

Technical factsheet

Going concern and the alternative basis of accounts preparation for charities reporting under UK-Ireland Generally Accepted Accounting Principles (GAAP)

Aimed at trustees and treasurers of smaller charities and independent examiners, this Factsheet explores how and when to prepare charity accounts on an alternative basis to going concern.

Context

Subsequent to the impact of the global Covid-19 pandemic of 2019 there has been a continuing difficult economic backdrop. Faced with constrained public sector contract income and grant income, rising costs, and rising demand there remains continuing financial pressure on the charity sectors in the UK and Ireland. Although not every charity is so affected, this difficult economic situation provides the context for a growing emphasis on charities demonstrating going concern and broader resilience. To quote one of the UK's Charity Regulators: 'financial resilience remains a core risk' (Charity Commission for England and Wales- Charity Sector Risk Assessment 2025).

Accounts preparation under GAAP is based on the premise that the reporting entity is a going concern. The applicable standard: FRS102 Financial Reporting Standard applicable in the UK and Ireland (2024) explicitly requires that the going concern basis is to be demonstrated (see section 3 paragraph 3.8) and disclosed (paragraph 3.8A) along with any material uncertainties (paragraph 3.9). Otherwise, an alternate basis of accounts preparation is required (paragraph 3.9).

Charities in the UK and Ireland also follow the: Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Ireland FRS 102 (Charities SORP 2026). The 2026 SORP assumes that the charity is a going concern (see module 3 paragraph 3.16).

The responsibility to prepare and approve the trustees' annual report and financial statements (the accounts) falls on the trustee board (Charities SORP 2026 introduction paragraph 44). What do you do if the uncertainties are so such as to no longer support, or other circumstances no longer justify, preparing your charity's accounts on a going concern basis? This factsheet offers guidance on how to prepare your charity's accounts if this happens.

This factsheet looks at eight aspects:

- A definition of going concern and the disclosure requirements of the SORP
- the wider perspective of operational resilience
- assessing going concern – some issues on what to consider
- scenarios where a going concern basis may be doubtful – exploring how context, past experience and future prospects are taken together to form a view
- the implications for accounts preparation – exploring for a number of scenarios the basis for alternate accounting policies and accounts preparation and how context influences the judgments made and the effect the alternate basis has on accounting for income, expenditure, assets and liabilities
- the role of trustees
- the perspective of the independent examiner – the extent to which going concern is an aspect of an examination and the implications for the independent examiner's report to the trustees, and whether they also need to report to the charity's regulator
- further sources of help for trustees and independent examiners on the issues discussed.

The trustees of those charities subject to audit are recommended to have a conversation with their auditor about these issues. Although this factsheet intends to offer helpful suggestions, auditors will often bring a perspective from their work in applying international audit standards when giving their opinion on the accounts.

Although there is often a close association between closure and a charity not being a going concern, closure might not always follow. Also, financial challenges and material uncertainty as to going concern may not always lead to having to prepare accounts on an alternate basis. This factsheet assumes a level of familiarity with accounting concepts and the SORP so trustees may find it helpful to discuss their charity's situation and this factsheet with their accountant, independent examiner or your charity's treasurer.

A definition of going concern and the SORP's requirements

FRS102, in common with all accounting standards, is written with a presumption that the entity is a going concern. The SORP in applying FRS102 has the same presumption.

The Financial Reporting Council's (FRC) guidance on going concern, although written solely for medium, large or listed for-profit companies (section paragraph 2.6), it is helpful in defining the basis for the going concern assessment. To quote: 'The assessment must take into account all relevant facts and circumstances at the date of approval of the financial statements. It is not appropriate to prepare the financial statements using the going concern basis of accounting if the directors determine after the reporting period that they intend to liquidate the company or to cease trading or have no realistic alternative but to do so (see section 3 paragraph 3.5).' In the case of a charity, this judgment ultimately lies with the trustees. Although they may take advice, it is the trustee body that approves the accounts and signs them off and, where required, files them with the registrar(s).

In the UK the registrars of charities are the Charity Commission for England and Wales ([CCEW](#)), the Charity Commission for Northern Ireland ([CCNI](#)) and the Office of the Scottish Charity Regulator ([OSCR](#)), and, where the charity is formed as a company, [Companies House](#). In the Republic of Ireland filing is with the Charities Regulator ([CR](#)) or, where the charity is formed as a company, the Companies Registration Office ([CRO](#)).

The focus of the assessment being: 'identifying risks and uncertainties, including those relating to solvency and liquidity and other potential threats to the company's ability to continue in operation' (section 2 paragraph 2.4).

The FRC guidance (section 4) focuses on two specific risks:

- 'Solvency risk is the risk that a company will be unable to meet its liabilities in full. A company must generate sufficient value that its assets exceed its liabilities' (paragraph 4.3). Has the charity a balance sheet which has positive net assets, ie does the value of the assets held exceed the value of its liabilities?
- 'Liquidity risk is the risk that a company will be unable to meet its liabilities as they fall due. A company must generate and retain sufficient cash to allow it to meet its liabilities at the time contractual payments are due' (paragraph 4.4). Has the charity access to sufficient cash on a timely basis to settle bills and meet liabilities as they fall due?

Put simply, in the judgment of the trustees, can the charity continue to pay its bills and meet its liabilities as they fall due? This judgment is affected by the economic context of the charity; the trustees' assessment of the two risks are the starting point for further considering the circumstances of the charity.

When considering if assets exceed liabilities on the balance sheet (also known as the statement of financial position), this is not a simple equation because assets may be valued differently. Properties retained for the charity's own use may be historical cost, whereas investment properties are at fair value and so a consideration is what value might the asset realise were it to be sold? Also, the balance sheet only gives a limited insight into the timing of liabilities falling due and offers no insight as to the timing and patterns of income and expenditure in the coming reporting period.

The liquidity test may indicate that year-end holdings of cash will run low or be fully depleted based on the initial budget for the coming year but the trustees may be able to arrange, or rely, on lines of credit or obtain funding. Cash flow – the timing of amount of cash coming in and going out of the charity considers all sources of cash. The availability of credit needs to be factored into this initial assessment. There may also be a degree of uncertainty around the timing or amount of both income and expenditure that will affect the cash balances held. Cash flows do not offer immediate insight into the degree of control trustees can exercise over scaling back expenditure or liabilities should the need arise and thereby change the cash flow situation. Similarly, the trustees may have assets they can sell that will improve cash flow.

SORP's requirements

The SORP requires the trustees to report on going concern as an aspect of the trustees' annual report and in the notes to the financial statements.

In respect of the trustees' annual report the SORP requires charities in all tiers to report (module 1):

Paragraph 1.41. 'Going concern means the ability of an organisation to operate for the foreseeable future and its ability to pay its debts as they fall due (see paragraphs 3.17 to 3.19 of SORP module 3 'Accounting standards, policies, concepts and principles, including estimates and errors'). Where a charity has no reserves (or negative net assets on the balance sheet), it must explain why it is still operating as a going concern.'

Paragraph 1.42. 'If, at the date of approving the report and accounts, there are material uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties must be explained.'

In respect of the note on accounting policies (module 3) the SORP requires:

Paragraph 3.17. 'Charities normally prepare their accounts on the basis of being a going concern. The trustees must make their own assessment of their charity's ability to continue as a going concern to assure themselves of the validity of this assumption when preparing their accounts. In making this assessment, a charity's trustees must take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved.'

Paragraph 3.18. 'When a charity prepares its accounts on a going concern basis this must be disclosed along with confirmation that it has considered information about the future as set out in paragraph 3.17. Charities must also disclose any significant judgments made in assessing the charity's ability to continue as a going concern. This SORP requires that where there are no material uncertainties about the charity's ability to continue to report on a going concern basis, this judgment should be disclosed.'

Paragraph 3.19. 'When the trustees are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt on the charity's ability to continue as a going concern, the charity must disclose those uncertainties. A charity not reporting on a going concern basis must disclose that fact, together with the basis on which it prepared the financial statements and the reason why it is not regarded as a going concern.'

