, good story* is a result of the NBA Knowledge Sharing programme. The charitable sector is central to this. We have focused primarily on the larger fundraising institutions. These are mostly in the public interest and are very relevant socially.

The good causes sector, also referred to as the philanthropic or charitable sector, fulfils a particular role in our society. Over 4.7 billion euros are donated to good causes annually. The sector has to deal with many developments. The government is taking a step back, laws and regulations are changing, donors are becoming more critical and the future for the number of donations is uncertain. More than ever before charitable organisations will need to make clear why they are in existence, on what they spend their funds and what effect this has had on society.

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It is from this point of view that we are presenting in this PML six signals and recommendations. These are intended for directors and supervisors of charitable organisations, sector organisations, national government and accountants in the sector. The signals that we would like to highlight are:

1. Good cause, accountable effect
2. Who dares, wins
3. Receive now, spend later
4. The right links in the partnership chain
5. Greater trust through professionalism
6. An expectation gap to bridge

Charitable organisations are aimed at achieving social objectives using funds which have been entrusted by donors. This shapes their identity and justifies their existence. Everything revolves around trust. Transparent information regarding the effects achieved is necessary in order to preserve this. Bringing about improvements in our society or elsewhere in the world is not easy. Taking risks is unavoidable and creates a challenge in accounting for this in the correct way. And when fundraising and expenditure of those funds do not occur in the same year, this must be clearly explained. Because charitable organisations are increasingly working together, the need for good arrangements in the chain is also increasing. Good, professional supervision contributes to trust.

This also applies to accountants, provided they do not restrict themselves to auditing the annual accounts. The last message is therefore intended for our own members: take up your social role. Accountants must evidently fulfil the role of trustee of public interest in this sector. The need for this is unmistakable.

This PML is based on the knowledge of our members who work in the sector. Various stakeholders including the Central Bureau on Fundraising (CBF), the Federation of Charities Associations (SBF) and the Association of Fundraising Institutions (VFI) have provided us with their comments. We are grateful to all of them for their commentaries.

Yours faithfully,

Drs. Ruud Dekkers RA
Chairman NIVRA

Prof.dr.mr. Frans van der Wel RA
Chairman NBA Identification Board

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01 | Building on trust

The Netherlands has a rich tradition of philanthropy. In the charitable sector more than 4.7 billion euros are donated annually by individuals, the business community and government[1]. There are approximately 65,000 organisations registered with the tax authorities as Public benefit institutions (ANBI) and this number is still increasing. Of these, approximately 5,600 organisations are registered as charity with the online Philanthropy Knowledge Bank.

The sector has to deal with a withdrawing government, changing legislation and a critical public. Individual initiative is becoming more important. Donors are becoming more critical and wish to be more involved, as a result of which problems may lead more swiftly to damage to reputation. The call by the public for information on the results and effects of expenditure is growing. The justification for a charitable organisation is no longer self-evident. More than ever before they must make clear why they are in existence, on what they spend their resources and with what effect. Trust and transparency are key words. This also creates expectations of the role fulfilled by the accountant.

A very diverse sector

Charitable organisations are diverse in nature. Objectives vary, along with operating procedures, organisational design and scope. The sector consists of four segments: health, welfare and culture, international aid and nature, environmental and animals. There are various sector organisations: the Association of Fundraising Institutions (VFI), the Institute of Fundraising (IF), the Funds Association of the Netherlands (FIN) and the Interfaith Contact in Government Affairs (CIO). They have been collaborating in the Federation of Charities Associations (SBF) since 2006. The scope of charitable organisations varies. The 90 largest members of the VFI received approximately half of the income in the sector in 2011. A large part of the sector however consists of small charitable organisations with annual incomes up to a maximum of 100,000 euros, which are not all members of a sector association or have an accreditation.

Historically in the sector a distinction was made between fundraising organisations and equity funds. The first group actively raises funds, whereas the second receives its incomes from management of equity. Charitable organisations of a hybrid nature also exist, which manage invested capital in addition to fundraising. A recent development is that other organisations also make use of philanthropic cash flows by setting up a specific ANBI. An example might be a hospital wishing to finance specific research in this way. This also requires transparency.

The larger fundraising institutions are central to this public management letter. These are mostly in the public interest and are very relevant socially. Where this is possible and appropriate, attention is also paid to smaller institutions and equity funds.

Social effect is central

Charitable organisations fulfil an exceptional role in society. They focus primarily on the achievement of one or more social objectives. This justifies their existence and shapes their identity. The social objective is the theme for everyone involved in the organisation. The objective states why the organisation exists and what it intends to do. Charitable organisations always aim to be socially relevant, even

1 Giving in the Netherlands 2011. VU biennial report.

if the ultimate effect of their activities on society appear to be modest. In contrast to commercial businesses, the generation of profit does not form the basis for strategic decisions or the measurement of success. The incomes generated or the managed capital are only intended to achieve the social objective.

The social effect[2] that the charitable organisation wishes to achieve from its objectives, activities and performance is central to the organisation. Making this visible is often complex, but is of crucial significance. Not only objectives and activities but also their effects must be measurable and verifiable. There must be measuring methods and good benchmarks. The attributability question is ever present: how much of social change can be attributed to the activities of an individual organisation? This involves non-financial information in particular. The diversity in the sector makes comparison with other, similar organisations difficult. Each charitable organisation focuses on its own emphases, activities and social effect.

Focusing on social performance places exceptional demands on the organisational structure of a charitable organisation, reporting and supervision. It also has consequences for the role fulfilled by the accountant of the charitable organisation.

Exceptional features

The statutory objective(s) of the charitable organisation must be translated into multi-year plans, core activities and measurable aims. The annual report by management is of particular value, as it must provide insight in to the performance achieved and its social effects. The annual accounts state how many resources were expended during the year and how many remain at the end of the year. The information in the annual report must not only be transparent but also relevant within the context of the objective. This is a challenge between keeping the annual report compact and searching for a balanced combination of communications resources in addition to the annual report.

Charitable organisations operate in a risky environment. They often tackle complex problems and challenges which others cannot or will not finance due to the high risk profile and the insufficient prospect of returns. Taking risks is therefore inseparably linked to the sector. It is a right challenge to achieve the social aim nevertheless.

This means that there is no guarantee of success and that projects may fail. From the perspective of responsibility this creates a dilemma; transparency on failures may lead to damage to reputation. The management of expectations is therefore important. Honest reporting of accepted risks, stating what has gone wrong and what has been learned for the future.

Charitable organisations must also keep an eye on public expectations of the speed of expenditure. In a given year, incomes received cannot always be spent on the objective immediately in the same year. Projects can have a long duration and funds with a long term expenditure aim may be involved. Risky projects may necessitate the retention of reserves within the organisation. Transparent provision of information is also important for this delayed expenditure.

Partnership is necessary in order to be able to resolve the often complex issues. Partnership with other charitable organisations, the business community, individuals and government reinforces social effects. Partnership also promotes the exchange of and learning from experiences. With international aid, alliances are often formed between Dutch and foreign organisations. This requires extra attention to the management of the chain of partnership, cash flows, and the responsibility for them. At a time when the government is turning off the subsidy tap even more, the combining of people and resources is becoming more important. It does mean that proper arrangements must be made and that the effectiveness of any partnership must be monitored.

The importance of donor trust

Another exceptional feature of charitable organisations is fundraising from donors. More and more organisations are receiving incomes from the sale of goods, from sponsorship and partnership with the business community and from charity lotteries. But the largest element of the cash flow continues to flow from the generosity of donors, in addition to incomes from wills and legacies. Unlike commercial activities there are no tangible reciprocal benefits for donors. It is therefore essential for a charitable organisation to create good relationships with donors, to motivate and to maintain them. Donors remain involved and continue to give if they have trust in the organisation. The same applies to the many volunteers who are involved in the charity organisation, who also impose demands on the organisation for which they work.

2 Research report Performance Prediction Scan (PPS) - Success factors in social performance. ECSP 2012.

Donors change however[3]. Their loyalty is no longer guaranteed, but is determined individually. Each donor is unique and expects understanding of his own motives for giving and tailored transparent information. He[4] or she wishes to have an experience of the charity, to be touched by it. The donor wishes to feel involved and responsible for the success of the charitable organisation's activities, as a result of which he as a little piece of co-ownership. Reputation is crucial and the image in the media has a great effect on giving behaviour. The donor always wants funds to be spent efficiently with minimum organisational costs. He expects the organisation to be managed in a proper and responsible manner, with adequate supervision and control. Volunteers also find this important. Low costs however are no guarantee of a greater social effect. In order to be able to achieve objectives effectively a certain level of organisational costs is unavoidable. Exceptional circumstances may lead to extra costs and risky services may sometimes only be delivered at a high cost. For a good charitable organisation it is important to be transparent about this and to provide insight into the reasons for this.

