GUIDANCE FOR ICAS MEMBERS ACTING AS CHARITY INDEPENDENT EXAMINERS

Identifying, assessing and reporting on going concern for periods commencing on, or after, 1 January 2016
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FOREWORD

Since the financial crisis of 2008, charities across the UK have been faced with additional financial pressures arising from tougher economic conditions generally and straitened public finances specifically. The demand for services provided by charities remains high at a time when major income streams including grants, donations, contract income and investment returns are under pressure.

High-profile failures in the sector and concerns over charity fundraising activities in recent years have piqued the public’s interest in the way charities are governed and the sector has suffered some reputational damage as a result. The UK charity regulators, too, are under pressure to become more effective. In response to the challenges created by this environment, there are signs that the charity regulators’ expectations of independent examiners (and auditors) have increased.

Guidance on reporting matters of material significance, jointly issued, by the three UK charity regulators in 2017 requires examiners and auditors to report directly to the relevant regulator if they issue a non-standard report relating to any material uncertainty around a charity client’s ability to continue as a going concern. Recently revised directions for examiners from the Charity Commission for England and Wales include a new direction dealing specifically with work to be undertaken on going concern.

Auditing standards and related guidance provide a clear framework for auditors to apply when considering going concern matters. However, there is less structured guidance on going concern for charity independent examiners. This Guide is therefore designed to assist ICAS members acting as independent examiners in their consideration of going concern.

An independent examination is a less onerous form of scrutiny than an audit and our Guide reflects this. It focuses on the work an independent examiner needs to do around the accounting concept of going concern to deliver an independent examiner’s report which complies with the relevant charity accounting regulations and guidance issued by UK charity regulators. It also considers other related reporting matters.

Christine Scott  
Head of Charities and Pensions  
ICAS  

12 February 2018
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Adrienne Airlie        Martin Aitken & Co
Colin Burnett          The Moredun Group
Jamie Davidson         Henderson Loggie
Kenneth Ferguson       The Robertson Trust
Jim Gibson             Sole Practitioner
Sarah Hollis           Hollis Accounting Limited
Colin Kerr             The Children’s Trust
Catherine Livingston   Wylie Bisset LLP
John McIntosh          Kibble Education & Care Centre
Tom Mitchell           CGPM Consulting
Gareth Morgan          Sheffield Business School
Victoria Simpson       Anderson Strathern

The Panel was supported by:

Keith Purnell          ICAS, Policy Adviser, Charities
Christine Scott        ICAS, Head of Charities & Pensions
David Wood             ICAS, Senior Policy Director

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Margaret Birse         Tangram Accounting
Grant Macrae           Charity Trustee
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Brian Thomson          Armstrong Watson LLP

Members of the Charities Panel and other contributors were acting in their personal capacity and were not representing the organisations in which they work.

Any queries relating to this Guide should be addressed in the first instance to:

Christine Scott, Head of Charities & Pensions
ICAS
CA House, 21 Haymarket Yards
Edinburgh EH12 5BH
Email: accountingandauditing@icas.com
1. INTRODUCTION

1.1 Aim of the Guide

The aim of the Guide is to support ICAS members acting as independent examiners for UK charities registered in a UK charity law jurisdiction:

- to identify whether a charity has a going concern issue;
- to gather and assess evidence about a charity’s ability to continue as a going concern; and
- to consider the implications of their findings for the independent examiner’s report.

The different stages in an independent examination, referred to in the Guide are: identify; gather; assess; and consider. These are unlikely to be discrete stages in practice but are treated pragmatically as distinct stages in the Guide.

A case study dealing with the going concern implications for Trustworthy Charitable Trust arising from its defined benefit pension liabilities has been prepared to demonstrate how the Guide could be applied in a ‘real life’ situation.

1.2 Scope of the Guide

The Guide applies to the independent examination of the accounts of UK charities prepared in accordance with:

- The Financial Reporting Standard applicable in the UK and the Republic of Ireland (FRS 102);
- Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with FRS 102 (the Charities SORP (FRS 102)).

**True and fair accounts and going concern**

Accounts prepared in accordance with FRS 102 and the Charities SORP (FRS 102) are intended to give a ‘true and fair’ view and would normally, but not always, be prepared on a going concern basis. The Guide deals specifically with the concept of going concern as defined in FRS 102 and not with any broader consideration of financial sustainability.

For the avoidance of doubt, the UK charity regulators often refer to ‘true and fair’ accounts as ‘fully accrued’ accounts.

Under the Companies Act 2006, all charitable companies are required to prepare accounts which give a ‘true and fair’ view regardless of their size.

Non-company charities, including Charitable Incorporated Organisations (CIOs) and Scottish Charitable Incorporated Organisations (SCIOs), have the option of preparing receipts and payments accounts:

- in England and Wales and Northern Ireland, if their annual gross income is £250,000 or less; and
- in Scotland, if their annual gross income is less than £250,000.

