

Navigating the maze of nonprofit financial reporting

**BALANCING TRANSPARENCY AND
SIMPLICITY TO BUILD TRUST**



Complexity vs. clarity: The balancing act of effective reporting

Achieving a balance between transparency and simplicity in financial reporting is a significant challenge for NPOs of all sizes. The current landscape, characterized by multiple reporting standards, strict compliance, and intricate donor requirements, creates complexity and burdens resources.

The view from outside the world of NPOs, reporting standards look similar, but there are notable differences between small and large charities. Smaller charities primarily cater to trustees and a limited number of members, where a close connection between expenditure and its purpose is crucial. Therefore, a one-size-fits-all approach to reporting can pose difficulties for smaller charities. However, larger charities can benefit from the advantages of standardized reporting.

Effective donor reporting is a critical factor in securing and sustaining funding. However, achieving this goal presented several challenges:

Complex donor expectations

While financial information is crucial, donor expectations extend far beyond the numbers. They often seek tangible results demonstrably linked to their contributions, prefer reports presented in diverse formats, and require complex calculations to ensure funds are used precisely as intended. This creates a demanding environment for organizations seeking to maintain strong donor relationships and secure future funding.

While tailoring reports to each donor's preferences might enhance engagement, catering to diverse stakeholder needs presents a significant challenge. For instance, trustee boards with varying age groups often exhibit different preferences for traditional and modern reporting approaches, as evidenced during the finalization of grant agreements. This multiplicity of needs necessitates a delicate balancing act to ensure transparency and maintain positive relationships with all parties involved.

Stakeholders expect immediate access to custom reports on demand. However, this trend is hampered by the reluctance to cover the associated support costs. The expectation of immediate access to information clashes with limited resource availability and siloed legacy systems.

Impact reporting

Measuring and reporting impact proves more challenging than expected. Disconnects between intended and actual outcomes lead some NPOs to use arbitrary manual adjustments. Assigning costs to specific projects further complicates matters. The translation and mapping of data create disconnected documents, hindering the allocation of funds and impact assessment.

Standardization

Balancing the desire for standardized reporting with the unique needs of boards, trustees, and donors is a complex task. Addressing concerns about double-funding fraud is a compelling argument for standardized practices, potentially benefiting both NPOs and donors. Effective report design is also a potential issue, particularly when dealing with currency translation, report outputs that require specific data, compiling narrative and layout.

Data integration

Budget limitations and the lack of seamless integration between existing systems often force users to export data from various sources into Excel for report generation. Spreadsheets don't offer the level of data analysis needed to generate comprehensive reports on grants and projects or provide funders with clear and accurate data on the project or program outcomes.

Resource constraints

All NPOs acknowledge the widespread challenge of resource limitations within the sector, with many small charities struggling to maintain full compliance with accounting standards. Many NPOs find themselves dedicating significant time and resources to fulfilling reporting requirements for unrestricted grants, even when detailed expense tracking wasn't mandatory. While there's a push for less stringent reporting, particularly in annual reports, this shift will likely take time, especially for entities reliant on government funding.

Economic and technological hurdles

Persistent economic pressures restrict the allocation of financial resources toward acquiring essential services, such as professional advice or advanced technology solutions, and the skilled resources for implementation. While technology presents numerous potential benefits, the real challenge lies in securing funding for the time and resources necessary for successful implementation, particularly in areas like project management.

Challenges in the small charity sector

The unique challenges faced by small NPOs in fostering collaboration and coordination are due to inherent fragmentation across their operating model. Many small charities are primarily led by volunteers, limiting the feasibility and cost-effectiveness of outsourcing tasks to professional teams. Variations in donor bases, operational systems, and reporting practices across different organizations pose difficulties in implementing shared service models, which could otherwise offer opportunities for simplification.



Meeting evolving reporting and compliance

The landscape of Nonprofit financial and operational reporting currently lacks a unified approach. Existing standards often fall short of capturing the unique characteristics of transactions and activities, leading to inconsistencies across geographic boundaries.

The International Nonprofit Accounting Guidance (INPAG)

The introduction of the International Nonprofit Accounting Guidance (INPAG) aims to lighten these challenges. Developed through the IFR4NPO project by **CIPFA and Humentum**, INPAG strives to establish the world's first comprehensive set of internationally applicable financial reporting guidelines specifically tailored to Nonprofit organizations.

By promoting clarity and consistency in NPO financial reports, INPAG aims to:

- Enhance the credibility and reliability of Nonprofit financial information.
- Foster greater trust from stakeholders and the general public.
- Reduce the burden currently placed on NPOs by addressing the vast array of reporting requirements imposed by individual funding organizations.

INPAG's global reach has the potential to streamline financial reporting practices for NPOs, ultimately facilitating increased transparency and bolstering public confidence in the vital work they perform.

ESG reporting in the Nonprofit sector: A matter of bandwidth and priorities

While the concept of Environmental, Social, and Governance (**ESG**) reporting is gaining traction globally, its adoption within the Nonprofit sector remains limited. Currently, many NPOs prioritize addressing operational challenges such as financial sustainability over implementing sustainability reporting practices.

While there is a growing interest in sustainability reporting, the lack of mandatory requirements and the resource burden it presents outweigh the perceived benefits.