Effect measurement is also important to the donor. He wants to know if the money is being spent effectively and preferably as swiftly as possible. If a charitable organisation does not wish to use its annual report as a representation of the past but also a calling card for the future, the effect of the donations contained therein must be clearly visible, as should the timescale in which the expenditure is due to take place. The time when this occurred solely via a paper report is past however; online reporting and information via the internet are increasingly common. Social media such as facebook and twitter can help to bring donors closer to the charitable organisation.

The role of the accountant

According to existing law and regulations, the accountant only has to express an opinion on the annual accounts of the charitable organisation, not on the annual report or the achievement of the social objective. The requirement for a broader interpretation of the role of the accountant however cannot be denied. Not only as far as the content of the annual report is concerned but also in terms of the reliability of the performance and effects measured. On this point there is a gap between public expectations and the current activities of an accountant. Donors expect considerably more from an accountant than is vested in him. For the accountant this is evidently the opportunity to enter into the debate over the interpretation of his role as the trustee of public interest. Charitable organisations are also asking for this.

Many developments in laws and regulations

No statutory reporting regulations apply to charitable organisations, unless they are operating a commercial enterprise. In that case the annual accounting conditions of the Civil Code (BW2 Book 9) apply. Especially for the charitable sector the Dutch Accounting Standard Board (RJ) issued Directive 650 Fundraising Institutions (RJ 650). This directive is mandatory for charitable organisations with an accreditation mark from the Central Bureau of Fundraising (CBF). In order to improve the quality of reporting The Transparent Prize[5] is awarded annually to the organisation in the sector with the most transparent annual report.

In 2011 the SBF agreed the Room for Giving covenant with the former cabinet. This acknowledged the social significance of charitable organisations and laid down a number of agreements. This was followed up in 2012 by the recently published Vision of supervision and accountability in the philanthropic sector. One of the proposed measures is that organisations with ANBI-status will be required to publish certain financial information in the Commercial Register and on the internet.

In 2012 the Giving Act came into force. This lays down a number of tax measures aimed at stimulating giving behaviour in the sector. Charitable organisations may operate profit-making activities provided that the yields are destined for the charity.

3 De Transparantkrant. PwC, October 2012.

4 Throughout this publication, the use of the masculine gender is intended to mean he/she.

5 A joint initiative by PwC, VFI and FIN.

In addition to the Giving Act and the ANBI legislation there exists in the sector a tangle of regulations, guidelines and codes. The most well-known is the Good Governance Code for Charities, which the VFI has imposed upon its members. The CBF has incorporated the principles of the code in its accreditation criteria. There are also guidelines for directors' remuneration, investments and the formation of reserves, amongst others.

In order to retain overview amongst this multiplicity of laws and regulation, it was announced in the vision of the SBF and the government referred to earlier, that there would be one code of conduct for all members of the sector organisations.

A uniform validation system will also be set up. This consists of one accreditation system for all fundraising institutions where there is independent assessment by accredited, certifying institutions. Furthermore, one code of conduct will be developed for the sector and the sector organisations must develop internet portals where online information about their members can be found. The CBF is at the moment the most well-known institution which has been issuing accreditation marks for years (so-called CBF-seal). Almost four hundred organisations currently possess CBF accreditation, CBF certificate or certificate of no objection. The fact that in addition to this various other organisations also issue accreditation marks leads to a great lack of clarity amongst the public. Moreover, charitable organisations are making increasing use of the so-called ANBI-logo. The possession of ANBI-status however cannot be seen as a guarantee of quality such as the CBF-seals. On the other hand an accreditation mark is mainly intended as a code of good conduct; it offers no guarantee of a positive social effect.

Fundraising is freely accessible in the Netherlands. As a result, from time to time there are organisations active which do not possess ANBI-status and are not subject to any accreditation mark, but do benefit from this image. Such free riders and look-a-like funds create an uneven playing field in relation to charitable organisations which do observe the rules of the game which are agreed within the sector.

Contents of this management letter

This management letter from the Nederlandse Beroeporganisatie van Accountants (NBA, The Netherlands Institute of Chartered Accountants) is a result of the NBA Knowledge Sharing programme. In this programme the knowledge of accountants is collectively deployed for the early identification of risks in social sectors. The emphasis is on the recognition of organisational risks in financial and administrative areas. Based on the information collated by public accountants in the charitable sector, six signals and recommendations have been compiled.

These are summarised in chapter 02. In chapter 03 the six signals are further elaborated, accompanied by positive and negative practical examples. Finally chapter 04 summarises the responses of three stakeholder parties.

02 | Six signals and recommendations

Charitable organisations

1. Good cause, accountable effect

During recent years charitable organisations have been providing more information. The scope and quality of annual reports has increased due to amended laws and regulations, the demand for more transparency and the requirement to become more visible within society. Sometimes to the extent that there is a threat of creating an excess of information for readers. Charitable organisations regularly wrestle with the compactness of their annual reports. There are often too many contemplative texts instead of a critical look at themselves.

Reporting everything appears to be transparent but this ignores the equally important criterion of relevance. The reader of an annual report wishes to know what results have been obtained and whether the social objective has been achieved. The quality of reporting can improve by placing more emphasis on the social effect: what is the effect of the activities and do they suit the objective? Insight into the costs incurred for this purpose also belongs here. Effect measurement is difficult therefore openness is important. In order to be able to keep the annual report compact, a balanced combination of communication methods must be utilised.

RECOMMENDATION

Focus on the effect to be achieved

- Place the social effect to be achieved central to the management of the organisation in relation to the objective and the policy plan. Do not forget that resources deployed, activities undertaken and performance achieved are only a tool to achieve social effect.
- Limit the content of the annual report to the key points and provide relevant information about them. In doing so, avoid long contemplations such as extended policy, programme, project and organisational descriptions. For such statistical information it is better to refer the website or separate (online) publications. In any case state what the organisation has planned for the coming years.
- Display proposed results, performance and effects quantitatively where possible, together with the financial information. In doing so, provide insight into critical success factors and definitive target levels. Analyse significant differences between target levels and actual results. Explain the causes and follow-up actions taken. Also dare to be open about setbacks and unsuccessful projects. Indicate what has been learned from them and what is to be done differently in future.

- Approach the content and style of the annual report more emphatically from the position of a critical donor, volunteer and reader. If possible involve donors (panels) in the formulation of requirements for the information to be provided. Collate best practices for reporting within and outside the sector and share them actively with other organisations. Make as much use as possible of external benchmark information.
- For the information represented always state to what extent its reliability has been checked or guaranteed by another method.

2. Who dares, wins

Charitable organisations operate in a risky environment. From their objectives they often tackle complex problems which others ignore or are unable or unwilling to finance. Often due to their high risk profile, insufficient view of yields or a different cultural environment. Activities may take place in dangerous countries, speed may be more important than caution or the success of a project may be at best uncertain. Wastage may occur and disasters may lead to delay or extra costs. Risks may vary by project or by country. Taking risks is inseparably linked to the sector, which is a given fact. The likelihood of things going wrong and a project failing is ever-present. Risk management therefore forms a key process in a charitable organisation. On the other side are the donors who are relying on the fact that their money is being spent with the necessary caution and that no unnecessary risks will be taken.

A complicating factor is that the public appears to be willing to accept fewer risks and so incidents can have significant consequences for the entire sector. For a charitable organisation this constitutes a challenge to achieve the social objective despite all of the risks and to inform the public about this in a clear manner. Management of expectations is important. The better the public is informed in advance about the risks and the deliberations made, the sooner it will be prepared to accept that things can also go wrong. Taking risks does not have to be a problem if it is accounted for transparently enough.

RECOMMENDATION

Be clear about the accepted risks

- Introduce into the organisation a careful process for the correct arrangement of risk management. In doing so make a distinction between general risks and risks which are specific to the sector and the organisation. Also pay attention to the desired tone at the top within the management, the culture and conduct within the organisation and its project partners. Establish this in a clear risk analysis. Look also at strengths, weakness, opportunities and threats. Establish this in a SWOT analysis.
- Explain to the donors and the wider public the risks which exist in the sector, what the organisation has taken into consideration and how the estimate of the relevant risks is incorporated in the annual report. Be transparent toward the public as risks become reality and projects proceed differently than expected.
- Use a clear procedure for the assessment of projects. Submit this to an external panel of experts or a public panel. Publish this procedure on the website in order to prevent a gap in expectations.
- In each project plan, establish what risks are acceptable and to what level and how the project will be controlled so that risks are limited. Try to express these in amounts where possible. State whether extra funds are necessary in order to deal with potential disasters. State the level of cost which is acceptable in limiting risks.
- Instigate a wide public discussion on risk acceptance in the charitable sector. In doing so attempt to enter into a debate on what risks are or are not considered to be acceptable and in which situations.