The FRC guidance advises that: 'Uncertainties relating to such events or conditions are considered material if their disclosure could reasonably be expected to affect the economic decisions of shareholders and other users of the financial statements. This is a matter of judgement. In making this judgement, the directors should consider the uncertainties arising from their assessment, both individually and in combination with others (FRC guidance section 3 paragraph 3.11)'. In the case of charities in place of shareholders consider the key stakeholders for the charity (SORP introduction paragraphs 13 and 14).

The wider perspective of operational resilience

The SORP's introduction (paragraph 14) notes that: 'Although past, current and potential funders, donors and financial supporters of a charity may be the primary audience for the information contained in a charity's report and accounts, the preparer should also be aware that interest in this information may also extend to a charity's service users and other beneficiaries.'

The wider perspective as to whether a charity can continue or not takes account of these stakeholders:

- The willingness of supporters to give money is affected by the reputation the charity has with its supporters and the range of sources of income to the charity affects its resilience and diversity. For example, a safeguarding scandal may cause donors to withhold support but its impact depends upon what the charity was set up to do and the resilience of other sources of income.
- The willingness of supporters to donate non-financial gifts such as time, skills, facilities, goods and services and the extent to which the charity is reliant on these gifts to continue to operate. For example, providing a food bank may be very reliant on gifts of goods for distribution without which it would not be viable to continue.
- Access to beneficiaries in having permission to provide goods and or services to a population and/ or a locality. For example, a charity dedicated to serving a population

of a country may be unable to continue if the government of that country removes the permission for the charity to operate there.

Operational resilience considers the charity's operational model and the extent to which it has the combination required of money, non-monetary gifts, capabilities and skills, and access to continue to do its work.

Other factors may apply to some charities in considering this wider perspective:

- A 'sunset clause' whereby the governing document of the charity requires it to wind down its operations and close by a certain date.
- An orderly phased winding down of operations is underway due to the trustees' decision to close.
- The taking of regulatory action by a charity regulator is leading to the orderly closure of the charity.
- Reliance on goodwill for an essential facility or technology without which the charity cannot operate. For example, a charity occupies the premises of a local authority at a peppercorn rent but the local authority is seeking repossession as it is now developing that property for another purpose.
- Fulfilment of the charity's purpose means that the problem it was established to address has been resolved and so there is no need for it to continue. For example, access to a gene therapy means that the condition a charity was established to remove no longer exists in the population served.

Assessing going concern

The FRC's guidance (section 5) relates the assessment process to the nature of the company and its operations with a focus on solvency and liquidity:

- 'The extent of the directors' assessment process will depend on the size, complexity and particular circumstances of the company. The process is likely to be simpler and less extensive for companies that depend on fewer providers of finance and are readily able to access finance, have more straightforward business activities with a history of profitable and cash-generating operations, and are less affected by the economic and wider external environment. However, it is still important that the assessment is carried out and addresses, to the extent necessary, the directors' plans to manage the company's borrowing requirements, the timing of cash flows and the company's exposure to contingent liabilities (paragraph 5.5).'
- 'In contrast, directors of companies with more complex circumstances may need to consider a wide range of factors including those related to current and expected profits and cash flows, debt covenants and maturities, potential alternative sources of finance, potential changes to the business model and various market and other external conditions that could affect the business and its financial and liquidity position (paragraph 5.6).'

Similarly, trustees, depending upon their charity's operational model, will need to take a wider perspective than a focus on solvency and liquidity risks when making their assessment of going concern.

Reserves and the reserves policy – the SORP defines reserves as: '... that part of a charity's income funds that is freely available to spend on any of the charity's purposes' (Appendix 1 Glossary of terms) and requires (see module 1) for all charities that in the trustees' annual report:

Paragraph 1.37. 'The charity must explain:

- any policy it has for holding reserves
- state the amount of those reserves and why they are held
- if the trustees have decided that holding reserves is unnecessary, the report must disclose

this fact and provide the reasons for this decision’

Paragraph 1.39. ‘The report must:

- compare the amount of reserves with the charity’s reserves policy
- explain, where relevant, the steps the charity is taking, given their plans for the future activities of the charity, to bring the amount of reserves it holds into line with the policy’

Paragraph 1.40. ‘The review of the charity’s reserves must:

- identify and explain any material amounts that have been designated or otherwise committed as at the end of the reporting period
- indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period’

In respect of going concern:

Paragraph 1.42. ‘If, at the date of approving the report and accounts, there are material uncertainties about the charity’s ability to continue as a going concern, the nature of these uncertainties must be explained.’

The trustees’ discussion of financial risks and/or reserves is ideally continuing throughout the year so that financial challenges and opportunities and their implications for the reserves, operational activities of the charity and its future plans can be considered. The SORP draws a close link between the reserves policy, level of reserves and the assessment of going concern. Reserves and the level of reserves at the year-end and the forward look (see below) are linked to the cash available to settle bills as they fall due.

Cash flow is dynamic and will need to be reviewed throughout the year in the light of new information about timing and trends in income and expenditure. In the context of going concern, the scenario facing the trustees will affect the nature of these discussions and the judgment that they make at the time of preparing and signing the accounts.

Forward look – the SORP requires that the trustees look ahead a minimum of 12 months from the date the accounts are approved (paragraph 3.17). The context of the charity’s financial situation and prospects should inform this forward look. The SORP requires all charities to advise on the future and links this to going concern:

Paragraph 1.47. ‘The report must provide a summary of the charity’s plans for the future. It may be helpful for the charity to consider its reserves and going concern assessment when considering its future plans.’

In the illustrative scenarios in Annex I to this paper, the scenario with the planned closure has a closing date more than 12 months away and so the question for trustees is whether that date is still so distant that the decision does not affect going concern status? In the case of other scenarios, what are the timings and consequences of the anticipated financial events, given the available reserves, trends in operating surpluses (or deficits), available credit and timing of cash flows? Would looking only 12 months ahead be sufficient to capture this context in informing the trustees’ judgment about going concern?

Cash flow forecast is a tool to consider the anticipated flows of money into and out of the charity. At its most simple, a cash flow forecast for a charity that has no staff or contractual commitments might look at the pattern of income and spend in the past for each month of the past year and predict the likely income and spend for the next 12 months, and note the effect this has on the balance at bank. Charities with greater scale – employing staff, having contractual commitments, rent or lease payments, and invoicing for goods and services – could be predicting income and spend on a weekly, if not a daily, basis for the 12 months ahead. This involves combining knowledge of due dates, payment runs, settlement dates,

payroll runs, and the history of aged debtors. Charities facing a material uncertainty as to going concern might be expected to be forecasting at least weekly. However frequently undertaken, the initial forecast income and spend should correlate with the expectations in the budget plan. As the year unfolds, material unforeseen flows of cash (favourable or adverse) will need to be reflected in the trustees' thinking and used to revisit the forecast for the months ahead. It is helpful for all charities to manage their cash by having a forecast. A forecast is designed for the charity and it is not the same as the Statement of Cash-flows required of the largest (tier 3) charities (see SORP module 14).

Budget and budget deviations is a planning and organising tool that helps trustees consider the foreseeable financial demands and commitments to expenditure with the likely available income. The budget process identifies any planned shortfall in funds that needs to be drawn from reserves or financed by borrowing or additional income-generating activities such as a fundraising appeal. Deviations from budget help identify unforeseen developments and prompt questions as to how these came about, the impact (beneficial or adverse) and any action that needs to be taken. In the context of going concern, the scenario facing the trustees will affect the nature of the budget plans for the year following on from the completed financial period, and thereby help identify how sustainable the charity's financial position is and the size of any funding gap and whether it can be bridged.

Should the judgment made by the trustees at the time that the accounts are signed be that the charity should not prepare financial statements on a going concern basis this may not always mean that the charity's closure is imminent. Indeed, future circumstances may change such that the charity is restored to being a going concern for subsequent reporting periods. Rather, the judgment made is that preparation on a going concern basis with a disclosure of a material uncertainty as to going concern (SORP paragraph 3.18) would not give a true and fair view of the charity's financial circumstances at the time the accounts are signed/to be signed, and so the alternative basis is used instead. This judgment may be finely balanced.