A charity’s trustees, funders or governing documents may, however, require it to prepare its accounts on a ‘true and fair’ basis even if the size criteria for receipts and payments accounts are met.

**Receipts and payments accounts**

Receipts and payments accounts do not give a ‘true and fair’ view and the going concern basis does not apply. Therefore, the Guide is not applicable to the independent examination of receipts and payments accounts.
**United Kingdom charity law jurisdictions**

There are three charity law jurisdictions within the UK and three charity regulators, the regulator within each jurisdiction is as follows:

- England and Wales - the Charity Commission for England and Wales (CCEW)
- Northern Ireland - the Charity Commission for Northern Ireland (CCNI)
- Scotland - the Office of the Scottish Charity Regulator (OSCR)

This guidance applies to the independent examination of charity accounts in each of these jurisdictions. However, it is not intended to cover any additional considerations that may apply to the independent examination of cross border charities i.e. charities required to comply with accounting and external scrutiny requirements in more than one UK charity law jurisdiction.

Each charity regulator has issued its own guidance on independent examination:

- CCEW – [Independent examination of charity accounts: examiners (CC32)]
- CCNI – [Independent examination of charity accounts: examiner’s guide (ARR07)]
- OSCR – [Independent examinations for charities and independent examiners]

Guidance issued by the CCEW and the CCNI include specific Directions for examiners made under statutory powers. Examiners must comply with the Directions as a matter of law.

Key legislative and regulatory references relating to the preparation and scrutiny of charity accounts are included at Appendix 1: Legislative framework

**Insolvency**

If a charity’s affairs are no longer controlled by its trustees, for example, if the charity is in administration, the trustees will no longer be responsible for preparing a trustees’ annual report and accounts. Therefore, this Guide does not apply if a charity has entered an insolvency procedure.

### 1.3 ICAS members acting as independent examiners

Any ICAS member acting as an independent examiner must have the necessary skills and knowledge to deliver a high standard of service. This is achieved through compliance with the ICAS requirements for continuing professional development (CPD). ICAS members must also comply with other relevant regulatory and professional requirements, including those contained within:

- the [ICAS Charter, Rules and Regulations];
- the [ICAS Code of Ethics]; and
- ICAS guidance on [Practising Certificates], specifically the guidance on whether a practising certificate (PC) is needed to provide accountancy services to charities.

ICAS is proud to facilitate the efforts of its many members who support charities by acting as independent examiners on a voluntary basis. However, members without a practising certificate are limited to undertaking a maximum of 10 engagements on a voluntary basis. Independent examinations undertaken on a voluntary basis should also be limited to charities with a gross annual income of £500,000 or less.
2. KEY TERMS

2.1 Independent examination

In Northern Ireland and Scotland all charity accounts must be independently scrutinised by being subject to either an independent examination or an audit. In England and Wales independent scrutiny requirements apply to charities with gross income of £25,000 or more.

Independent examination is a form of independent scrutiny available to charities below the audit threshold applicable to their legal form and charity law jurisdiction. It is intended to be less onerous and less expensive than an audit while providing limited assurance on a charity's accounts to its trustees.

All UK jurisdictions require independent examiners to attach a report to the accounts they have examined. The content of the independent examiner’s report is set out in regulations and requires examiners to report on several matters, with some matters to be reported by exception only. For example, it is assumed that the independent examiner is satisfied that all material expenditure is in accordance with the purposes, or trusts of the charity unless they explicitly state otherwise.

The independent examiner does not express an opinion on whether the accounts give a ‘true and fair’ view, as an auditor would.

Independent examination thresholds are set out in Appendix 2: Summary of accounts and independent examination thresholds.

2.2 Going concern

The question of whether a charity is a going concern is of fundamental importance in determining the basis on which its accounts should be prepared and must be considered carefully by a charity’s trustees with appropriate disclosures provided in the trustees’ annual report and accounts.

The going concern requirements in FRS 102 are set out in the table below:

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<td>Paragraph 3.8 states that:</td>
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<td>When preparing financial statements, the management of an entity using FRS shall make an assessment of the entity’s ability to continue as a going concern. 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. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue.</td>
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<td>Paragraph 3.9 states that:</td>
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<td>When management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.</td>
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The requirements and guidance in Charities SORP (FRS 102) on going concern are consistent with FRS 102 and these are set out in the table below.

### Module 3: Accounting standards, policies, concepts and principles

Paragraph 3.14 states that:

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 should take into account all available information about the future for at least, but not limited to, twelve months from the date the accounts were approved.

While going concern questions are often associated with financial difficulty, it should be noted that they also arise when the activities of a charity come to an orderly and planned conclusion. For a charity in financial difficulty the eventual outcome may be insolvency. However, if a charity has fulfilled its charitable purposes it may be wound up in a solvent manner and may prepare its accounts on a break up basis in order to give a ‘true and fair’ view. Therefore, on rare occasions an independent examiner may be required to undertake an independent examination in these circumstances.

#### 2.3 Materiality and the examination of charity accounts

Materiality is a concept that must be considered by both the preparers of accounts and those appointed to independently examine or audit those accounts.