3. Receive now, spend later

Donors expect their money to be spent as quickly and effectively as possible and that no money will be left in the kitty. As fundraising and expenditure may differ from each other in terms of time they can easily lose sight of the ultimate destination. But fundraising and the expenditure of the funds raised often do not occur in the same time period. In any given year incomes received may not always be spent immediately in that year on the objective. The selection of suitable projects may take some time, projects can suffer delays or have a duration of more than one year. There are also destination funds, whereby the donor specifies in advance a destination for the investment. Finally, the undertaking of risky activities may necessitate the retention of financial reserves. Incoming and outgoing cash flows therefore do not always run in parallel. Directive RJ 650 states how this should be represented in the annual accounts.

Funds for which a definitive decision has been taken and which have been allocated to a specific aim or project are included in income and expenses. If this expenditure takes place after the end of the year, or is spread across several years a debt is reported on the balance sheet. Funds for which no final decision has been taken appear as operating surpluses in reserves. Earmarked reserves consist of funds with a specific purpose, without actual allocation having taken place. The continuity reserve is intended as a general buffer for the charitable organisation. The advance management of expectations is essential, as is the provision of clear information. This avoids a loss of trust.

RECOMMENDATION

Provide insight into delayed expenditure

- Provide a clear policy surrounding the selection of projects, the allocation of contributions and payment. It must be clear to the public how the organisation handles the (phased) payment of allocated funds. Publish this on the website and refer to it in the annual report.
- In the annual accounts ensure there are clear notes regarding debts arising from allocated contributions (subsidies), in the event that the expenditure does not take place in the same year as fundraising. Include a statement of changes with allocation, payment and results upon final settlement for each year layer.
- Always include a cash flow summary in the annual accounts. In it provide extended notes to income and expenditure, so that it is made clear to users how any high liquidity positions have arisen.
- Inform the public clearly about the nature of any earmarked reserves and funds in relation to the social objective. State why they exist, how their amount is determined and when the funds will be committed to definitive purposes and projects. State also when the actual payment will be made, in accordance with the established payment policy.
- Provide notes on the nature and extent of the continuity reserve. Link this to the organisation's risk profile and the buffers which are necessary according to management. Give reasons for the size of the reserve, using not only the sector regulations regarding the maximum amount of the reserve, but establish a link to the social objective.

4. The right links in the partnership chain

In the charitable sector there is an increasing degree of partnership between individual organisations or alliances of several organisations. Assistance abroad is becoming increasingly international in nature, whereby organisations from different countries cooperate. Due to increasing globalisation, charitable organisations, their activities and cash flows are becoming increasingly linked in a chain. As a result it can be more difficult for donors to follow the ultimate destination of their money.

There is also the issue of austerity in government subsidies, as a result of which organisations are forced to join forces and to conceive new forms of partnership. It is happening increasingly that governments are more or less compelling charitable organisations to cooperate by allocating subsidies to only one organisation which then acts as overall coordinator. Partnership promotes the exchange of and learning from experiences. By sharing logistics and infrastructure, funds can be spent more efficiently. This ensures that people do not work against each other. On the other hand it places exceptional demands on the governance of the organisations involved. A chain is only as strong as its weakest link. When entering into alliances, attention is often paid too late to the creation of proper agreements, which can yield problems in monitoring and accountability. Finally, what is often lacking is a proper evaluation of the added value of the collaboration.

RECOMMENDATION

Invest in good collaboration agreements

- When entering into an alliance or other type of partnership, ensure clarity regarding the responsibility of the ultimately responsible coordinator and other alliance partners. Pay attention to all aspects of governance: not only management and control, but also accountability and monitoring.
- Make clear agreements regarding periodic, joint information provision and include in this situations which require extra information.
- Make an analysis of things which may stand in the way of achieving the goal of the alliance, for example continuity problems with one of the partners, costs to be passed on, progress information, fraud risks, checks and the way in which accountability to the coordinator is to be arranged.
- Examine in advance with alliance partners who form part of an international association or consortium whether the desired level of quality can also be achieved by this association or consortium. If necessary carry out a due diligence study. Pay particular attention to partners who have a different level of internal management to that of the coordinator. Establish whether shortcomings may be a problem for ultimate accountability and take appropriate measures.
- Ensure a periodic evaluation of the added value of the partnership. In doing so, assess how risks and problems arising are dealt with. Establish whether the partnership has had greater effect than would be the case for individual action and what efficiency benefits have been achieved.

5. Greater trust through professionalism

Charitable organisations rely on well-funded social trust. Donors remain involved if there is trust in the organisation. Without donors there is less income and the social objective of the organisation cannot be properly achieved. Donors want their money to be spent effectively, at minimal cost. They expect the organisation to be managed properly and in a responsible manner. With adequate supervision and monitoring, but with minimal bureaucracy. Volunteers who are involved in the charitable organisation also make demands on the organisation for which they work without reward. Trust however demands quality and with it a professionally managed organisation.

This costs money. Charitable organisations must be transparent about why these costs are necessary. In addition to transparency this places demands on the quality of governance, including the structure of internal supervision. Management is primarily responsible for the translation of the social objective into definitive plans, activities and measurable goals. It is good to make a distinction within the organisation between an operating body and supervisory body. A supervisory body can, from its independent position, monitor whether the activities and performance sufficiently comply with the objective. Charitable organisations however have a number of specific legal features. There are no shareholders and the number of statutory conditions is restricted. In practice this is implemented by codes of conduct, accreditation marks and directives. Of these, the Good Governance Code for Charities (Wijffels Code) of the VFI and the CBF-seal are the most well-known. The work is not over when a code is introduced. It must be implemented in practice and evaluated periodically. It appears in particular for smaller fundraising institutions without a CBF-seal and for equity funds, that the basic concepts of the VFI code have not yet been implemented, or do not function properly in practice.

RECOMMENDATION

Professionalise internal supervision

- As a charitable organisation, do not try and invent the wheel yourself, but engage the guidance of an expert. Relate to good examples in similar organisations. The CBF and the sector associations can help with this.
- Refine the Code into a number of clear agreements. Create a sketch profile for the members of the supervisory board, which pays attention to competencies, portfolios and diversity. Also set up an information protocol. Create a scheme for the correct distribution of roles between management and board. Pay attention to the interaction with the accountant. Also for non-CBF-seal holders it is recommended that no previous directors of the same organisation be included on the supervisory board.

- Ensure sufficient expertise within the supervisory board and evaluate annually to what level professional education is required. It can create a positive effect if the board and management undertake joint training periodically. In this way, people get to know each other better and people's expectations of each other can be expressed. The latter can also be achieved by evaluating joint meetings at least once a year.
- Include the Wijffels Code (as incorporated in the accreditation criteria of the CBF) in the new code of conduct to be written for the sector. In doing so, take into account the modernisation of other codes of conduct, for example in the area of training for directors and members of the supervisory board. It would be good if the new Code were similarly rooted in RJ 650 as is the case with the Netherlands Corporate Governance Code in BW2 Title 9.
- Even charitable organisations without VFI membership or CBF-seal should be able to consider following the key points of the Wijffels Code, regardless of their size. In doing so it is recommended that the functions of management and supervision be split into separate bodies within the organisation.

Accountants

6. An expectation gap to bridge

The charitable sector is evidently a sector in which the accountant can fulfil the role of trustee of public interest. After all, charitable organisations are focused on achieving social objectives, in which they build on the trust of donors. The annual accounts and the annual report constitute an important tool to provide accountability for this, with directive RJ 650 as the reporting norm. Because the emphasis is on the social performance achieved, the annual report is in fact more important than the annual accounts. According to current laws and regulations the accountant only audits a charitable organisation's annual accounts. He is not required to give any opinion regarding the content of the annual report or its compatibility with the annual accounts.

For the public this is a less than satisfactory situation because the accountant expresses no opinion on the most important information. The public expects that an unqualified audit opinion also means that the information contained in the annual report is accurate and complete, that codes have been observed and the performance accounted for is correct. Even charitable organisations expect more than this, for example support in the area of performance and effect measurement. In order to meet these expectations the accountant must fulfil a broader interpretation of his social role. This is linked to the recommendations of the NBA advisory report "Robust gatekeeper's role". It is for the charitable organisation to determine whether the accountant actually can and may fulfil this wider role. The accountant can start by encouraging the management and the supervisory board to be more transparent regarding the achieved social effect. There is also a role in this for the CBF and NBA. Finally it is the case that for small charitable organisations RJ 650 is not always followed. This requires a signalling role for the accountant.