The alternate basis of accounts preparation

The suggested approach is one of adaptation rather than reinvention by adhering to GAAP and the SORP as far as possible, and only deviating where it is necessary to show a true and fair view. The extent of the adaptation required is influenced by the context and financial circumstances of the charity at the time that the trustees approve and sign off the accounts.

The four example scenarios show how important context is in preparing the accounts. In the main, unless closure is known and imminent, the main impacts are to do with the impairment of assets, including contingent liabilities associated with the risk of closure, and post balance sheet events and related disclosures. Where closure is known and imminent, the effect is more pervasive, involving additional changes to asset classification, the approach to measurement and judgments about estimates reflects the proximity of closure.

Going concern-related scenarios

Four scenarios are offered with the details of each set out in Annex I. The scenarios attempt to illustrate a range of situations in order to demonstrate the degree of adaptation that may be required. Each scenario considers how an adaptive approach can be used to prepare the financial statements on an alternate basis:

- *Planned orderly winding down.* In this example, because the trustees have discretion and control over the process and timing of closure when preparing the financial statements using an alternate approach, few changes are required to the SORP framework in preparing the financial statements. The main change is the additional aspect to the impairment review and provision of extra information.

- *Structural financial issues.* Due to retained funds being a combination of restricted endowment funds comprising illiquid assets, the charity is unable to meet unforeseen costs that fall outside the scope of those restricted funds. The alternate approach taken is to revisit deferred income, increase the allowance for bad debts, and include contingent liabilities for redundancy costs, impairment of stock and the treatment of an operations related lease.
- *Sudden loss of income.* The loss or non-renewal of a material grant or material contract in the run up to the financial year end puts into doubt the plans already in hand for a merger with another charity. The alternate approach taken is to increase the allowance for bad debts, and include contingent liabilities for redundancy costs, impairment of stock and the treatment of contracts with third parties as onerous contracts.
- *Cumulative impact of ongoing deficits.* Simply having a deficit at the year-end may not give rise to a going concern issue but successive deficits have exhausted the reserves of the charity and, although various options have been explored, there is now no alternative available but closure. Unlike the other scenarios, where closure might potentially still be averted, in this case closure is definite and imminent. The alternate approach therefore requires very significant departures from the SORP involving a break-up approach. The scenario assumes that there will be an orderly but prompt sale of assets with the process of closure achieved relatively quickly. The adaptation required involves a different approach to measuring the value of assets, impairment, the inclusion of contingent liabilities and the reclassification of fixed assets.

The details in each scenario are illustrative and not exhaustive. Each charity's circumstances will be unique and trustees will need to tailor their own approach to their charity's particular circumstances.

The role of trustees

Trustees are the ones who must prepare the charity's financial statements on a true and fair basis, and so ultimately have to decide how this is done. Trustees should consider their own charity's situation and reach their own conclusions as to whether the financial circumstances of the charity necessitate preparing the accounts on an alternative basis, and, if so, to what extent this dictates departures from the SORP in respect of accounting treatments and policies. Trustees may wish to have regard to the extent to which their independent examiner is required to consider going concern (see later section) and have a conversation with their independent examiner and/or take professional advice where necessary. Those charities having an audit should talk with their auditor, since they will be giving an opinion on the accounts and the alternate approach is so fundamental that it is advisable to have their input.

Trustees may also have an obligation to make a report to their charity regulator if their charity is in financial difficulty. Each regulator has its own list of matters that trustees are expected to report and these are often updated. At the time of publication, the requirements for the Republic of Ireland were still awaited.

The implications for independent examination

The legal requirements governing the report made by the independent examiner (the examiner) and the conduct of the independent examination differ between jurisdictions but what all have in common is that the examiner does not give an opinion on the financial statements. The examiner is not required to confirm that the financial statements (the

accounts) are 'true and fair', and this is important because they do not need to agree or disagree with the trustees about whether it is right to prepare the accounts on a going concern or alternate basis. At the time of publication, the requirements for the Republic of Ireland were still awaited as the necessary regulations have not been made.

In addition to the report addressed to the trustees, each of the UK jurisdictions places a legal duty on the examiner to report directly to the regulator any matter(s) of 'material significance'. The examiner also has the discretion to report 'relevant matters' to the charity regulator.

Annex II considers for each jurisdiction how the decision to prepare the accounts on an alternate basis may affect their report. It is very likely that in most instances the examiner in each UK jurisdiction will need to make a report direct to the charity regulator but not necessarily for the same reasons. All the UK charity regulators came together to agree guidance on the reporting of matters of material significance and also to offer advice on the reporting of relevant matters; links to that information can be found in Annex III.

Assessing going concern: perspective of independent examination

In considering going concern the directions issued by the Charity Commission for England and Wales (CCEW) sets out matters to consider in Direction 9. This guidance expects independent examiners to consider the following information about the charity when considering going concern:

- reserves and the reserves policy
- forward look of at least 12 months
- cash flow forecast
- budget and budget deviations
- trustees' discussion of financial risks and/or reserves.

It is for the trustees to decide the basis on which the accounts are prepared and form a judgment on whether their charity is a going concern. By looking at each piece of information that the examiner will expect the trustees to have this information available for review and so these aspects were previously considered from the trustees' viewpoint of going concern.

Further sources of help

Annex III lists a number of free resources that trustees facing the risk of having to close their charity and their independent examiners might find useful. These resources cover the following topics for each charity law jurisdiction:

- assessment of going concern
- handling financial difficulty and potential insolvency
- spending endowment
- independent examination
- independent examiner's duty and discretion to report to the charity regulator
- trustees' obligation to report to the charity regulator.

About the author

The author of this factsheet, Nigel Davies FCCA DChA, is a director of the Association of Church Accountants and Treasurers (ACAT) and a member of the INPRF (formerly IFR4NPO) Practitioners' Advisory Group. He is regular speaker on financial reporting and regulation and was until January 2022 joint chair of the Charities SORP Committee and of the SORP-making body responsible for the development of the Charities SORP. Prior to being joint chair, he provided the SORP secretariat and was co-author of the 2014 *Charities Statement of Recommended Practice* (FRS 102). He was also the principal author of the 2015 [ACCA Companion Guide for Not-for-profits to the International Financial Reporting](#)

[Standard for Small and Medium-sized Entities \(IFRS for SMEs\)](#), which was the forerunner initiative to INPAS and gave advice to non-profits on how to report under IFRS for SMEs.

Annex I Illustrative Scenarios

Four scenarios illustrating the alternate approach to the preparation of financial statements

A. Planned orderly winding down

Under this scenario, the trustees have control over both the pace and timing of the closure of the charity. The absence of an external driver providing an imperative to closure and the trustees having discretion as to the timing of closure are the major factors influencing the approach taken in accounts preparation. In this case, the charity is a performing arts charity with a mainly volunteer company of players, with a planned closure date that is more than one complete reporting period away.

Basis for alternate accounting policies. In this instance, the charity is continuing to budget to operate normally, with a schedule of performances until the planned closure draws near. The cash flow projections include income from ticket sales, programmes and refreshments and the costs of holding performances. The reserves policy provides for reserves to cover the costs of a whole year's programme as many costs – for example, stage design and props – are incurred prior to holding performances. Prior to compiling the financial statements, the reserves as at the year-end exceeded the required level with 14 months cover. A full year of normal operations is planned and, since closure is more than a reporting period in the future, few closure-related items arise in the year reported.

The consequences of this are twofold: the accounting policies still adhere to accounting standards and the SORP, and most effects of the planned closure are handled by designating a portion of unrestricted funds. The charity has a small core staff alongside its volunteers and leases a leased building for storage, rehearsal and as a performance space.