For independent examiners, professional judgement must be applied in determining what is material when planning, undertaking and concluding on an engagement.

In relation to going concern, an independent examiner must consider the implications for their engagement if:

- the charity trustees indicate they are aware of material uncertainties related to events or conditions that cast significant doubt upon the charity’s ability to continue as a going concern; or
- if they themselves, identify material uncertainty or potential material uncertainty in the course of the engagement.

**Definition of ‘material’**

FRS 102 glossary provides the following definition of materiality:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Judgements regarding materiality are made in the context of the nature and the amount of an item, along with the specific circumstances of the charity. In addition, examiners should also consider the cumulative impact of issues that may not be considered material on an individual basis.

The Charities SORP (FRS 102) adopts the same general approach to materiality (see module 3, paragraphs 3.15 to 3.19). Charities are advised to avoid providing unnecessary information in their accounts for non-material items or transactions but are also given guidance on the disclosure required where specific items or transactions are considered to be material due to their nature. For example, related party transactions are always to be considered material: this includes transactions with a charity’s trustees.
Independent examiners must therefore take the quantitative and qualitative aspects of transactions and balances into account and exercise their professional judgement when considering what could affect users’ decisions and is therefore material for an individual charity.

2.4 Matters of material significance to a UK charity regulator

Independent examiners also have a statutory duty to report to UK charity regulators where they identify matters of material significance in relation to the exercise of the powers of the regulator. The matters regulators consider to be of material significance are set out in Chapter 5, Annex 5iii of the Guide.

Matters of material significance in this context is separate to the concept of materiality in relation to a set of charity accounts.
3 IDENTIFYING GOING CONCERN ISSUES

3.1 Introduction

It is important to acknowledge the distinct nature of an independent examination in comparison to an audit and consequently the more limited range of work that an independent examiner can reasonably be expected to undertake. The aim of this Guide is to set out how going concern issues can be addressed efficiently, as far as possible, within the routine work undertaken as part of an independent examination.

3.2 Key general information

At the outset of a new or recurring engagement an independent examiner should seek to build a good understanding of the charity including its current and future objectives, operations and financial position along with key risk factors that may impact on the charity. By building a sound knowledge base throughout the course of the examination process the independent examiner will gain valuable insights relevant to different aspects of the examination, including going concern. Important sources of key general information include:

- the charity's governing documents;
- business plans, budgets and cash flow forecasts;
- correspondence with regulators and major funders;
- specialist valuations of assets such as property and investments and liabilities such as pension deficits;
- minutes of trustees' board meetings;
- the charity's risk register;
- discussions with trustees, the honorary treasurer and staff members to understand the 'business' of the charity and related risks;
- previous copies of the trustees' annual report and accounts and, if available, management accounts;
- this year's draft trustees' annual report and accounts.

3.3 Indicators of a potential going concern issue

Indicators that a charity may have a going concern issue are set out below covering:

- General financial indicators
- Charity specific indicators
- Indicators of a potential solvent winding up

The lists are designed to be illustrative rather than comprehensive.

Not all indicators that there may be a going concern issue are financial, for example, if a charity is not able to recruit sufficient trustees to meet the number required under its governing documents, this could be indicative of a going concern issue.

**General financial indicators**

Where material uncertainties could compromise the charity’s ability to continue as a going concern, the key considerations are whether the charity can:

- continue to meet its liabilities as they fall due; and
- overall, whether the value of its realisable assets exceeds the value of its liabilities.
Indicators that may point to the existence of a material uncertainty or wider going concern issue include:

- repeated difficulties in making payments to staff, suppliers, or tax authorities;
- significant increases in liabilities such as pension liabilities arising from participation in a multi-employer, defined benefit scheme;
- an extended period of operating deficits that has exhausted the charity’s reserves;
- reliance on bank loans or overdrafts with unclear renewal or extension provisions;
- any breaches of banking or loan covenants.

One situation that merits specific consideration is where a charity’s balance sheet shows net liabilities (i.e. a negative balance sheet). While this is a situation that would certainly warrant investigation and discussions with trustees, it is not in itself conclusive evidence that a charity is not a going concern. It is perfectly possible for a charity to remain a going concern in these circumstances, but consideration should be given as to whether a negative balance sheet is indicative of a material uncertainty or that a charity is no longer a going concern.

**Charity specific indicators**

In addition, the following charity sector specific indicators may point to the existence of a material uncertainty or wider going concern issue:

- notification of key funding or core funding is not confirmed at the time the accounts are approved by the trustees;
- investigation by a charity regulator;
- claw-back of grants received and gift aid payments;
- a significant decline in donations by the public;
- failure to meet the public benefit test;
- the use of restricted funds for general operational purposes;
- fewer trustees than required by the charity’s governing documents.

**Indicators of a potential solvent winding up**

In the case of the orderly, solvent wind up of a charity, indicators may include:

- achievement of the specific objective or time frame originally set out for the charity in its governing documents;
- the decision of the trustees to conclude the activities of the charity and wind it up;
- an agreement to transfer its activities or assets to another charity.