RECOMMENDATION

Accountants, take up your social role

- Include the compatibility of the annual report with the annual accounts as standard in the audit programme for the annual accounts. Include a separate paragraph on this in the audit opinion, referring to RJ 650. For the purpose of uniformity of the opinions the NBA should be able to develop a specific opinion template for charitable organisations.
- Encourage the management and the supervisory board to report achieved social performance transparently in the annual report. Not just in narrative format but preferably also in terms of measurable goals. Instigate the discussion on effect measurement and cooperate in how this can take shape in the organisation. Advise the organisation to involve external stakeholders and interested parties in this process.
- Enter into discussion with management and the supervisory board regarding what information should definitely be provided in the annual report. The NBA discussion report "Robust gatekeeper's role" can be used as a basis for this. Discuss under what conditions this will be possible. In any case always state in the audit opinion which laws and regulations, codes or accreditation marks do or do not fall within the scope of the audit.
- As the accountant ensure you have adequate knowledge of RJ 650. Be alert to the accurate and complete application of the clauses in the directive. If necessary engage experienced colleagues. Have discrepancies corrected by the charitable organi-

sation and state this in the report if this does not take place. NBA Practical Guide 1119 Further notes to the audit opinion provides sufficient guidance in this respect.

- NBA, CBF and the sector organisations must instigate a public discussion regarding the scope of the audit for charitable organisations. In doing so explicit attention must be paid to the representation of social performance and effects in the annual report. The legislator must formalise the role of the accountant and the scope of his audit as is the case in Title 9 of Book 2 of the Civil Code for corporations

Photo: NBA business team runs for charity

03 | The six signals in detail

SIGNAL 1: Good cause, accountable effect

During recent years charitable organisations have been providing more information. The scope and quality of annual reports has increased due to amended laws and regulations, the demand for more transparency and the requirement to become more visible within society. Sometimes to the extent that there is a threat of creating an excess of information for readers. Charitable organisations regularly wrestle with the compactness of their annual reports. There are often too many contemplative texts instead of a critical look at themselves.

Reporting everything appears to be transparent but this ignores the equally important criterion of relevance. The reader of an annual report wishes to know what results have been obtained and whether the social objective has been achieved. The quality of reporting can improve by placing more emphasis on the social effect: what is the effect of the activities and do they suit the objective? Insight into the costs incurred for this purpose also belongs here. Effect measurement is difficult therefore openness is important. In order to be able to keep the annual report compact, a balanced combination of communication methods must be utilised.

In further detail

The success of charitable rganisations is to a significant extent dependent on trust and reputation. Trust from everyone who is involved in the organisation one way or another, also called stakeholders. One of the tools for this is this transparency, especially in the annual report. Donors want to be sure that their money is spent on the intended social objective and that funds are spent in a responsible manner. The old adage 'do right and fear no-one' is fast disappearing. The critical donor wants information about social effects. In response to this, organisations are beginning to provide more information. The quality of the provision of information and reporting has increased due to amended laws and regulations, including RJ 650 and the requirements imposed by those in possession of a CBF-seal. Various initiatives in the sector also contribute, including the Transparent Prize.

Whereas smaller organisations often lag behind in the provision of information, it is true to say that the larger organisations are ever-expanding their reporting. This can easily lead to an excess of information. Transparency does not by definition mean more information but information which is meaningful. The reader must be able to retain an overview; he wants to know if the organisation has actually done what is intended to do according to its objectives.In practice what is reported is sometimes merely to comply with laws and regulations, not to make things clearer for the reader. Laws and regulations provide a minimum level of reporting, but do not monitor quality and critical content. There is often the case of contemplative texts which mainly refer to objectives and policy.

What is lacking is concise, substantiated information which can be verified regarding activities, performance and effects. How does the organisation know that the funds raised are utilised as well as possible and have had the best possible effect? It is not about nice pictures and long texts, but information which provides the reader with insight into the success of the organisation. For many smaller organisations it still applies that transparency is served by providing more information. In the larger organisations it is not just about 'more' but 'different'. Relevant, focused and critical information about performance and social effects. There is not always careful consideration about whom the annual report is intended for, nor are stakeholders asked what information they would like to see. Annual reports can achieve compactness and legibility by placing statistical, annually recurring information on the website and referring to it briefly. The online publication of the annual report, policy plans and budgets enhances transparency. Stakeholders can then consult the information at any time of day, swiftly and without complicated procedures.

Social performance and effects are key subjects for reporting by charitable organisations, alongside good management, an active dialogue with stakeholders and insight into the financial situation. Annual reports often still provide too little information in this area. A charitable organisation should ask itself critical questions about the effects of expenditure: Does our expenditure have a real effect? Are we doing the right things? Are we doing those things correctly? How effectively is the money that we give to others being spent? This also applies to the utilisation of funds. Are we spending as much as possible on our objective? How austere and economical are we in comparison with others? Are the distribution scales used for the allocation of costs precise enough? Is this also true for the other parties with or via whom we spend our money?

For development aid projects the effects of expenditure by a Dutch organisation are often difficult to derive. Usually there is a combination of various aid flows: via individual projects led from the Netherlands, via associated international organisations with large-scale country programmes and via the engaging of small, local partners who have strengths in a particular area. This is exactly why it is important to be transparent about what can and cannot be measured.

Negative example

Limited and only positive information

Organisation A states in its annual report only a general note regarding objectives and policy. Several activities in the most important projects are discussed, illustrated with attractive photographs. Individual investment is invariably evaluated as positive, especially with a view to maintaining and enhancing the support of donors. Own projects are discussed in more detail. Notes on payments made to associated organisations and local partners are very brief.

Positive example

A critical view, taking into account givers

Organisation B determines objectives for each project in advance and converts them into definitive, measurable performance levels, with the target success level. For expenditure via associated organisations and local partners agreements are made regarding the performance levels to be delivered. In the annual report expenditure for each organisational objective is reproduced quantitatively, in association with progress and the results of (groups) of individual projects. Diagrams and graphs are used for this purpose. There is also a comparison with the previously formulated objectives and critical success factors. Variances are analysed critically and any steering actions are explained. This also applies to partnership with associated organisations and local partners. These evaluations arise from the expectations of the givers and are undertaken jointly with a critical external panel.

Charitable organisations incur costs in the raising and expenditure of funds and for general management and administration. These costs are unavoidable in the successful achievement of goals. The donor however expects that as much income as possible is spent on the social objective of the organisation. According to the CBF accreditation the costs of fundraising over a period of three consecutive years may not amount to more than 25 percent of income from own fundraising.

These costs are not always properly transparent in the administration if a sponsor or associated foreign organisation absorbs them. Some costs are mixed in nature and must be distributed correctly, for example communication costs. In order to provide insight to the reader of the annual report regarding cost efficiency it is important to furnish information regarding actual costs, to allocate them correctly to the relevant headings and to compare them critically to individual standards and benchmarks from outside the organisation.

Negative example

Rules of thumb for cost allocation

Organisation C uses a rough, once every few years, globally substantiated rule of thumb for the allocation of marketing and communication costs (including mailings) to fundraising. To avoid exceeding the CBF standard only the element of these costs which is directly attributable to fundraising is shown as such. The rest is allocated to the general heading of education.

Positive example

Also breakdown third party fundraising costs

Organisation D provides a good breakdown of the various types of cost and their allocation in its annual report. Sponsorship of costs by parent or sister organisations and sponsors is included as income with supporting calculations and in the relevant cost type as costs. The organisation generates a substantiated estimate of the costs expended by the international parent organisation on fundraising and overheads. It includes these sums as such in its annual accounts and explains the situation and method of calculation.

Charitable organisations are regularly highlighted critically in the media. Well-known examples are the effectiveness of expenditure within the context of international emergency aid actions, such as the Tsunami disaster and the earthquake in Haiti. Questions may also be asked regarding the level of fundraising costs, overheads within international chain organisations or the rate of expenditure. To some extent, such criticism is unavoidable and in a sense it is also useful in staying sharp. But if such critical questions are not asked beforehand and answered in the annual report, the organisation can appear to be defensive. This not only damages an individual reputation but that of an entire sector.