The lease has the option of a break clause every five years and the break clause option can be exercised in 16 months' time. Leases for functional assets used in the charity's operations are on the balance sheet (SORP paragraph 10B.6) with a right of use asset (paragraph 10B.8) and lease liability (SORP paragraph 10B.8). The implications of the planned closure depend upon the decision the trustees made as to the lease term (paragraph 10B.36). In this case the trustees set the lease term as the period until the break clause as they were thought it likely they would exercise the option to exercise the break clause (paragraph 10B.39). The trustees intend to exercise this option as part of the closure process and because the lease will run for the planned term (SORP paragraph 10B.63) and the charity is operating normally the right of use asset is not impaired (SORP paragraph 10B.58) and a recalculation of the lease as a lease modification need not be made because there will be no change to the intended term or premature exit of the lease (SORP paragraphs 10B.61 and 10B.67). In this case the trustees had also allowed for dilapidation costs in calculating the right of use asset and related lease dilapidations provision (SORP paragraphs 10B.45 and 10B.49)

Since the closure date is more than one further full reporting period away, the effect of winding down activities and identifying closure-related liabilities and the effect of the carrying value of assets is not affecting the period reported. The trustees have reviewed the provision initially made for dilapidation costs in calculating the lease liability (SORP paragraph 10B.49) and found no grounds to change it (paragraph 10B.66).

Departure from GAAP and SORP. As noted previously, the going concern basis is presumed in the accounting standard and SORP, and so the notes to the accounts under accounting policies (SORP paragraphs 3.18, 3.37, 3.52 and 3.54) must disclose the departure from the going concern basis of preparing the financial statements, and advise the basis on which the accounts are prepared and why this approach has been taken (SORP paragraph 3.18). For any departure from both SORP and accounting standards, disclosure is required (SORP paragraphs 3.55 and 3.56). The note is necessary because the trustees have decided to close the charity.

The SORP requires trustees when assessing going concern to: 'in making this assessment, a charity's trustees must take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved' (SORP paragraph 3.17). Going concern presumes continuing operations into the future, but this is not the case if the decision to close has been made and it is just over one complete reporting period (year) away. Had the closure been two or more complete reporting years into the future, arguably preparation on a going concern basis would be defensible for a further year but this is not the case in this scenario.

This note might state:

'Financial statements not prepared on a going concern basis – the trustees made the decision on [date] to wind down and close the [trust/company/charity/charitable incorporated organisation/community benefit society] because we are finding it difficult to get new volunteer players for our company and our artistic director has advised that they no longer wish to continue beyond the next full programme of performances. It is with sadness that the trustees have concluded that, after 30 years of public performance, we should close on a voluntary basis [set out reason(s) for decision]. Although the planned date of closure is still 16 months away, the trustees consider it no longer appropriate to prepare the financial statements on a going concern basis, given that this decision has been made. The trustees consider it appropriate to keep our stakeholders informed about the planned closure, and the financial statements depart from accounting standards and the Charities SORP 2026 and [company law citations if a company e.g. Companies Act 2006 or Companies Act 2014, if an Irish company] to the extent necessary to give a true and fair view.

In summary, the main changes and material items relating to the planned closure included within the financial statements are: in respect of the valuation of the stocks of stage equipment and props with an impairment charge for those items unlikely to now be used in staging performances and to include a designation of unrestricted funds relating to the trustees' initial estimate of the likely future costs arising from closure. The details of each matter, including a description of the departure from accounting standards and/or the SORP, its nature and why it was considered necessary are given as part of the relevant accounting policy or disclosure note. The trustees judge that the charity will fruitfully use its remaining time under the premises lease and so judge that no adjustment needs to be made in relation to the lease liability, right of use asset or provision for dilapidations upon giving up the lease.'

Post balance sheet events. Although the trustees have made the decision to close, there are unlikely to be any adjusting events in this reporting period because statutory redundancy is initiated at 12 weeks (or less) notice for paid staff in the UK or 30 days before the minimum of two weeks' notice is given in the Republic of Ireland, and notification to the lessor of exercising the break clause requires only six months' written notice under the terms of the charity's lease. Both fall well after the date the trustees sign the financial statements. The trustees, though, might choose to offer more information on the approach being taken to closure and the progress made (SORP paragraph 13.10).

How context influences the judgments made. The two factors that limit the immediate impact on the financial statements are that the trustees have control over the pace and time of closure and the time still to elapse before the intended closure takes place. The trustees could still change their minds and thereby restore going concern status by not exercising the option to terminate the lease and continuing the charity if sufficient volunteers were to come forward in response to the news of closure and a new artistic director comes forward.

The effect of the alternate basis on the accounting for income, expenditure, assets and liabilities. For the period being reported, this is minimal. In respect of income, this is obtained in advance or on the door for each performance and a full year's artistic programme is anticipated, so there is no need to depart from the SORP's approach (SORP paragraph 5.13). In regard to expenditure, there is an impairment charge for props and stage equipment that might not now be used (SORP paragraphs 10.17, 12.4, 12.5 and 12.6) and this will reduce the carrying value of that class of assets. In respect of liabilities, none arise in the year reported (see remarks above about context), but the trustees choose to designate a portion of unrestricted funds for closure-related costs over which the charity has control, and this reduces the reported level of reserves (SORP paragraph 1.40). Also, in view of closure, some longer-term creditors may seek early settlement, and so the trustees might note that the analysis of creditors is based on contractual terms (SORP paragraph 3.46) but in view of possible requests to pay earlier the value of creditors under one year may be understated (SORP paragraphs 3.50 and 10.87).

SORP requirements in respect of the trustees' annual report and the scope for additional discretionary reporting. All charities have to set out their future plans (SORP paragraph 1.47) with more detail required of tier 2 and tier 3 charities (SORP paragraph 1.48). The trustees could comment on the decision to close and provide information about the way closure is being progressed as part of the section on plans for future periods. Explaining the implications for going concern is required advised (SORP paragraph 1.42) and this supports the required explanation of the reserves policy and level of reserves held (SORP paragraph 1.37). Stakeholders will be very interested in why the decision was made and how the charity is proposing to operate until closure takes place, and the annual report is an opportunity for the trustees to explain their reliance on volunteers (SORP paragraph 1.21) and how this affects the charity's activities (SORP paragraph 1.22).

B. Structural financial issues

In this scenario, an arts venue charity has an art collection that is in permanent endowment. It also has items on loan. The charity provides an events and exhibition space for local artists and visiting exhibitions and it operates from a building leased from the local council. The terms of the lease require that day-to-day maintenance and all operational costs relating to the building are met by the charity as lessee.

Due to an uncontained water leak in the kitchens, the building suffered extensive flood damage at the end of the financial year, meaning it had to close for expensive repair work. These are material costs which it cannot recover from insurance because flood risk due to broken pipes was excluded from the policy cover. The charity has only six months of reserves but has a reserves target of 12 months. It has significant endowment represented by works of art and also modest restricted income funds that can only be used to meet the cost of hosting visiting exhibitions. The charity has a bank overdraft facility but is not overdrawn at the year-end. In respect of income, this is obtained through charging fees to view some of the exhibitions, from sales of refreshments and souvenirs and from the short term letting rooms. The charity has no income in the period after the year-end due to the closure, and this is reflected in the cash-flow planning but it still incurs costs.

In some jurisdictions, by application to the charity regulator the trustees can obtain consent to spend permanent endowment.

- In England and Wales the Charities Act 2022 (see section 12) allows borrowing from endowment subject to certain limits, provided the funds are later restored, otherwise the Charities Act 2011 (see section 282 or 289) requires that the consent of the regulator is required if endowment involving larger sums is to be spent, which is the case in this scenario.
- The Charities Trustees and Investment (Scotland) Act 2005 does not give OSCR the power to approve or consent to such an application from a charity. The trustees may wish to take legal advice to see whether the terms of the endowment had some very specific clauses that allowed the charity to make use of it in extreme financial circumstances; otherwise, the charity might have to enter into insolvency or bankruptcy arrangements before those funds could be released to meet its debts.
- In respect of unincorporated charities, section 128 of the Charities Act (Northern Ireland) 2008 (as amended) included provisions to spend permanent endowment subject to certain limits, and the regulator can approve the spending of larger sums. Trustees of charitable companies may need to take legal advice.
- The Charities Act 2009 in the Republic of Ireland makes no specific provision for spending permanent endowment. However, the author understands that it is possible for the regulator to consent to the sale of an asset where the trustees have no power to effect that sale. But this is a complex area of law, and trustees considering such a course of action would need to take their own legal advice first.