### 3.4 Next steps

Should the independent examiner’s initial review of documentation and initial discussions with trustees, or others within the charity, indicate that there is or could be a material uncertainty or wider concerns about the charity’s ability to continue as a going concern, further inquiries would need to be made or evidence obtained before the examiner can assess the implications for their report or make a judgement on any other reporting which may need to be undertaken.

It is also perfectly possible that the trustees may inform the examiner early in the engagement that they: intend a solvent winding up; there is a material uncertainty about the charity’s ability to continue as a going concern; or about a wider concern about its going concern status. However, it will still be necessary for the independent examiner to ensure he or she gathers and assesses sufficient evidence to form a view on the conclusions drawn by the trustees and the actions they are taking.
4 GATHERING AND ASSESSING EVIDENCE

4.1 Introduction

The gathering and assessing of evidence about a charity’s going concern status during an independent examination is an iterative process. A going concern issue may be identified from evidence routinely gathered and assessed during the independent examination. However, once a going concern issue has been identified, additional evidence is gathered and assessed until the independent examiner is in a position to conclude on the implications for their independent examiner’s report.

4.2 The trustees’ responsibility for assessing going concern

The trustees of charities are legally responsible for ensuring that accounting records are maintained and that the accounts prepared from these records comply with the applicable accounting framework.

FRS 102 and the Charities SORP (FRS 102) establish the requirement to assess whether a charity is a going concern and to disclose, in the accounts, any material uncertainty relating to going concern or that the accounts are not prepared in a going concern basis.

For a charity, it is therefore its trustees who must assess whether a charity is a going concern. The role of an independent examiner is therefore to consider whether the trustees assessment of going concern is adequate to meet the requirements of the accounting framework and whether related disclosures are sufficient for the accounts to give a ‘true and fair’ view.

In making their assessment, the independent examiner will gather evidence and form a view on going concern and conclude on whether this accords with the trustees’ assessment.

4.3 Gathering and assessing evidence about going concern

Evidence gathered during the independent examination must be sufficient for the independent examiner to prepare an independent examiner’s report which complies with the requirements of the accounting regulations relevant to the jurisdiction of the charity. This includes sufficient evidence about the charity’s going concern status.

The independent examiner therefore needs to arrive at their own professional judgement as to whether they have sufficient evidence to issue an independent examiner’s report.

The independent examiner should ensure that any conclusion reached about a charity’s going concern status is documented in their working papers.

**CCEW and CCNI Directions**

In England and Wales and Northern Ireland the charity regulators have issued a series of directions under statutory powers contained in the relevant legislation. The directions provide a framework that defines how the duties of an independent examiner should be met.

For example, in England and Wales, the CCEW has issued revised directions that an examiner must address when carrying out an independent examination; these are summarised in the table below and are effective for independent examiner’s reports signed and dated on or after 1 December 2017.
**CCEW directions for independent examiners (summary)**

Direction 1: Check whether the charity is eligible to have an independent examination.

Direction 2: Check whether there are any conflicts of interests that prevent the examiner from carrying out the independent examination.

Direction 3: Record the independent examination.

Direction 4: Plan the independent examination.

Direction 5: Check the accounting records are kept to the required standard.

Direction 6: Check that the accounts are consistent with the accounting records.

Direction 7: For accruals accounts, check that any related party transactions are properly disclosed in the notes to the accounts.

Direction 8: Check the reasonableness of significant estimates, judgments and accounting policies.

Direction 9: Check whether trustees have considered the financial circumstances of the charity and for accruals accounts, check whether the trustees have considered the charity’s position as a going concern.

Direction 10: Check the form and content of the accounts.

Direction 11: Identify from analytical review of the accounts any items that require further explanation or evidence.

Direction 12: Compare the trustees’ annual report with the accounts.

Direction 13: Write and sign the independent examination report.

**Scotland**

OSCR, does not have the statutory power to issue mandatory directions but has published ‘Independent examinations for charities and independent examiners’. This guidance should be followed by independent examiners of Scottish charities.

**4.4 The trustees’ assessment of going concern**

An essential aspect of the independent examiners’ assessment of a charity’s going concern status is the trustees’ own assessment of going concern, as required by FRS 102 and the Charities SORP (FRS 102).

In considering the trustees’ own assessment of going concern, the independent examiner forms a view on whether the assessment made complies with the requirements of FRS 102 and the Charities SORP (FRS 102) and is supported by the available evidence.

The following may form part of the examiner’s assessment of the trustees own going concern assessment:

- reviewing material prepared by the trustees to support their assessment;
- discussing with the chair of trustees, other trustees or the board as a whole about how the assessment was conducted and why conclusions were reached;
- attending the board meeting where the assessment took place or reviewing the minutes of such a meeting;
• obtaining verbal or written assurances from the trustees about their assessment of going concern, including on the day the independent examiner’s report is signed.