This requires the courage to be self-critical. Here the challenge is that of finding the right balance. It is necessary to be transparent, but providing information about failures can lead to damage to reputation and loss of donor confidence. But you can't make an omelette without breaking eggs. The public values a nuanced picture of reality. Being honest about what has gone wrong and what the organisation has learned for the future. Failure is only a delay on the road to success and learning goes hand in hand with falling over and getting back up. Daring to make yourself vulnerable enhances trust in accountability as a whole in the eyes of the public.

SIGNAL 2: Who dares, wins

Charitable organisations operate in a risky environment. From their objectives they often tackle complex problems which others ignore or are unable or unwilling to finance. Often due to their high risk profile, insufficient view of yields or a different cultural environment. Activities may take place in dangerous countries, speed may be more important than caution or the success of a project may be at best uncertain. Wastage may occur and disasters may lead to delay or extra costs. Risks may vary by project or by country. Taking risks is inseparably linked to the sector, which is a given fact. The likelihood of things going wrong and a project failing is ever-present. Risk management therefore forms a key process in a charitable organisation. On the other side are the donors who are relying on the fact that their money is being spent with the necessary caution and that no unnecessary risks will be taken.

A complicating factor is that the public appears to be willing to accept fewer risks and so incidents can have significant consequences for the entire sector. For a charitable organisation this constitutes a challenge to achieve the social objective despite all of the risks and to inform the public about this in a clear manner. Management of expectations is important. The better the public is informed in advance about the risks and the deliberations made, the sooner it will be prepared to accept that things can also go wrong. Taking risks does not have to be a problem if it is accounted for transparently enough.

In further detail

In spending funds charitable organisations take countless risks. General risks in terms of fraud, internal management or continuity and specific risks which are inherent in the selected social objective. It may involve expenditure in dangerous countries, emergency aid or risky projects. This can happen in international aid or healthcare. Sometimes money is spent on projects which have not been clearly defined in advance or have an uncertain outcome. This is the case for example with medical research. Wastage can occur and disasters can lead to delays or extra costs. Partner organisations in a collaborative chain may have different quality standards to those which a charitable organisation is accustomed to. Even the economic crisis has left its mark. According to a study published in De Transparantkrant 2012[6] it is anticipated that donations from private individuals will decline in the near future. The government is economising on its giving behaviour by cutting subsidies. Risk taking is inseparably linked to the sector. It is directly related to the social objective and the social nature of the charitable organisation.

The public however appears to accept fewer and fewer risks, as a result of which incidents can have serious consequences for the sector. The expectation is that charitable organisations make optimum use of their funds for their objective, whereby risks are eliminated or reduced to a minimum. Failed projects, wastage of resources or even fraud can lead to damage to reputation if the organisation does not react appropriately. Charitable organisations must take into account the fact that they operate in a risky sector, but that despite this public expectations of their operations are very high.

This can lead to dilemmas. How do you know for sure that expenditure in a third world country does not fall into the wrong hands, or that bribes are not involved? Should corrupt and dangerous countries be shunned or visited simply because the need is greatest there? Should different standards be utilised for emergency aid than for regular projects spread over several years? How do you know that the prices in foreign countries do not include profiteering? What amount of overheads and wastage is acceptable for research or in support of ground-breaking research? Reducing risk costs money. This gives rise to the question of how much cost the organisation is prepared to invest to reduce risk to an acceptable level without jeopardising the organisation's objective and the range of its activities. These are all difficult questions, which cannot be answered immediately. There exists no generally accepted level of risk and there is no public opinion on what levels of risk are or are no longer acceptable. With the exception of laws and regulations in the area of fraud, anti-corruption and the fight against terrorism there are no universally applicable risk standards.

Charitable organisations must develop their own policy in this area in partnership with their sector organisations. The management of expectations in advance and transparent representation thereafter ensures more understanding and acceptance on the part of the public. Being transparent about setbacks and timely communication when an incident occurs limits damage to reputation.

Negative example

Fear of loss of income leads to secrecy

Organisation E is active in the welfare and culture sector. The management, executive directors and the supervisory board have recently undergone a careful process in order to estimate the risks involved in their activities and to state them for each activity. In addition the level of risk considered to be acceptable or unacceptable was stipulated for each activity. For this purpose clear standards were developed, which were clear to everyone in the organisation. Yet no information about this was provided in the annual report. The organisation is apprehensive that communication about risk management will adversely affect the number of donations. They therefore decided to keep this process internal and not to communicate too much about it.

6 De Transparantkrant. PwC, October 2012.

Positive example

Expenditure standards adjusted to stakeholders

Health fund F has developed through public debate an expenditure regulation, which lays down which projects the funds collected are or are not spent on. The procedure for the assessment of new projects includes a test to be undertaken for each application. This also assesses the status of the project. Projects which are at the beginning of the development path and with a likelihood of success of no more than 30% are not eligible for contribution.Projects with a likelihood of success of over 30% may proceed to the contribution stage. A maximum is also laid down for that part of the total project cost which is eligible for contribution, so that the potential risk is contained.

SIGNAL 3: Receive now, spend later

Donors expect their money to be spent as quickly and effectively as possible and that there will be no money left in the kitty. As fundraising and expenditure may differ from each other in terms of time they can easily lose sight of the ultimate destination. But fundraising and the expenditure of the funds raised often do not occur in the same time period. In any given year incomes received cannot always be spent immediately in that year on the objective. The selection of suitable projects may take some time, projects can suffer delays or have a duration of more than one year. There are also destination funds, whereby the donor specifies in advance a destination for the investment. Finally, the undertaking of risky activities may necessitate the retention of financial reserves. Incoming and outgoing cash flows therefore do not always run in parallel. Directive RJ 650 states how this should be represented in the annual accounts.

Funds for which a definitive decision has been taken and which have been allocated to a specific aim or project are included in income and expenses. If this expenditure takes place after the end of the year, or is spread across several years a debt is reported on the balance sheet. Funds for which no final decision has been taken appear as operating surpluses in reserves. Earmarked reserves consist of funds with a specific purpose, without actual allocation having taken place. The continuity reserve is intended as a general buffer for the charitable organisation. The advance management of expectations is essential, as is the provision of clear information. This avoids a loss of trust.

In further detail

The raising of funds and the expenditure of the funds raised do not always take place at the same time. There can be various causes for this difference in phasing. In general fundraising takes place prior to expenditure. The selection of suitable projects can take some time, projects can suffer delays or have a duration of more than one year.

When the incoming and outgoing cash flows do not run in parallel and there are funds left over at the end of the year, a charitable organisation must deal with accruals. RJ 650 states how this should be represented in the annual accounts. This is primarily a technical exercise which can be difficult for donors to understand. In general donors have a short term horizon and expect their money to be spent as quickly as possible on the social objective. They do not want money to be left over. The further fundraising and expenditure deviate from each other, the more quickly donors lose sight of the ultimate destination for their money. Not every donor is in a position to understand the debts, reserves and funds reported in the annual accounts of a charitable organisation. Thus, a difference can easily arise between public expectation and the organisation's ambition.

Funds for which a definitive decision has been taken and which have been allocated to a specific aim or project are included in income and expenses. If this expenditure takes place after the end of the year, or is spread across several years a debt is reported on the balance sheet. Inclusion of an expense in the statement of profit and loss does not necessarily mean that the money has actually been spent. It is sufficient that the management has taken a decision, has informed the beneficiary and has entered into commitments. Transparent explanation in the annual accounts prevents misunderstanding. It can also help to divide activities and projects by type and year.

Funds for which no final decision has been taken appear as operating surpluses in reserves. Earmarked reserves are meant for funds for which the management has stated a future intended use. Actual commitment has not yet taken place; this concerns an intention to allocate. If a donor rather than the management has given a specific intended use for the expenditure of funds, these are referred to as earmarked funds. This occurs with gifts and inheritances. The purpose of earmarked reserves, how they are formed and when the funds are spent is not always clear to the public. The notes to the reserves in the annual accounts are not always comprehensible either. Charitable organisations must report this transparently: why the reserves are there, how the amount is determined and when they expire. It helps if a direct link is established with the organisation's social objective. An earmarked reserve must be based on more than a last minute decision by the management.

The continuity reserve is intended as a general buffer to absorb setbacks in the operation of the charitable organisation hereby guaranteeing continuity. According to the Charities Financial Management Directive of the VFI the sum of this is a maximum of one and a half times the annual costs of the operating organisation. If this reserve exceeds this threshold this must be explained in the annual accounts. A transparent explanation is also important in this case. The reserve is not intended as a residual item for incomes for which no use can be found for the present.

