



Going concern considerations for NHS charities

11 April 2024



Summary

Charity trustees need to assess the charity's ability to continue as a going concern.

This briefing sets out the issues that could be included in that assessment for NHS charities.

Background

Charities normally prepare their accounts on a going concern basis as they are expected to continue to operate for the foreseeable future. However, trustees are expected to assess the charity's ability to continue as a going concern. The depth of that assessment will depend on the financial position of the charity, but this briefing sets out the issues that the trustees may want to consider as part of their going concern assessment.

SORP requirements

The *Charities statement of recommended practice: FRS 102*¹ (SORP) (paragraph 3.14) states that charities will normally prepare their accounts on a going concern basis. This means that it is expected that the charity will continue to operate for the foreseeable future.

Paragraph 3.8 of FRS 102 states that:

'An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.'

When preparing the charity's accounts, trustees are expected to assess the charity's ability to continue as a going concern.

The SORP says that this assessment should consider as much information about the future as possible but should look ahead at least 12 months from the end of the reporting period. This means that events occurring after the balance sheet date need to be considered if the financial position of the charity deteriorates after the year-end.

It is worth noting that **auditors are required**² to make a disclosure in their report if the period covered by the management's review is less than a year from the date of approval of the financial statements.

The SORP also requires disclosures in the trustee annual report and accounts (paragraphs 1.23 and 3.38 of the SORP):

- if there are no material uncertainties about the charity's ability to continue then this needs to be stated in the accounts
- if there are any concerns about the charity's ability to continue as a going concern but the accounts are prepared on a going concern basis, the following needs to be disclosed:
 - the factors that support the preparation of the accounts on a going concern basis
 - a balanced, proportionate and clear disclosure of any uncertainties that makes the going concern assumption doubtful
- if the accounts are not prepared on a going concern basis, this fact must be disclosed along with:
 - the reason for the charity not being considered a going concern
 - the basis on which the accounts are prepared.

Key considerations in a going concern review

The depth of the review will depend on the financial position of the charity. For example, a charity that is holding reserves above the level set in its reserves policy, that has few or no long-term financial commitments and that is mainly a grant making charity is unlikely to need to do more than state these facts.

However, a charity that has long term commitments, is operating at or below its reserves policy and has cash flow concerns will need to undertake a more detailed review.

Issues to be considered include:

- the financial position to date against budget and plan as well as the forecast financial position. Key judgements and assumptions made in developing budgets and forecasts should be challenged, particularly those relating to fundraising and investment income
- cash flow forecasts and the assumptions made about future activities both in terms of the income they generate and the timing of associated cash receipts and the cash costs they incur. Past accuracy of cash flow forecasting is an indication that future forecasts may be accurate
- assessment of liquidity – whether the charity has enough cash to meet its liabilities on time
- where the charity has investments and relies on investment income, the going concern assessment should consider:
 - performance against plan in relation to investment income
 - performance of investments against other benchmarks
 - consideration of the risks relating to the future performance of investments
- reserves and performance against the reserves policy – the SORP (paragraph 1.48) requires the financial review to include a review of reserves, the going concern review should be linked to this review
- income sources and the risks attached to them. Where a charity is reliant on a single source of income, an assessment of the likelihood of that income continuing should be made
- expenditure plans and long term financial commitments. NHS charities tend to be grant making charities so they should be able to flex grants in accordance with the funds available to spend. However, some NHS charities will have long term commitments such as staff costs or multi-year grant commitments that are less easy to alter
- the strength of the balance sheet – whether assets are greater than liabilities and the likelihood of the charity being able to recover income due from debtors as well as pay creditors on time
- any strategy or plans developed to achieve financial balance.

The role of the auditor/ independent examiner

*International standard on auditing (UK) 570 Going concern*³ (ISA 570) sets out the auditor's responsibility in relation to going concern. The auditor is responsible for obtaining sufficient appropriate audit evidence to be able to reach a conclusion on whether a material uncertainty related to going concern exists and the appropriateness of management preparing the accounts on a going concern basis.

Independent examiners in [England and Wales](#)⁴ and [Northern Ireland](#)⁵ are also required to check whether the trustees have considered the financial circumstances of the charity at the year-end and whether they have assessed whether the charity is a going concern.

In [Scotland](#)⁶, the guidance for independent examiners does not specifically mention going concern but it does require the examiner to consider whether the accounts disclose the financial position of the charity.

Further reading

ACCA, *Going concern and the alternative basis of accounts preparation for charities reporting under UK-Ireland GAAP*, November 2023

Charity Commission for England and Wales, *Managing a charity's finances: planning, managing difficulties and insolvency (CC12)*, updated June 2023

ICAEW, *Assessing financial resilience in turbulent times*, February 2021

ICAS, *Going concern guidance for charity trustees*, August 2020

OSCR, *Charities and going concern: the whole story*, September 2020

Footnotes

- 1 Charity Commission for England and Wales, OSCR, Charity Commission for Northern Ireland, Charities SORP (FRS 102), updated October 2019
- 2 The footnote to paragraph 14 of ISA(UK)570 states that 'In the UK, the period used by those charged with governance in making their assessment is usually at least one year from the date of approval of the financial statements
- 3 FRC, ISA (UK) 570 Going concern, updated May 2022
- 4 Charity Commission for England and Wales, CC32 independent examination of charity accounts (direction 6), updated June 2021
- 5 Charity Commission for Northern Ireland, Guidance for independent examiners (direction 8), June 2019
- 6 OSCR, Independent examination: a guide for independent examiners, February 2020



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