There are several possible outcomes arising from the independent examiner’s assessment of the trustees’ going concern assessment:

• the trustees conclude that the charity is a going concern and there are no material uncertainties to disclose;
• the trustees conclude that the charity is a going concern and there is a material uncertainty or are material uncertainties to disclose;
• the charity is not a going concern but can be wound up in a solvent manner. Accounts can be prepared by the trustees and submitted for independent examination on a basis other than going concern such as a break-up or realisation basis.

If the charity is insolvent and has entered or is about to enter an insolvency procedure, the trustees are unlikely to have prepared accounts or made an assessment of going concern in accordance with FRS 102 and the Charities SORP. However, if draft accounts have been prepared, insolvency means that the trustees are or may soon not be in control of the charity and no independent examination will be required.

4.5 Letter of representation

In reaching a conclusion about a charity’s ability to continue as a going concern, including the existence of any material uncertainty, it is likely that the independent examiner will seek and receive verbal assurances from trustees. If these assurances are key to forming a conclusion about the charity’s going concern status, then the independent examiner may wish to have these formally recorded in a letter of representation from the trustees to the independent examiner. A letter of representation may also deal with any other routine areas where the examiner wishes to seek written assurances from trustees.

4.6 Next steps

Having gathered and assessed evidence to support the independent examiner’s report, it falls to independent examiner to consider how to reflect their findings and conclusions in their report.

There are other reporting requirements to consider alongside and these are addressed in Chapter 5.
5 REPORTING ON GOING CONCERN ISSUES

5.1 Introduction

The independent examiner must now consider how to meet his or her reporting responsibilities to conclude the engagement.

5.2 Scope of the independent examiner’s reporting responsibilities

After each independent examination, the examiner must prepare and issue an independent examiner’s report on the accounts approved by the charity’s trustees. The report must comply with the accounting regulations applicable to the charity law jurisdiction of the charity.

A qualified independent examiner’s report may be required in respect of a going concern matter but this, too, depends on the circumstances of the engagement and the examiner’s professional judgement.

In the Guide, we consider a qualified independent examiner’s report to be a report where the examiner draws a matter to the attention of the trustees, who are the addressees of the report.

If the independent examiner qualifies the report by referring to a material uncertainty about the charity’s ability to continue as a going concern, the UK charity regulators consider the independent examiner to have a separate statutory duty to report to them.

In the absence of a statutory duty to report, the independent examiner has a discretionary right to report to a UK charity regulator. However, the discretionary right to report is unlikely to apply in relation to a going concern matter.

Finally, the independent examiner may wish to consider making recommendations to the trustees relating to a going concern issue on matters such as strategy, operations and accounts disclosures.

The trustees may also have reporting responsibilities if there is any material uncertainty about the charity’s ability to continue as a going concern: these are outside the scope of the Guide.

5.3 Disclosures by trustees

FRS 102 and the Charities SORP clearly establishes the responsibility of trustees for assessing whether a charity remains a going concern and for making appropriate disclosures relating to their assessment.

The independent examiner must consider whether the trustees have satisfied the disclosure requirements for FRS 102 and the Charities SORP, including any judgements the trustees have made about the existence or otherwise of a material uncertainty.

The disclosure requirements of the Charities SORP are set out in the following table: these requirements are consistent with FRS 102.
Charities SORP: the disclosure obligations of trustees regarding going concern matters

Module 3, paragraph 38

All charities must explain if there are material uncertainties related to events or conditions that cast significant doubt on the charity’s ability to continue as a going concern. In making their explanation, charities should provide:

- a brief explanation as to those factors that support the conclusion that the charity is a going concern; and
- a balanced, proportionate and clear disclosure of any uncertainties that makes the going concern assumption doubtful; or
- if the accounts are not prepared on a going concern basis, this fact must be disclosed, together with the basis on which the trustees prepared the accounts and the reason why the charity is not regarded as a going concern.

Module 3, paragraph 3.39

- Where there are no material uncertainties about the charity’s ability to continue, this should be stated.

5.4 The independent examiner’s report

The main output from an independent examination is the independent examiner’s report on the accounts. The table below sets out the key requirements of each UK jurisdiction concerning substantive matters to be reported in independent examiners’ reports. Reference should be made to the relevant regulations for details of the full content of the independent examiners’ report.