For the purpose of this scenario, the charity is assumed to be registered and operating solely in England and Wales.

Basis for alternate accounting policies. In this instance, the trustees have notified the charity's regulator of their intention to spend the permanent endowment to meet the unforeseen costs due to the water damage and to cover the loss of income due to the closure of the arts venue during the remedial works. The trustees decide to prepare the accounts on an alternate basis because they cannot presume that the regulator will concur and give its approval. The trustees consider that their stakeholders, the local community and the charity regulator all need to be clearly in the picture as to how serious an issue the charity is facing. (Had the trustees had previous success in seeking approval for spending restricted funds for another purpose then the trustees might have simply noted a material uncertainty as to going concern instead (SORP paragraph 3.19) and prepared the financial statements on a going concern basis.)

Departure from GAAP and SORP. As noted previously, the going concern basis is presumed and so in this case the notes to the accounts under accounting policies (paragraphs 3.37, 3.52 and 3.54) must disclose the departure from the going concern basis of preparing the financial statements and advise the basis on which the accounts are prepared and why this approach has been taken (paragraph 3.18). For any departure from both SORP and accounting standards, disclosure is required (paragraphs 3.55 and 3.56).

This note might state:

'The financial statements are not prepared on a going concern basis because water-related damage to the building on [date] was so extensive that the remedial works can only be funded by selling part of the endowed art collection. The trustees passed a resolution [on date] to spend the proceeds from selling the landscape entitled 'In Hope' by Good Pryce but can only proceed with the sale if the regulator does not object. At the time of signing the

financial statements, the decision as to whether or not the regulator would concur and agree to the sale was awaited. The charity has had to close due to the water damage, and so all exhibitions are cancelled and the popular coffee and events spaces are closed.

The financial statements depart from accounting standards and the Charities SORP 2026 and [company law citations if a UK company, e.g. Companies Act 2006] to the extent necessary to give a true and fair view. In summary, the main changes involve the additional disclosures made in respect of the valuation of assets, provisions and contingent liabilities in the event of unplanned closure. Material items relating to the impact of the closure are in respect of increased allowance for doubtful debts when assessing debtor balances, the return of fees paid in advance by visitors to the cancelled exhibitions, contingent costs involving winding up, impairment of stock and equipment, and the treatment of the lease of the premises. The details of each matter, including a description of the departure from accounting standards and/or the SORP, its nature, and why it was considered necessary, are given as part of the relevant accounting policy or disclosure note.'

Post balance sheet events. Although the water leak happened at the very end of the financial year, the decision to close and the passing of a resolution to spend permanent endowment by selling a work of art both came after the financial year-end. This was due to the extent of the damage only being realised after the year-end but before the financial statements were signed. Doubt as to going concern is cited by the SORP as triggering adjusting events (SORP paragraphs 13.5 and 13.6). The adjusting events relate to the financial consequences of potential closure (SORP paragraphs 13.7 and 13.8). Non-adjusting events (SORP paragraph 13.10) relate to the notification to the regulator of the intention to sell a picture and spend the endowment; the instructing of an auction house to make preparations for the sale of the picture, should the regulator not contest the sale; discussions with creditors, including the lessor, about the charity's situation; and the accessing of the overdraft to provide financial cover to continue to trade should the painting be released for sale.

How context influences the judgments made. The judgment that it is best not to presume approval to spend endowment is the key driver because if the sale is not permitted then the charity will not continue to operate. The SORP requires going concern to be supportable as a judgment for a minimum of 12 months post the signature of the financial statements (SORP paragraph 3.17), but the trustees cannot give that assurance because they need the charity regulator to concur with the sale. Therefore, the trustees have judged that it is not simply a material uncertainty that would allow the going concern basis of accounts preparation with the disclosure of the material uncertainty that makes going concern doubtful (SORP paragraph 3.19). In this case, a favourable future outcome with the sale of part of the endowment will restore going concern status by allowing the charity to effect the repairs required and so continue to trade.

The effect of the alternate basis on the accounting for income, expenditure, assets and liabilities. In respect of income on closure consideration is given to applying the five-step model of income recognition (SORP paragraph 5.13) for trading related income (exchange transactions) with regards to any prepayments and assessing the extent to which the charity can fulfil its performance obligations (SORP paragraph 5.42) to customers. Any prepayments (SORP paragraph 5.53) will need to be refunded and this is reflected in a post balance sheet adjustment to reclassify deferred income (SORP paragraphs 5.53, 5.106, 5.109, 5.110 and 5.112) as a distinct part of creditor balances. There will be an allowance for bad debts that will prove uncollectable should the charity close (SORP paragraphs 10.73 and 11.16); this impairment reduces the value of debtors. The trustees have previously exercised the option to not value heritage assets (which is represented by endowment), and so there is no adjustment for the art no longer being available for public view (SORP

paragraphs 18.18 and 18.19).

In respect of expenditure, there will be an impairment adjustment for the stock of catering and shop items and equipment that might not be used (SORP paragraphs 10.16, 12.4, 12.5 and 12.6), and this will reduce the carrying value of each class of assets. The implications unplanned closure has will depend upon the decision the trustees made as to the lease term (paragraph 10B.36) and how far through the lease term it was when the disaster of the water leak happened. Assuming a force majeure clause would not apply to a break in the lease and there is no break clause (SORP paragraph 10B.63) the charity can exercise in the near future then the trustees must model the effects of closure (SORP paragraph 10B.64). The right of use asset will be impaired (paragraph 10B.58 and paragraph 10B.66) since the charity cannot function due to the closure. Assuming the trustees would appoint a receiver if the consent to sell endowment is not given then it is not a modification of the lease rather a premature termination and so an adjustment is needed for any penalties that may arise due to not giving the required notice period and an adjustment is made to the provision for dilapidations (SORP paragraphs 10.87, 10A.13, 10B.45 and 10B.49 and 10B.88). Also, all the outstanding financing costs and the principal cost comprising the carrying value of the lease liability will fall due to be paid (SORP paragraph 10B.66). There would therefore be a provision made for the financing costs (SORP paragraph 10A.9) and a reclassification of the lease liability with it listed as a separate item within creditors falling due within one year (SORP paragraph 10.87).

The trustees will need to allow for any contingent liabilities (SORP paragraph 10A.5) which would include redundancy, and taking down and safe storage of the art pending winding up and return of any items on loan. There may be a contingent asset in respect of any proceeds from sale of items of office, shop or catering equipment (SORP paragraph 10.A6).

SORP requirements in respect of the trustees' annual report. All charities have to set out their future plans (SORP paragraph 1.47) with more detail required of tier 2 and tier 3 charities (SORP paragraph 1.48). The trustees would provide more information about the water damage, the required repairs and the risk of closure that has resulted from this event. Explaining the implications for going concern is required (SORP paragraph 1.42) and this supports the required explanation of the reserves policy and how level of reserves held (SORP paragraph 1.37) have affected the trustees' decision-making about the future. The trustees may choose to discuss how long the reserves can last, how costs are being contained, the decision to look to sell the art and the process required to effect that sale, and what is likely to happen should this not be permitted. Stakeholders will be very interested in why the decision was made and its implications. The trustees may have had to put the staff on notice of redundancy due to the risk of closure, and be in discussion with creditors, including the lessor for the building, over how the sale of the art will avert closure and allow the charity to continue all factors which affect its future activities (SORP paragraphs 1.22 and 1.48 and for tier 2 and tier 3 charities SORP paragraph 1.23).

C. The unexpected loss of a material source of income

As the year-end approaches, the loss of a contract poses an immediate financial challenge and comes just as the trustees were in discussion about merging with another charity with similar charitable objects. Had the loss been expected, the trustees would have had time to plan and budget accordingly, but in this scenario the notification was not expected.