Negative example

Fundraising and expenditure in disharmony

Charitable organisation G is very successful in the raising of funds but has great difficulty allocating them in the short term to projects which are suited to G's objective. The cause of this can be that selected projects do not or do not fully comply with the conditions or because various initiatives are still at the preliminary stage. This is expressed in the annual accounts by a very high operating surplus, a continuity reserve which is at the permitted ceiling and an earmarked reserve for which there is no clear explanation regarding future expenditure. The item cash is also very high. This creates the impression that G is hoarding money.

Positive example

Adequate explanation for delayed expenditure

Charitable organisation H has difficulty in making funds raised available to projects within a reasonable period via commitments and distributing funds via the established advance payments policy. In the annual accounts this delay is expressed by an operating surplus, large earmarked reserves and a considerable cash item. H considers it important to provide clear information to the public on this matter. H therefore explains the advance payments policy in the annual accounts and includes a statement of changes in debts arising from subsidy obligations. This states the allocation, payment and release for each annual accrual. H also provides an explanation of the sum of the necessary continuity reserve, given the risk profile of the organisation. H also provides insight into the plans regarding the time when the sums included in the earmarked reserves are expected to be allocated and paid out and to whom. Finally H's annual report explains how it intends to deal with the challenge of making funds available to charities within a shorter timescale.

SIGNAL 4: The right links in the partnership chain

In the charitable sector there is an increasing degree of partnership between individual organisations or alliances of several organisations. Assistance abroad is becoming increasingly international in nature, whereby organisations from different countries cooperate. Due to increasing globalisation, charitable organisations, their activities and cash flows are becoming increasingly linked in a chain. As a result it can be more difficult for donors to follow the ultimate destination of their money.

There is also the issue of austerity in government subsidies, as a result of which organisations are forced to join forces and to conceive new forms of partnership. It is happening increasingly that governments are more or less compelling charitable organisations to cooperate by allocating subsidies to only one organisation which then acts as overall coordinator.

Partnership promotes the exchange of and learning from experiences. By sharing logistics and infrastructure, funds can be spent more efficiently. This ensures that people do not work against each other. On the other hand it places exceptional demands on the governance of the organisations involved. A chain is only as strong as its weakest link. When entering into alliances, attention is often paid too late to the creation of proper agreements, which can yield problems in monitoring and accountability. Finally, what is often lacking is a proper evaluation of the added value of the partnership.

In further detail

The world of the charitable organisation is changing. It is no longer always possible to undertake projects individually. Partnerships between organisations for the sharing of experiences has been going on for some time, however there are other developments which necessitate entering into a partnership of one form or other. International aid is increasingly taking place in the form of alliances, in which there is partnership with other organisations in a chain.

Activities and funds are combined, as a result of which the view on ultimate expenditure may reduce. On the other hand it is not realistic to wish to monitor every euro in the chain, because this would lead to a disproportionate amount of bureaucracy. It is a challenge to find the right balance.

There is also an issue of a withdrawing government, which wants to leave fundraising primarily to the market and is cutting subsidies considerably. What is happening is that via a subsidy scheme, governments are more or less compelling charitable organisations to cooperate, with the secondary aim of reducing its own management expenses. In this case there is only one organisation to deal with and the number of subsidy recipients declines on balance. This is happening in the international aid, welfare and culture sectors for example. In fact there is a shift of administrative and control costs to the partnership alliance.

Partnership and the forming of alliances promote the exchange of and learning from experiences. By sharing logistics and infrastructure, funds can be spent more efficiently. This ensures that people do not work against each other. On the other hand it places exceptional demands on the governance of the organisations concerned. It now involves management and control across the entire partnership association, rather than simply in the individual organisation. Only the coordinator of the alliance signs the contract with the funds provider and is ultimately responsible for the project, even if it does not undertake part of the project itself. The other alliance partners sign a partnership agreement with it. What is complicated about this is that partners are not subordinate to the coordinator, everyone retains their own autonomy. It is difficult for the coordinator to gain and to retain insight into the implementation risks and management of them by the individual partners. Each partner is after all a separate organisation which makes its own decisions. The likelihood exists that the coordinator has an inadequate view of the course of events with its partners or is not alert to the identification of problems. For the partners there is a risk that the coordinator is insufficiently aware of its wider responsibilities or uses incorrect working practices. This can lead to a lack of clarity regarding agreements to be observed. The forming of an alliance has a much greater likelihood of success if clear governance agreements are made beforehand.

Accountability and control within the alliance also requires attention. Does ultimate responsibility mean that the individual responsibilities of the partners must be specifically audited, even if an audit opinion is provided? Formally there is no reference to a group, as the partners are all independent organisations. There is a chance that as a result too many audit costs will be incurred. In terms of ultimate accountability the question arises of whether the coordinator must account for the full amount of the subsidy in its annual accounts, even though a great deal of it happens outside of the coordinator. That is actually the case if the economic risk rests with the coordinator. There is likelihood that further explanation will be necessary as the amount of income will have increased considerably without an increase in the individual organisation. This can lead to confusion on the part of the public. It is therefore important that when subsidy schemes are set up, simple subsidy conditions which are easy to implement in practice are devised.

What is often lacking is a proper evaluation of the added value of the partnership. Alliance partners should investigate jointly what more can be achieved than would have been the case for individual activities. What additional social effects have been achieved than would have been the case without the partnership.

Negative example

Inadequate advance risk analysis

In a partnership arrangement it was agreed that one joint account would be set up, based on the accounts of the individual partners, provided with an unqualified opinion by their accountant. Coordinator I asked all of the partners in advance if they would be able to account according to the agreed system. Their accountants were asked explicitly whether, based on their experience and knowledge of the client, they would be able to issue an unqualified opinion. Although everyone responded positively to this, it appeared upon further investigation that an unqualified opinion was not possible.

The partners were not in a position to properly account for international expenses from international fundraising. Insufficient account was taken of this during the risk analysis at the start of the partnership. Ultimately in the final report the reasons why part of the expenditure could not be accounted for were stated. This led to adverse publicity.

Positive example

Clear partnership arrangements

Organisation J observed the potential bottlenecks relating to accounting for the new partnership alliance in advance. The arrangements which needed to be laid down in the agreement were established in good time. In this way it was clear to all partners where the responsibilities lay and what information needed to be provided to the coordinator. This concerned not only substantive and financial accountability but also the administrative action points for the partners. Arrangements were made regarding when the coordinator would be informed due to its ultimate responsibility, what actions it should take to keep abreast of the risk profile of the partners and what to do in the event of unforeseen issues. An extensive analysis was made in advance of all of the things which had the potential to go wrong and how to respond to this.

SIGNAL 5: Greater trust through professionalism

Charitable organisations rely on well-funded social trust. Donors remain involved if there is trust in the organisation. Without donors there is less income and the social objective of the organisation cannot be properly achieved. Donors want their money to be spent effectively, at minimal cost. They expect the organisation to be managed properly and in a responsible manner. With adequate supervision and monitoring, but with minimal bureaucracy. Volunteers who are involved in the charitable organisation also make demands on the organisation for which they work without reward. Trust however demands quality and with it a professionally managed organisation.

This costs money. Charitable organisations must be transparent about why these costs are necessary. In addition to transparency this places demands on the quality of governance, including the structure of internal supervision. Management is primarily responsible for the translation of the social objective into definitive plans, activities and measurable goals. It is good to make a distinction within the organisation between an operating body and supervisory body. A supervisory body can, from its independent position, monitor whether the activities and performance sufficiently comply with the objective. Charitable organisations however have a number of specific legal features. There are no shareholders and the number of statutory conditions is restricted. In practice this is implemented by codes of conduct, accreditation marks and directives. Of these, the Good Governance Code for Charities (Wijffels Code) of the VFI and the CBF-seal are the most well-known. The work is not over when a code is introduced. It must be implemented in practice and evaluated periodically. It appears in particular for smaller fundraising institutions without a CBF-seal and for equity funds that the basic concepts of the VFI code have not yet been implemented, or do not function properly in practice.

In further detail

Trust in charitable organisations is not only earned by transparency but also by the quality of governance. The donor expects a high quality of management, office organisation and supervision within the charitable organisation. On the other hand a charitable organisation is also expected to keep its own costs to a minimum. This leads to a paradoxical relationship between trust and quality. Trust requires quality whilst quality requires professionalism. Investment in professional implementation, management and supervision is sometimes regarded with suspicion by the public, because it costs extra and demands extra effort from people. Charitable organisations must make it clear that the management of their organisation requires professionalism. Performance levels and effects cannot be achieved without spending an element of income on organisational costs. The discussion must not be about the amount and the need for cost, but the social effects achieved.