<table>
<thead>
<tr>
<th>Reporting requirement</th>
<th>England and Wales</th>
<th>Northern Ireland</th>
<th>Scotland</th>
</tr>
</thead>
<tbody>
<tr>
<td>A statement as to whether or not any matter has come to the attention of the examiner in connection with the examination which gives them reasonable cause to believe that in any material respect:</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• accounting records have not been kept in respect of the charity in accordance with the relevant regulations;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• the accounts do not accord with those records;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• ‘true and fair’ accounts do not comply with relevant regulations;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• accounts stating they have been prepared in accordance with the Charities SORP have not in fact been prepared in accordance with the methods and principles set out in the SORP.</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
</tr>
<tr>
<td>A statement as to whether or not any matter has come to the independent examiner’s attention in connection with the examination to which, in the independent examiners opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached:</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
A statement as to any of the following matters that have become apparent to the examiner during the course of the examination:

<table>
<thead>
<tr>
<th>Reporting requirement</th>
<th>England and Wales</th>
<th>Northern Ireland</th>
<th>Scotland</th>
</tr>
</thead>
<tbody>
<tr>
<td>• there has been any material expenditure or action which appears not to be in accordance with the purposes, or trusts of the charity;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• any information or explanation to which they are entitled that has not been afforded to them;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• whether any information contained in the accounts is inconsistent in any material respect with any report of the charity trustees.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

All three UK charity law jurisdictions require independent examiners to include a statement within their report as to whether any matter has come to their notice to which, in their opinion, attention should be drawn to enable a proper understanding of the accounts to be reached. The independent examiner must therefore decide whether a going concern issue is such a matter.

Where an independent examiner is in agreement with the trustees regarding their assessment and conclusions relating to a going concern issue and is satisfied with the related disclosures made within the accounts, there is no requirement to raise the matter separately in the independent examiner’s report so making a report is a matter of professional judgement.

Where the independent examiner does not agree with the trustees regarding their assessment of a going concern issue or concludes that adequate disclosure has not been made in the accounts then the issue should be addressed in the independent examiner’s report.

Annex 5i sets out the scenarios examiners are likely to encounter in relation to going concern issues together with the appropriate reporting outcomes for each scenario.

Extracts from example independent examiner’s reports are set out in Annex 5ii. Each regulator publishes report examples on their website.

5.5 Reporting to charity regulators

Independent examiners have a statutory duty to report to UK charity regulators, i.e. matters of material significance which must be reported by law. In addition, independent examiners have a discretionary right to report other matters to regulators.

Statutory reporting requirements

Matters an independent examiner must report arise from a statutory duty to report matters of material significance to a UK charity regulator as soon as they become apparent. This duty is distinct from the independent examiner’s report on a charity’s accounts, which is submitted by a charity as part of its accounts filing. The UK charity regulators issued joint guidance in April 2017 on reporting matters of material significance. The matters they consider to be of material significance are set out in Annex 5iii.

The most significant development in reporting matters of material significance to a UK charity regulator, is the requirement in the joint guidance to notify a charity regulator whenever they issue a qualified independent examiner’s report identifying matters of concern to which attention is drawn.

The UK charity regulators also expect the examiner to provide supporting reasons together with notification of the action subsequently taken, if any, by trustees. This requirement is likely to increase the sensitivity of trustees and other interested parties to anything other than a standard unqualified independent examiner’s report.
**Discretionary reporting**

Matters that independent examiners may report to regulators stem from a broad discretionary right to report any other matters that are considered relevant to the functions of a charity regulator, but which may not fall into one of the categories of material significance that would create a statutory reporting duty. The discretionary right to report to regulators provides examiners with important legal protection in relation to the disclosure of confidential matters encountered during an examination.

As mentioned previously, the discretionary right to report is unlikely to be relevant in relation to a going concern matter with the examiner likely to have a statutory duty to report in this regard.

### 5.6 Additional reporting to trustees

Unless specifically agreed as part of the engagement, there is no requirement for an independent examiner to provide additional reports to trustees analogous to the management letter that is routinely provided during completion of an audit.

In practice, it is recognised that independent examiners will often provide informal feedback and advice to trustees possibly at a meeting where the accounts are approved or in discussions with the charity’s treasurer. The format and content of such feedback is a matter for each independent examiner. Any recommendations made by the examiner to the trustees either formally or informally whether given orally or in writing should be documented by the examiner.

### 5.7 The final steps

As outlined above there are several potential layers of reporting process the examiner should consider throughout an examination, particularly at its conclusion. In concluding the examination, it is important for the examiner to stand back and consider their findings in a holistic manner.

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**Independent examination for charities and independent examiners (OSCR, 2017)**

The final step in the independent examination process is for the examiner to stand back and be objective about the accounts and the work done to date. They must consider whether any issues have been identified and whether the accounts actually make sense in light of what they know about the charity and by comparing the financial information with the Trustees’ Annual Report.

They must ensure that they have identified all the unusual items or disclosures in the accounts. The examiner may need to seek explanations from the charity trustees for any issues that have not been resolved. The examiner should ensure that their own record of preparation, work done, explanations received and checks made is complete.

The examiner needs to:

- consider if the accounts look as they would expect from all the information they have gathered – do they make sense?
- check any large or unusual items that appear in the accounts or accounting records.

The examiner will need to draw on their experience and exercise judgement as to what is ‘unusual’ for each charity.
5.8 Professional judgement

Independent examiners will be required to assess and challenge the judgements made by the charity's board of trustees during the course of the independent examination.

The ICAS publication *A Professional Judgement Framework for Financial Reporting* (2016) provides principles based guidance for those making professional judgements. Although the material in the framework on assessing and challenging the judgments of accounts preparers is primarily intended to support the audit process, the same principles can be applied to independent examination.