The combination of a material adverse financial impact coupled with it being unforeseen caused the merger discussions to be disrupted at the time the financial statements were being signed, and these discussions have not concluded. The trustees of the other charity have decided to pause the discussions in order to consider the impact of the contract loss on the merger proposal. They have undertaken to respond with a final decision within the next

six weeks. Even if agreed, there will be a further delay while the new charity is registered and the transfer of undertakings is completed. Should the merger not proceed, the reporting charity will be unable to continue operating. The merger is not wholly in the trustees' gift and so the trustees decide to prepare the accounts on an alternate basis.

In this example, the reporting charity operates overseas providing education and training programmes for communities by contracting with local colleges to run approved courses. The colleges collect tuition fees as agents for the charity, with the remainder of the cost met from a UK government agency that awards contracts for development work. In the UK, the charity operates on a virtual basis from trustees' homes and for team events it has occasional office short term (12 months or less) rentals.

Basis for alternate accounting policies. In this instance, the charity is continuing to budget to operate normally and operate its facilities and services anticipating that the merger will proceed as planned. The cash flow projections are only for the part-year to the anticipated merger date, and are based on the assumption that it will take no more than nine months from the year-end to conclude the merger. The reserves policy provides for reserves to cover six months of normal operating costs and at the year-end the reserves were at the target level.

Since the merger has not been called off the trustees anticipate that the charity will continue to operate until the merger happens. The consequences of this are that, due to the assumption of normal operations, few departures are needed from the accounting policies that adhere to accounting standards, but there are a number of provisions, contingent items and additional explanations in respect of the potential closure were the merger not to happen.

Departure from GAAP and SORP. As noted previously, the going concern basis is presumed and so in this case the notes to the accounts under accounting policies (SORP paragraphs 3.17, 3.37, 3.52 and 3.54) must disclose the departure from the going concern basis of preparing the financial statements, and advise the basis on which the accounts are prepared and why this approach has been taken (paragraph 3.18). For any departure from both SORP and accounting standards, disclosure is required (SORP paragraphs 3.55 to 3.56).

This note might state:

'Financial statements are not prepared on a going concern basis because the trustees have identified that the shortfall income for the coming year materially jeopardizes the ongoing operations of the charity and may disrupt the planned merger with [named charity]. The board approved the merger on [date] but the board of [named charity] remain in discussion about proceeding with the merger. The charity is continuing to operate normally and the trustees will keep our funders, client colleges and students, and our staff informed about progress with the merger. The financial statements depart from accounting standards and the Charities SORP 2026 and [company law citations if a company e.g. Companies Act 2006 or Companies Act 2014, if an Irish company] to the extent necessary to give a true and fair view.'

In summary, the main changes involve the additional disclosures made in respect of the provisions and contingent liabilities relating to the anticipated merger were it not to proceed, and the consequential closure of the charity. The details of each matter, including a description of the departure from accounting standards and/or the SORP, its nature, and why it was considered necessary are given as part of the relevant accounting policy or disclosure note'.

Post balance sheet events. At the year-end the future of the charity is in doubt and the

adjusting events relate to the financial consequences of potential closure (SORP paragraphs 13.6, 13.7 and 13.9). Non-adjusting events (SORP paragraph 13.10) relate to the state of the merger discussions and the impact that the uncertainty is having on the charity's operations.

How context influences the judgments made. The judgment the trustees made is not to presume that the merger will proceed and to allow for the outcome that the charity will not continue to operate. The SORP requires going concern to be supportable as a judgment for a minimum 12 months post the signature of the financial statements (SORP paragraph 3.17), but the trustees cannot give that assurance; therefore, they have judged that it is not simply a material uncertainty that would allow the going concern basis with disclosure of the material uncertainty that makes going concern doubtful (SORP paragraph 3.19). Although a favourable outcome with the merger proceeding would mean that the merged entity would be a going concern, unless the charity merges it cannot continue.

The effect of the alternate basis taken in respect of accounting for income, expenditure, assets and liabilities. In respect of income on closure consideration is given to applying the five-step model of income recognition (SORP paragraph 5.13) for trading related income (exchange transactions) with regards to any prepayments and assessing the extent to which the charity can fulfil its performance obligations (SORP paragraph 5.42) to the students and colleges. Any prepayments (SORP paragraph 5.53) will need to be refunded and this is reflected in a post balance sheet adjustment to reclassify deferred income (SORP paragraphs 5.53, 5.106, 5.109, 5.110 and 5.112) as a distinct part of creditor balances. There will be an allowance for bad debts that will prove uncollectable should the charity close (SORP paragraphs 10.73 and 11.16); this impairment reduces the value of debtors. In respect of expenditure, there will be an impairment adjustment for the stock of educational materials that might not be used (SORP paragraphs 10.16, 12.4, 12.5 and 12.6), and this will reduce the carrying value of each class of assets (SORP paragraphs 10.16, 12.4 and 12.15) and office equipment that will be scrapped, and this will reduce the carrying value of each class of assets. Also, the charity is liable for the balance of any contractual payments to overseas college suppliers of courses that are now onerous because the charity cannot guarantee to fulfil its part in accrediting the awards (SORP paragraph 10A.25 and 10A.27), and so the charity will make provision for these costs. In respect of contingent liabilities (SORP paragraphs 10A.7 and 10A.9), this includes provision for the redundancy of UK-based staff.

SORP requirements in respect of the trustees' annual report and scope for additional discretionary reporting. All charities have to set out their future plans (SORP paragraph 1.47) with more detail required of tier 2 and tier 3 charities (SORP paragraph 1.48). The trustees would provide more information about the circumstances of the loss of the contract and the effect it has had on the merger discussions. Explaining the implications for going concern is required advised (SORP paragraph 1.42) and this supports the required explanation of the reserves policy and how level of reserves held (SORP paragraph 1.37) and how the timing of knowing the outcome of the merger deliberations will be a critical factor in the charity's work continuing. The trustees may choose to comment on their discussions with overseas colleges providing tuition and the impact on students currently on courses. Also, the trustees may refer to having to put the UK staff on notice of redundancy due to the risk of closure. The trustees may wish to set out the prospects for the future should the merger proceed as intended (SORP paragraph 1.49).

D. The cumulative impact of ongoing deficits

In this case, a further year-end deficit adds to an accumulation of previous deficits so that the cumulative effect, when taken with poor future trading prospects, means that the charity's business model is no longer sustainable and closure is inevitable.

The charity began with a large house and grounds being gifted to it by a founder trustee. The gift was freehold but not endowment. Over time, the charity's business model changed from a volunteer-led provider of respite care to a charity that employed staff to deliver daycare for the elderly and at-home care services. The trustees have been maintaining the existing level of activity despite a persistent shortfall in income. The pattern of deficits, taken together with the current parlous state of reserves and the prospect of continuing deficits, caused the trustees to decide to close.

In the year reported, the trustees had pursued merger discussions with another charity, which came to nothing, and had approached another charity to be taken over but again were unsuccessful. After the year-end the trustees instructed agents to value the property and seek a buyer, and the agent has advised that effecting a negotiated sale in nine months would be very difficult. There is, however, strong interest in this kind of property at auction, and similar properties have successfully been sold recently at auction at or above their reserve price. Having decided to close, the trustees have retained an insolvency practitioner and have started the process of placing their elderly clients with other providers. The trustees have given notice to the local council and other client funders of their intention to close. These decisions came after the year-end but prior to the financial statements being signed. The budget and cash-flow projections both assume an orderly closure within nine months of the financial year-end.

Basis for alternate accounting policies. In this example, the charity is only looking to continue operating for a few months while the closure process is undertaken. The cash-flow projections are only for the part-year to the date of the planned closure, based on the assumption that it will take no more than nine months from the year-end to conclude. The reserves policy provides for reserves to cover six months of normal operating costs and at the year-end the reserves were well below that target level.

The consequences of this are that the closure is to be achieved at pace. This has implications for the value of assets; also, assets held for operational purposes are now held for sale. The placing of clients will reduce income and the trustees must give due notice of redundancy to their staff. The retention of professional advisers will incur additional cost. Although not yet a distress sale of assets, the requirement to proceed at pace will affect the potential value to be realised on the sale of assets because it is unlikely that a reserve price can be set; this situation may be anticipated by potential bidders.