Charitable organisations have a different legal structure to regular companies. They are usually foundations or associations without direct stakeholders such as shareholders. The number of conditions in the Civil Code is limited. Only organisations which operate a commercial enterprise are required to compile annual accounts in accordance with Book 2, Title 9 of the Civil Code. Donors do not normally have any influence on the way in which their money is spent, whilst the beneficiaries have no stake in the organisation. There is extensive use of volunteers, who despite their enthusiasm often do not possess the required level of professionalism. It is therefore important to impose high standards on the management and the supervision of the organisation. Directors and supervisory bodies must be able to assess and correct themselves.

The limited number of statutory conditions has led to various codes of conduct, accreditation marks and laws and regulations relating to sector organisations. In 2005 the VFI made the Good Governance Code for Good Causes (Wijffels Code) compulsory for all of its members. The CBF has incorporated the principles of the Code in its accreditation mark criteria. Organisations with CBF-seal must compile an accountability statement each year in this context and include a summary of it in their annual report. The Code consists of three pillars: management, supervision and accountability, with a heavy emphasis on transparency. In the recent Vision of the future and accountability in the philanthropic sector of SBF and government it was announced that there is to be one code of conduct for all members of the sector organisations in the sector. Smaller fundraising institutions without a CBF-seal and equity funds have not always implemented the basic concepts within the Code. This relates amongst other things to the setting up of a supervisory board. The Code states that such a board is not compulsory for organisations with less than 15 fte's or 2.5 million in annual income. It is still the case that after retiring directors become a member of the supervisory board or have difficulty in their new role of supervisor. They often still feel more like a director than a member of the supervisory board. Being a member of the supervisory board demands specific experience and expertise, to be able to identify signals early and to counterbalance the management sufficiently. It happens that within the supervisory board not all areas requiring attention in the organisation are sufficiently covered. In that case the sounding board function does not work properly. Furthermore there are situations in which the supervisory board operates too much as an island and is insufficiently embedded in the organisation. In the event that no clear information protocol is set up the supervisory board does not have the correct information at its disposal.

Negative example

Former director cannot make the change

Former director X of organisation K was appointed as chairman of the supervisory board of K immediately after his retirement. He also fulfils a significant management role in partner organisation L. There is little in the way of supervision. In fact X is continuing to act as a director and is involved with issues which fall a long way outside his responsibilities as a member of the supervisory board. Because of his past history as a director he always has access to more information than the other members of the supervisory board. This created friction within the organisation, both with the new management and the other members of the supervisory board. As a consequence they are continuously working in opposition to one another.

Positive example

Clear governance agreements

The supervisory board of organisation M took advice upon the introduction of the Wijffels code in order to create a good board based on the Code. Thus, in consultation with the management the board set up an agenda for governance themes. Also following thorough discussion it was determined what information should be submitted to the supervisory board with what regularity. In relation to the composition of the board a protocol was set up which gave shape to the profile of its members. Board meetings are evaluated. In this evaluation each member's input is critically examined and whether this is in line with the agreements made.During the meetings time is made available for a presentation by employees of the organisation. In this way the board gains insight into current issues and how policy takes shape in daily practice.

SIGNAL 6: An expectation gap to bridge

The charitable sector is evidently a sector in which the accountant can fulfil the role of trustee of public interest. After all, charitable organisations are focused on achieving social objectives, in which they build on the trust of donors. The annual accounts and the annual report constitute an important tool to provide accountability for this, with directive RJ 650 as the reporting norm. Because the emphasis is on the social performance achieved, the annual report is in fact more important than the annual accounts. According to current laws and regulations the accountant only audits a charitable organisation's annual accounts. He is not required to give any opinion regarding the content of the annual report or its compatibility with the annual accounts.

For the public this is a less than satisfactory situation because the accountant expresses no opinion on the most important information. The public expects that an unqualified audit opinion also means that the information contained in the annual report is accurate and complete, that codes have been observed and the performance accounted for is correct. Even charitable organisations expect more than this, for example support in the area of performance and effect measurement. In order to meet these expectations the accountant must fulfil a broader interpretation of his social role. This is linked to the recommendations of the NBA advisory *report "Robust gatekeeper's role". It is for the charitable organisation to determine whether the accountant actually can and may fulfil this wider role. The accountant can start by encouraging the management and the supervisory board to be more transparent regarding the achieved social effect. There is also a role in this for the CBF and NBA. Finally it is the case that for small charitable organisations RJ 650 is not always followed. This requires a signalling role for the accountant.*

In further detail

The charitable sector is a sector in which social objectives and trust play a significant role. It is not profitability, capital or maximising shareholder value which are central, but social performance and effects. For the accountant it is evidently a sector in which to fulfil the role of trustee of public interest. In doing so he provides an opinion as an independent expert on the reliability of accounting information. The annual accounts and the annual report are important means of communication although online provision of information is on the increase. The information contained in the annual report is the most important to the public. In it the management accounts for the social objectives, the policy implemented and the activities undertaken. The annual accounts only state what funds have been expended during the year, to what costs these are linked and how many funds remained at the end of the accounting year.

Charitable organisations are not subject to the reporting conditions of Book 2 Title 9 of the Civil Code, unless they operate a business. Directive RJ 650 however is seen as the applicable standard. An accountant must only give an opinion on the annual accounts. It is true that RJ 650 requires the annual report to be compatible with the annual accounts, but the accountant does not have to provide an explicit opinion on this. Nor does he play any part in respect to the content of the annual report or the statements made in it by the management, for example in regard to compliance with laws and regulations, codes of conduct or accreditation marks. Nor is he required to express any opinion on the performance and effects achieved. This is a far from satisfactory situation, as in the charitable sector the key to the provision of information is the annual report itself. The donor and the wider public want to know if the information is correct, if the goals achieved are in line with the organisation's objective and whether the activities have had any effect. They assume that the accountant has also audited this information. There is clear evidence of an expectation gap to bridge.

The solution does not lie in prescribing what an accountant does or does not audit, but in an expansion of his social role. The NBA advisory report 'Robust gatekeeper's role' made a number of recommendations regarding the extension of the role of the accountant. These can serve as a starting point. The accountant cannot do this alone; it is up to the charitable organisation to specify whether he has the financial scope for this. Allowing the accountant to express an opinion on the information in the annual report or on its compatibility with the annual accounts could be a starting point. Providing assurance of effect and performance measurement is becoming more complicated. There must be measuring methods and benchmarks in place in order to be able to measure and test objectives, activities and effects. This is still at a very early stage in the sector. A charitable organisation can begin to define the desired social performance and the development of standards. The accountant can in turn recommend that the management and the supervisory board provide transparent insight into the effect of the activities. He can do that for example via discussions, management letters or separate reports. He can also motivate them to enter into dialogue with the stakeholders in the organisation. The levels of social performance and effects provided are the benchmarks for success for a charitable organisation. They touch the very core of its objectives. This is also the reason that De Transparantkrant 2012 views attention to the effects achieved as the next phase in the development of reporting. There is still a long way to go and also an active role to be played by the accountant. Together, NBA and CBF should be able to stimulate discussion with the sector organisations regarding the desired role of the accountant.

In small charitable organisations there is a further signalling role for the accountant in respect to the quality of reporting. It is evident from research by the CBF that for the most part small organisations do not always observe RJ 650 correctly. For example in approximately one third of 2011 annual accounts the comparative figures for 2010 were amended, without any explanation being given. For the reader the figures were no longer comparable. Furthermore it appeared that the use of the heading securities in the annual accounts was not always the same. Securities could be relocated from one heading to another and reappear a year later, without any explanation as to why. This created a lack of clarity. Finally the classification of incomes was not always done properly and the correct RJ 650 templates were not always used. This does not aid transparency for the reader either. It may be expected that the accountant informs the charitable organisation of this and ensures it is amended. If necessary he will amend the scope of his opinion.

Negative example

No stable course of action

In the annual accounts of charitable organisation N the securities portfolio was moved from one year to another from the heading securities to non-current financial assets. They are no longer to be found on the balance sheet, but only in a schedule in the notes to the annual accounts. There is no explanation whatsoever why N made this choice. The change in heading however has major consequences for N's liquidity position. This has reduced dramatically, yet the accountant makes no reference to this in the opinion accompanying the annual accounts. Rumour has it that the organisation only did this to divert attention from the risky nature of its investments. There is a threat that this may cause damage to reputation

Positive example

Accountant expands his role

Charitable organisation O states explicitly in its annual report what its internal procedures are and what management measures have been taken to monitor the risks in the sector. It also states what criteria are used in the allocation of expenditure. The management and the supervisory board state explicitly in the annual accounts that they consider that they are in control of this situation. Although the accountant makes no reference to it in the opinion accompanying the annual accounts, he issues a separate report to the management and the board containing factual findings. In it he reports his findings on the procedures referred to and measures taken in the preceding year. This leads to internal discussion as to whether standards can be developed in this area so that in the future the accountant can also provide assurance on this issue.