This Guide links stages in the independent examination process to the principles ICAS has developed to underpin the assessment and challenge of the judgements made by accounts preparers as follows.

### Stages in the examination process

**Knowledge gathering and analysis**

**Assessment of accounting and charity regulator guidance**

**Process for assessing and challenging the client's judgement**

**Documentation of judgement**

### Principles: a professional judgement can only be made:

- **PRINCIPLE 1**
  Once all relevant and determinable information has been collected and analysed.

- **PRINCIPLE 2**
  In the context of the applicable accounting framework, and other relevant guidance/literature.

- **PRINCIPLE 3**
  After undertaking appropriate due process to assess and challenge the client's judgement.

- **PRINCIPLE 4**
  If the examiner's judgement the assessment and challenge the client's judgement is suitably documented.
Annex 5i: Going concern reporting outcomes

The following table sets out the most common scenarios that examiners are likely to encounter in relation to going concern issues together with the appropriate reporting outcomes for each scenario.

<table>
<thead>
<tr>
<th>Going concern conclusion</th>
<th>Reporting outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reporting outcome 1: Charity is a going concern – no material uncertainties</strong></td>
<td></td>
</tr>
</tbody>
</table>
| The trustees’ assessment is that there are no material uncertainties affecting the charity and that it is clearly a going concern. The assessment is fully disclosed in the accounts. | 1. An unqualified independent examiner’s report.  
2. No separate reporting to charity regulators required. |
| **Reporting outcome 2: Charity is a going concern – material uncertainty adequate disclosure** |                                                                                  |
| A material uncertainty has been identified. The trustees have fully disclosed this in the charity’s accounts along with their assessment which leads them to conclude that the going concern basis remains appropriate. The independent examiner is satisfied with the disclosures along with the assessment made and conclusion reached by the trustees. | 1. An unqualified independent examiner’s report.  
Although a material uncertainty was identified there is no requirement to include an explanatory matter of emphasis paragraph as the trustees have provided adequate disclosures.  
2. No separate reporting to charity regulators required.  
Or, if the independent examiner chooses to refer to the material uncertainty in their examiner’s report then:  
1. A qualified examiner’s report.  
2. Guidance from the UK Charity regulators requires all qualified independent examiners’ reports to be separately reported to the appropriate regulator as a matter of material significance. |
| **Reporting outcome 3: Charity is a going concern – material uncertainty inadequate disclosure** |                                                                                  |
| A material uncertainty has been identified. The trustees and the independent examiner agree that the going concern basis is still appropriate. However, the trustees have not adequately disclosed the issue and their assessment of it in the accounts and will not amend the accounts. | 1. A qualified independent examiner’s report is required, setting out the matters that have not been adequately disclosed.  
2. Guidance from the UK Charity regulators requires all qualified independent examiners’ reports to be separately reported to the appropriate regulator as a matter of material significance. |
| **Reporting outcome 4: Charity is not a going concern – adequate disclosure**             |                                                                                  |
| The trustees and independent examiner concur that the charity is not a going concern. The trustees’ assessment leading to this conclusion is adequately disclosed in the charity’s accounts together with details of the basis on which the accounts have been prepared. | 1. An unqualified independent examiner’s report.  
2. The independent examiner must consider the circumstances that have led to the charity no longer being a going concern. A planned, orderly winding up of a charity’s affairs should not require a mandatory report to charity regulators. However, if the reason is linked to financial irregularity, mismanagement or another matter of material significance then a separate report to charity regulators would be required.  
Or, if the independent examiner chooses to mention that the charity is not a going concern in their examiner’s report then:  
3. A qualified examiner’s report.  
4. Guidance from the UK Charity regulators requires all qualified independent examiners’ reports to be separately reported to the appropriate regulator as a matter of material significance. |
| **Reporting outcome 5: Charity is not a going concern – inadequate disclosure**           |                                                                                  |
| The charity is not a going concern, however, either the trustees do not accept this or have not adequately disclosed matters in the charity’s accounts and will not amend the accounts. | 1. A qualified independent examiner’s report.  
2. Guidance from the UK Charity regulators requires all qualified independent examiners’ reports to be separately reported to the appropriate regulator as a matter of material significance. |
Annex 5ii: Example independent examiner’s reports

The following paragraphs are examples of the key findings that would be reported in an independent examiner’s report to reflect different scenarios relating to going concern. For comprehensive reporting requirements, reference should be made to the relevant regulations and charity regulator guidance.

Example 1: Standard independent examiner’s reports

The following wording would be appropriate for a standard, unqualified independent examiner’s report in the following circumstances:

• the charity is a going concern and no material uncertainty has been identified;
• the charity is a going concern and, while a material uncertainty has been identified it has been adequately addressed and disclosed by trustees in the accounts;
• the charity is not a going concern, but this together with the basis on which the accounts have been prepared has been adequately disclosed by trustees in the accounts. For example, in the case of an orderly, solvent winding up of the charity.