Departure from GAAP and SORP. As noted previously, the going concern basis is presumed and so in this case the notes to the accounts under accounting policies (SORP paragraphs 3.17, 3.37, 3.52 and 3.54) must disclose the departure from the going concern basis of preparing the financial statements, and advise the basis on which the accounts are prepared and why this approach has been taken (paragraph 3.18). For any departure from both SORP and accounting standards, disclosure is required (SORP paragraphs 3.55 to 3.56).

This note might state:

'The financial statements are not prepared on a going concern basis because the charity can no longer continue to operate. The trustees have been unable to secure the necessary additional funding to support the clients in our care and so regrettably the trustees resolved on [date] that the charity must close. The financial statements depart from accounting standards and the Charities SORP 2026 and [company law citations if appropriate] to the extent necessary to give a true and fair view.'

In summary, the main changes involve preparing the financial statements on a breakup basis with a view to liquidation of assets to meet liabilities. Material items relating to the

impact of the closure are in respect of: the reclassification of fixed assets as current assets for sale; an increased allowance for doubtful debts; the return of fees paid in advance for clients; a provision for redundancy and severance-related employee costs; adviser and legal fees relating to the closure process; and the impairment of stock and equipment. The details of each matter, including a description of the departure from accounting standards and/or the SORP, its nature, and why it was considered necessary, are given as part of the relevant accounting policy or disclosure note’.

Post balance sheet events. At the year-end the future of the charity was in doubt and, subsequent to the year-end, the trustees decided to close. The condition at the balance sheet date is that the charity is not a going concern and so the adjusting events relate to the financial consequences of its closure (SORP paragraphs 13.6, 13.7 and 13.9). Non-adjusting events (SORP paragraph 13.10) relate to the state of play of the closure process and the winding down of the charity’s activities.

How context influences the judgments made. The decision to close in the near future has a pervasive effect. The SORP requires going concern to be supportable as a judgment for a minimum 12 months post the signature of the financial statements (paragraph 3.17), and so the alternative basis reflects the context of closure at pace (paragraph 3.19).

The speed of closure is important as this requires assets be reclassified as current assets held for sale and the price they will realise is likely to be affected. When selling an asset, the price realised is affected by the sale process; for example, a vehicle will fetch a very different price if part-exchanged, sold to the motor trade for cash, sold by advert, or sold at auction. Similarly, a building will achieve a different price if there is less scope for holding out for a better price and bargaining. A quick sale of an asset increases the bargaining power of the buyer and reduces that of the seller.

The trustees in this case choose to value on the basis of prices achieved at auction or cash sale (for smaller items) and not fair value because fair value is defined in accounting standards as: ‘The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date’ (FRS 102 appendix I glossary). Also, all liabilities fall to be current as they must be settled as part of the closure process. Staff will be entitled to redundancy pay, and the trustees, in appointing professional advisers to assist them, will incur fees and related disbursement costs.

The effect of the alternate basis taken in respect of accounting for income, expenditure, assets and liabilities. In respect of income on closure consideration is given to applying the five-step model of income recognition (SORP paragraph 5.13) for trading related income (exchange transactions) with regards to any prepayments and assessing the extent to which the charity can fulfil its performance obligations in the time until closure (SORP paragraph 5.42). Any prepayment of client fees will need to be refunded and reflected in a post balance sheet adjustment (SORP paragraphs 5.53, 5.106, 5.109, 5.110 and 5.112) to reclassify deferred income as part of creditor balances; there will be an allowance for bad debts that may prove uncollectable due to closure (SORP paragraphs 10.73 and 11.16); this impairment reduces the value of debtors. In respect of expenditure, there will be an impairment adjustment for the stock of daycare-related equipment and materials that might not be used (SORP paragraphs 10.16, 12.4, 12.5 and 12.6,) and office equipment, and this will reduce the carrying value of each class of assets where the realisable value, based on sale at auction or disposal in a similar manner, is lower.

The property that has been previously treated at historical cost will be reclassified as a current asset held for sale (current investment), and the difference between the carrying value, which is very small (when compared to its open market value), and the likely value at

auction, treated as a contingent asset (SORP paragraph 10A.6). This is because the charity will be a forced seller and so the approach is that of paragraph 2A.6 of the appendix to section 2 of FRS102. The reclassification of fixed assets must be disclosed (FRS 102 paragraphs 16.10, 17.26 and 17.31). The low value leases (SORP paragraph 10B.18) for office equipment such as photocopiers are now onerous because the charity will have to close out the contract as it will not operate for the full term of the lease (SORP paragraph 10A.26 and FRS102 paragraph 21.11A), and so it will make provision for these costs (SORP paragraphs 10A.27). In respect of provisions, this will cover those commitments made concerning the decisions made prior to the trustees approving the financial statements that relate to the charity no longer being a going concern (SORP paragraphs 10A.7 and 10A.9); this will include redundancy-related costs and the anticipated fees of the professional advisers retained prior to approving the financial statements (analogous to FRS 102 paragraph 21.11B and 21.11D).

SORP requirements in respect of the trustees' annual report and scope for additional discretionary reporting. All charities have to set out their future plans (SORP paragraph 1.47) with more detail required of tier 2 and tier 3 charities (SORP paragraph 1.48). The trustees would provide more information about how accumulated deficits and adverse trading conditions have affected their decision to close when explaining the implications for going concern is required advised (SORP paragraph 1.42) and how the low level of reserves fell far below the reserves policy and how level of reserves held (SORP paragraph 1.37) has affected the pace of the closure process and prospects for achieving good value from selling the charity's assets. Also, the trustees may refer to having given their staff notice of redundancy due to the closure. The trustees may choose to comment on their discussions with professional advisers, the steps being taken to safeguard their clients, and work with their funders and creditors, and the situation of the staff and the steps ahead in the closure process (SORP paragraph 1.49).

Annex II

Perspective of the independent examiner

The requirements and guidance for independent examination differ between the UK and Ireland, reflecting differences in the legal frameworks. What the UK frameworks have in common is a duty to report matters of material significance to the charity regulator, and the examiner having discretion to report relevant matters to the charity regulator.

England and Wales

Section 145 of the Charities Act 2011 permits the trustees of eligible charities to opt for independent examination and for the charity regulator to issue guidance and directions about how that examination is done. Section 154 provides for the Minister to make regulations as to the report made by the examiner. Section 145 permits the charity regulator to make directions as to how an examination is done. The regulator's guidance (CC32) includes an extract of the relevant regulations.

Commenting on going concern is not a specific matter upon which the examiner is required to report. However, the Directions made by the regulator do refer to it, in particular direction 9. Direction 9 requires that the examiner checks that the trustees have made an assessment of going concern where accruals accounts are prepared, and this includes whether that assessment is reasonable. If the charity is in financial difficulty, the guidance requires the examiner to consider this when making their report (direction 13). Direction 13 provides that a matter on which comment must be made is whether the methods and principles of the SORP were followed. (Reference is made in this regard to the regulations for non-company charities and the Companies Act for charitable companies.) By definition, preparing the

financial statements on an alternate basis will in most instances involve significant departures from the SORP's methods and principles since the SORP assumes going concern.

If the examiner judges that the charity has departed from the SORP and that the accounts do not therefore adhere to methods and principles of the SORP, this counts as what the direction terms a 'qualified report'. The giving of a 'qualified report' in turn triggers the separate requirement to report directly to the regulator a matter of material significance (see section 5 of the CC32 guidance).

The UK charity regulators include within the guidance on matters of material significance a list of matters that they expect to have reported (see section 5 of CC32). In the context of an audit, any issue about going concern identified by an auditor as part of giving their opinion is reportable. A fair conclusion is that even if the examiner considers that the methods and principles of the SORP have been adhered to, given the requirement of Direction 9 and the expressed interest in going concern, then financial difficulty is still a matter of concern worthy both of inclusion in the examiner's report and reporting as a matter of material significance. However, if on balance the examiner does not judge that a report of a matter of material significance would be appropriate, they may still choose to report it as a relevant matter. Support for this view is that section 6 of CC32, when discussing the discretion to report relevant matters directly to the regulator, refers to circumstances where a matter of concern in the examiner's report is noted and one of the examples by the UK charity regulators of a relevant matter is an uncertainty relating to going concern.