04 | Summary of stakeholders' responses

Three stakeholders in the sector were requested to respond to the public management letter (PML) and their comments have been included in their entirety in the Dutch PML. What follows is a brief summary:

Centraal Bureau Fondsenwerving
[CBF, Central Bureau on Fundraising]
The CBF appreciates the work of the NBA and considers it a good initiative for the NBA to set up a risk identification process. As an independent body supervising fundraising institutions it is also important to the CBF for signals which may indicate structural problems in the sector to be recognized early. The CBF acknowledges the significance of the signals presented and shall continue to participate and cooperate in the subjects which have been raised in this PML. The charitable sector is very diverse in nature. At the moment fundraising by institutions who no longer wish to be dependent on subsidies is on the increase. Museums, educational institutions and care institutions, for example. The CBF appreciates the attention paid in the PML to the giving public. The reputation of charitable organisations amongst the giving public is, after all, very important. One concern which the CBF has shared with the NBA is that the RJ reporting directive for fundraising institutions is not always observed by the smaller funds. Together with the NBA the CBF wishes to introduce structural improvements to this. The CBF is thinking here along the lines of a joint promotion of the importance of uniform reporting for fundraising and the deepening of knowledge on the subject. The recommendations contained in the PML are being taken very seriously by the CBF, will be discussed by the CBF's Panel of Experts and will be on the agenda of the RJ Working Party Fundraising Institutions. The PML provides adequate action points to continue working together for a healthy charitable sector.

Vereniging van Fondsenwervende instellingen
[VFI, Association of Fundraising Institutions]
The VFI is pleased with the NBA's initiative, as the PML enables the VFI to benefit from the experiences and observations of accountants. The VFI agrees in general with the signals in the PML. The emphasis is on the donor, but the beneficiaries of the charitable organisation are naturally also important. Part of the recommendations is in line with that which has been considered important for

some time now by the VFI. An example is the significance of risk management. The importance of the first signal and the accompanying recommendations is endorsed. Charitable organisations must be transparent about the results achieved. Efforts must remain focused on making the effect as transparent as possible, but expectations of this must also be properly managed. The recommendation regarding the separation of management and supervision is warmly welcomed. This links well to the professionalisation of supervision and accountability which has already been set in motion. Accountants can motivate organisations to comply with legislation, even though this is not (yet) mandatory. In this way they can play an important role in the further professionalisation of the entire sector. The recommendation to state which items are not covered by the accountant's opinion is less fortunate. What is important is clarity over what is covered by the audit. The VFI readily accepts the invitation to enter into discussions with the NBA and the CBF regarding the scope of the accountant's audit. As a first step a survey should take place within the RJ Working Party Fundraising Institutions, in which stakeholders are also represented. The VFI is willing to cooperate with the NBA on conveying further the signals in the PML.

SBF

samenwerkende
brancheorganisaties
filantropie

Samenwerkende Brancheorganisaties Filantropie [SBF, Federation of Charities Associations]

The SBF appreciates the initiative taken by the NBA and in doing so demonstrating its social responsibility. The larger fundraising institutions are central to the PML. The PML does not therefore apply to the charitable sector as a whole. The SBF regards this as a missed opportunity. As a result of this decision the scope and therefore the significance of the PML is restricted and the recommendations contained in the PML to a large extent relate only to the larger fundraising institutions. For further comments the SBF refers to the response of the VFI, one of the four sector organisations which form the SBF.

Credits

Knowledge Sharing in the charitable sector

In this public management letter (PML) the NBA is presenting six signals and recommendations to stakeholders and interested parties in charitable organisations. The charitable sector is the eighth sector which has been selected by the NBA's Identification Board for the Knowledge Sharing programme. A working group of public accountants in the sector gathered anonymised findings and discussed them. This was then discussed at a meeting with stakeholders. The Identification Board then applied a social assessment to the signals. Sector organisations and other stakeholders in the sector were willing to respond in writing to the PML. Coordination was provided by the Knowledge Sharing programme team.

More information

A public management letter is one of the publications from the Knowledge Sharing programme. The NBA previously published public management letters about Insurance (June 2010), Long-term care (November 2010), Commercial Property (June 2011), Greenhouse horticulture (November 2011) and Municipalities (June 2012), as well as an open letter about Pensions (February 2011) and a discussion report about Tone at the Top (September 2012). All publications are public and are intended for a broad audience.

Identification Board

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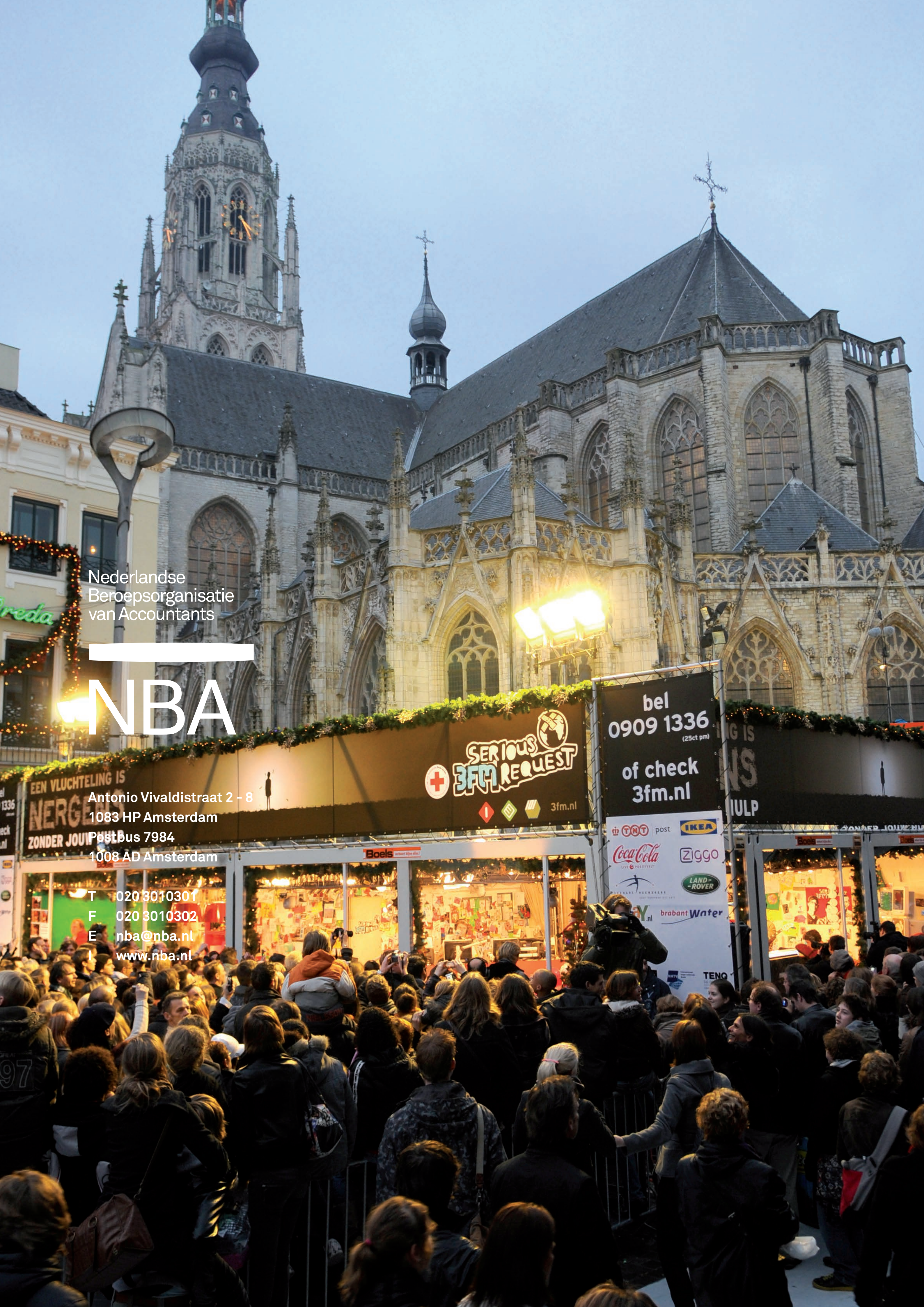
Image material

The Dutch Red Cross



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