Organizations that face resource constraints often view ESG reporting as an additional burden beyond their current capacity. Navigating compliance concerns and potential reporting requirements can be overwhelming. However, protecting organizational reputation is paramount, as it directly impacts public image and fundraising success. Aligning with the agenda set by grantors and funders regarding ESG considerations is crucial, and for many, waiting for their directives before taking action is seen as a safe approach.

The planned inclusion of narrative reporting in the upcoming INPAG framework acknowledges the challenges charities face with comprehensive sustainability reporting. This suggests a potential future where narrative reporting could offer a more accessible entry point for engaging with ESG principles.

Overall, while ESG reporting is gaining attention, significant hurdles regarding bandwidth, priorities, and resource limitations need to be addressed to encourage wider adoption within the Nonprofit sector.

Finn Church Aid

“We relied on a set of different systems and tools that created complexity, delay, and cost. There was also a significant amount of manual intervention in everyday processes. We want our activities to be geared towards support to the affected communities, not dealing with manual work. As a nonprofit, regulatory compliance reporting is essential. It’s very difficult to deliver timely, accurate reporting when the systems don’t talk to one another.”

Bruno Duréault

Director of Finance and Operational Support

Leveraging technology to optimize reporting capabilities

There is a dire need for a user-friendly universal reporting platform; many organizations rely on legacy systems or their known existing platform and struggle to manage today's complexity with its current limitations. While many finance leaders reference the challenges posed by data silos, they also recognize the resource burden associated with abandoning spreadsheets, a primary culprit in their creation.

Despite efforts to leverage existing resources and processes, a reliance on manual data consolidation through spreadsheets persists, highlighting the need for improved data integration solutions and cross-system collaboration. Some NPOs are transitioning from basic tools like Excel to more advanced systems, indicating a potential future for improved efficiency and collaboration within the sector. However, addressing the underlying issues of fragmentation and resource limitations will be crucial for facilitating widespread adoption of such advancements.

There is an understanding that digital transformation to Cloud-based solutions, SaaS will deliver on greater collaboration and agility for the Nonprofit sector. It is acknowledged that there are higher initial setup costs associated with Cloud-based solutions, but also huge potential for ongoing cost savings by enabling greater collaboration between systems and access to a wider range of data.

The emergence of SaaS operating models for NPO's

Greater access to related intelligence can provide organizations with powerful insights into how they should best support their mission, resulting in more effective delivery of services, a wider range of grants, and more effective donor reporting. SaaS solutions make tracking service delivery metrics such as usage rates, efficiency of budget allocation, and completion times significantly easier. This, in turn, makes it straightforward for an organization's leadership (and its donors and other stakeholders) to understand the impact of their work.

Leveraging the capabilities offered by SaaS solutions confers many benefits that are not only related directly to improving operational efficiency but also provide invaluable insight and ultimately help you provide a better range of reports faster.

Finally, automation capabilities within SaaS technologies allow staff members to spend a great deal more time focusing on delivering direct services and less time on building the reports. This makes delivering quality support much simpler while also significantly reducing costs associated with manual processes and **regulatory compliance.**

As NPOs continue to evolve, embracing Cloud solutions that are based on the **Common Data Model** (CDM) is essential. The CDM offers a standardized data framework that acts as a bridge between the applications and solutions that NPOs use to engage with government agencies, grant providers, foundations, and field-based solutions they use to deliver services, fostering better collaboration and service delivery.

The unique financial management and reporting challenges that NPO's face can be reduced by SaaS ERP and FP&A solutions that are built for purpose and adhere to the CDM framework. By centralizing financial data, automating processes, and providing real-time insights, SaaS solutions empower NPOs of all sizes to manage their finances efficiently, maintain transparency, and adapt to changing regulatory landscapes.

How Unit4 can help you

Unit4 has been creating and delivering enterprise software to nonprofit organizations for over 40 years.

Our nonprofit specific Cloud-based **ERP**, **FP&A**, **HCM**, and **S2C** solutions provide the perfect platform on which to build the foundations of your future resilience and act as a unified environment for back-office processes within your organization. We help you manage your operations today, wherever they are in the world, and plan your workforces and finances for the future while supporting your people with a great experience and the tools necessary to work effectively. All of these efficiencies are driven by personalization, automation, and improved data visibility that create the working environments your people need to focus less on administration, and more on service provision. Our **Source to Contract** solutions also give you the power to digitize and control every aspect of your procurement process to realize greater efficiency and value while adhering to regional regulatory requirements.

Our **nonprofit industry model** for implementation also means you can be up and running with any of our solutions in just half the time taken by typical implementation projects – with relevant best practices already enabled.

Check out our dedicated **nonprofit pages** here to learn more, or click here to book a demo.

GGGI

“Cloud deployment ensures we are compliant with international standards or global regulations and policies. It also makes us confident we can provide business continuity.”

Rainelda Ampil
ERP Team Lead

Medical Teams International (MTI)

“The budget stakeholders – including our field operations, global services, and market development teams – can track funding sources, view individual invoices, and confirm how their spend stands against the budget. The Unit4 Analyser reporting tool means the data is also timely and trusted for decision-making.”

Stephe Dean
IT Director

Heifer International

“We went from having four or five different accounting systems spread out across the globe...it was sparse, it was hard to get ahold of that data...[ERP] has helped us bring that together, centralize that data... and show the organization in real time where Heifer is going.”

Steve Northcutt
Director of Enterprise Systems

For more information go to:

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