Northern Ireland

Section 65 of the Charities Act (Northern Ireland) 2008 permits the trustees of eligible charities to opt for independent examination, and for the charity regulator to issue guidance and directions about how that examination is done. Section 66 provides for the Department to make regulations as to the report made by the examiner. Section 65 permits the charity regulator to make directions as to how an examination is done.

Commenting on going concern is not a specific matter upon which the examiner is required to report. However, the directions made by the regulator do refer to it, in particular direction 10. Direction 10 requires that the examiner considers the basis on which accounts prepared on an alternative basis ensure adequate disclosure of this fact. In common with the requirements in England and Wales, Direction 12 provides that a matter on which comment must be made is whether the methods and principles of the SORP were followed. (Reference is made in this regard to the regulations for non-company charities and the Companies Act for charitable companies.) By definition, preparing the financial statements on an alternate basis will in most instances involve significant departures from the SORP's methods and principles since the SORP assumes going concern. If the examiner judges that this is the case, and that the accounts do not therefore adhere to methods and principles of the SORP, then this could be considered to be a 'qualified report'. The giving of a 'qualified report' in turn triggers the separate requirement to report directly to the regulator a matter of material significance (see section 6 and appendix 4 of the guidance).

Even if the alternative approach to accounts preparation departs little, if at all, from the SORP, and the examiner considers that the methods and principles have been followed, financial difficulty may still be a matter of concern worthy of inclusion in the examiner's report. Also, examiners can exercise their judgment as to whether to report a going concern issue as a matter of material significance to the regulator; support for this view can be drawn from the UK charity regulators citing in the list of matters the requirement for auditors to report issues around going concern. If the examiner decides that this might not be required, section 6 refers to the discretion to report relevant matters directly to the regulator, and one

of the examples given of a relevant matter is an uncertainty relating to going concern in example 3.

Scotland

Section 44 of the Charities and Trustee Investment (Scotland) Act 2005 permits the trustees of eligible charities to opt for independent examination, and provides for the Minister to make regulations in matters relating to the accounts. These regulations include what is required in the report made by the examiner. The regulator has issued a best practice guide to assist independent examiners in fulfilling the requirements of the regulations. These are not directions but advice on how best to conduct the examination.

Step 5 of the guide refers to the 2006 regulations, and step 6 in discussing the examiner's report cites the regulations providing for the examiner to note those matters to which attention should be drawn. Schedule 1 to the 2006 Regulations, in connection with accruals accounts, requires that: 'the statement of account be prepared in accordance with the methods and principles set out in the SORP'. By definition, preparing the financial statements on an alternate basis may often require significant departures from following the SORP's methods and principles since the SORP assumes going concern. The examiner needs to consider whether the accounts do not therefore adhere to methods and principles of the SORP.

Section 7 refers to whistleblowing and matters of material significance that must be reported, and the discretion to report relevant matters, but none of the specific examples given refer to issues around going concern. Arguably, this leaves greater scope for the examiner to exercise their discretion as compared to the jurisdiction of England and Wales, where a Direction covers this matter.

The guide gives examples of 'qualified reports'; section 7 advises that if a qualified report is given then this is a matter of material significance and a qualified report is one where attention is drawn by the examiner to a matter of concern. The definition of a 'qualified report' is widely drawn and so arguably (see the checklist), in mentioning any matter of concern in the examiner's report to the trustees, including going concern, this constitutes a qualified report, giving rise to a duty to report to the charity regulator.

Section 7 refers to the UK charity regulators' guidance on matters of material significance, which includes a requirement for auditors to report issues around going concern (see appendix 4), and, by inference, arguably the examiner might well note the emphasis given to going concern and so similarly report. If the examiner decides that making a report of a matter of material significance might not be required, then section 7 does also refer to the discretion to report relevant matters directly to the regulator; one of the examples given of a relevant matter given by the UK charity regulators is an uncertainty relating to going concern in example 3.

Republic of Ireland

Section 50 of the Charities Act 2009 permits the trustees of eligible charities to opt for independent examination and for the charity regulator to issue guidance and directions about how that examination is done. Section 51 provides for the Minister to make regulations as to the report made by the examiner. At the time of writing, these regulations and directions have not been made and so the independent examination regime is not yet in effect.

Annex III

Further resources

On occasion, website pages may be updated and so web links change. If after publication of this factsheet a link is not working, then search for the document via the homepage of the relevant organisation.

Assessment of going concern

The Financial Reporting Council (FRC) looks at going concern from a UK Companies Act perspective when reporting under UK-Irish GAAP and has issued a report offering insights from the accounting standard setter:

FRC guidance on going concern- February 2025: <https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/annual-corporate-reporting/guidance-on-going-concern-basis/>

Handling financial difficulty and potential insolvency

A number of regulatory bodies provide guidance or advice that can offer helpful insights for trustees:

CCEW: <https://www.gov.uk/government/publications/managing-financial-difficulties-insolvency-in-charities-cc12>

CCEW: <https://www.gov.uk/government/publications/charity-trustee-meetings-15-questions-you-should-ask/charity-trustee-meetings-15-questions-you-should-ask>

CCNI: [Dealing with financial difficulties \(blog\)](#)

OSCR: <https://www.oscr.org.uk/about-charities/oscrs-work-in-action/reports/learning-from-oscrs-inquiries-financial-management/>

Charities Regulator: [Crisis management for charities](#)

Spending endowment

CCEW: [Spending permanent endowment](#)

CCNI: [New powers for unincorporated charities](#)

Independent examination

CCEW: [Independent examination of charity accounts: examiners](#)

OSCR: <https://www.oscr.org.uk/managing-a-charity/charity-accounting/external-scrutiny/independent-examination-a-guide-for-independent-examiners/>

CCNI: [Independent examination of charity accounts: examiner's guide](#)

Duty and discretion to report direct to the charity regulator

The legal duty on the independent examiner to report 'matters of material significance' to the regulator applies in all UK jurisdictions. The guidance is common to all but each regulator hosts the guidance on their website:

CCEW: [Matters of material significance and reporting by auditors and independent examiners to the charity regulator](#)

OSCR: <https://www.oscr.org.uk/managing-a-charity/charity-accounting/external-scrutiny/independent-examination-a-guide-for-independent-examiners/7-whistleblowing-continuing-reporting-duties-for-independent-examiners/>

CCNI: [Matters of material significance: a guide for auditors and independent examiners](#)

ACCA technical factsheet: [mmatters of material significance reportable to the charity regulators](#)

The independent examiner has a discretionary power to report 'relevant matters' to the

charity regulator. The UK charity regulators issued advice on what might be a ‘relevant matter’; this is common to all but each regulator hosts the guidance on their website:

CCEW: [Reporting relevant matters of interest to UK charity regulators](#)

OSCR: <https://www.oscr.org.uk/managing-a-charity/charity-accounting/external-scrutiny/independent-examination-a-guide-for-independent-examiners/7-whistleblowing-continuing-reporting-duties-for-independent-examiners/>

CCNI: [Reporting of relevant matters of interest to UK charity regulators: a guide for auditors and independent examiners](#)

Reporting by trustees to the charity regulator

Each UK charity regulator has particular matters it requires trustees to report, often as soon as possible after the event has occurred. This guidance is frequently updated and so it is best to check against the current guidance on the charity regulator’s website:

CCEW: [How to report a serious incident in your charity](#)

OSCR: <https://www.oscr.org.uk/news/the-notifiable-events-process-has-been-replaced-changes-in-the-way-charities-report-important-issues-to-oscr/>

CCNI: [Serious incident reporting: a guide for charity trustees](#)

In respect of the Republic of Ireland, the Charities (Amendment) Act 2024 includes provisions that would require trustees to disclose information to the Charities Regulator relating to significant issues, which could ultimately damage or threaten the viability of the charitable organisation. Trustees may wish to refer to the Charities Regulator’s website for an update on the progress of the implementing the provisions of the Act.

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