N.B. the independent examiner could highlight a material uncertainty in their independent examiner’s report or a basis of preparation different from the going concern basis, if he or she judges this to be appropriate. In either of these scenarios, the report would be considered to be ‘qualified’.

In the course of my examination, no matter has come to my attention:

1. which gives me reasonable cause to believe that in any material respect the requirements:
   • to keep accounting records in accordance with [relevant regulatory citation for each jurisdiction]
   • to prepare accounts which accord with the accounting records and comply with [relevant regulatory citation for each jurisdiction]

   have not been met, or

2. to which, in my opinion attention should be drawn in order to enable a proper understanding of the accounts to be reached.
Example 2: Qualified independent examiner’s reports – charity a going concern

The following wording would be appropriate for a qualified independent examiner’s report in circumstances where it is valid to prepare the accounts on a going concern basis but where the trustees have not adequately disclosed a material uncertainty.

In the course of my examination, no matter has come to my attention other than that disclosed below:

1. which gives me reasonable cause to believe that in any material respect the requirements:
   - to keep accounting records in accordance with [relevant regulatory citation for each jurisdiction]
   - to prepare accounts which accord with the accounting records and comply with [relevant regulatory citation for each jurisdiction]

   have not been met, or

2. to which, in my opinion attention should be drawn in order to enable a proper understanding of the accounts to be reached.

The matter that has come to my attention is that, the sole funder of the charity, ABC Local Authority, has notified the charity that it will no longer be able to provide any funding once its current commitment expires. This means that the charity’s current funding will cease eight months from the date these accounts were approved. This fact has not been disclosed by the trustees in the annual accounts as required by section 3.38 of the Charities SORP.

The charity has sufficient reserves to maintain current operations for approximately four months after its current funding ceases and the trustees are confident that alternative sources of funding will be secured. On this basis, the trustees have concluded that it remains appropriate to prepare the charity’s accounts on a going concern basis. The trustees are aware that if alternative funding is not secured then the charity will no longer be a going concern and will have to cease operations.
Example 3: Qualified independent examiner’s reports – charity not a going concern

The following wording would be appropriate for a qualified independent examiner’s report in circumstances where the charity is not a going concern and where the trustees have not adequately disclosed this in the accounts.

In the course of my examination, no matter has come to my attention other than that disclosed below:

1. which gives me reasonable cause to believe that in any material respect the requirements:
   a. to keep accounting records in accordance with [relevant regulatory citation for each jurisdiction]
   b. to prepare accounts which accord with the accounting records and comply with [relevant regulatory citation for each jurisdiction]

have not been met, or

2. to which, in my opinion attention should be drawn in order to enable a proper understanding of the accounts to be reached.

The matter that has come to my attention is that six months after the year end the trustees agreed that the charity had achieved the objectives that it was created to deliver and consequently the charity will cease operations and be wound up. The trustees believe that the charity has sufficient funds to meet all liabilities and that there will be a small residual amount that will be donated to charities operating in similar areas.

The trustees’ plans have not been disclosed in the accounts of the charity and the accounts have been prepared on the basis that the charity remains a going concern. Given the firm intentions of the trustees, the annual accounts do not provide adequate disclosures, nor is it appropriate for the accounts to be prepared on a going concern basis.
Annex 5iii: Reporting matters of material significance

In April 2017, the UK charity regulators issued joint guidance setting out that they always consider the following to be matters of material significance, and hence are mandatory for independent examiners to report via the prescribed method. The revised guidance is effective for all independent examinations which are conducted and/or reported after 1 May 2017 (regardless of the accounting period being examined).

- Dishonesty & Fraud: matters suggesting fraud or dishonesty involving a significant loss of, or a material risk to, charitable funds or assets;

- Internal Controls & Governance: failure(s) of internal controls, including failure(s) in charity governance that resulted in, or could give rise to, a material loss or misappropriation of charitable funds, or which leads to significant charitable funds being put at major risk;

- Money Laundering & Criminal Activity: knowledge or suspicions that the charity or charitable funds including the charity’s bank account(s) have been used for money laundering or such funds are the proceeds of serious organized crime or that the charity is a conduit for criminal activity;

- Support of Terrorism: matters leading to the knowledge or suspicion that the charity, its trustees, employees or assets, have been involved in or used to support terrorism or proscribed organisations in the UK or outside the UK, with the exception of matters related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (sentences) Act 1998;

- Risk to Charity's Beneficiaries: evidence suggesting that in the way the charity carries out its work relating to the care and welfare of beneficiaries, the charity’s beneficiaries have been or were put at significant risk of abuse or mistreatment.

- Breach of Law or the Charity’s Trusts: single or recurring breach(es) of either a legislative requirement or of the charity’s trusts leading to material charitable funds being misapplied;

- Breach of an Order or Direction made by a Charity Regulator: evidence suggesting a deliberate or significant breach of an order or direction made by a charity regulator under statutory powers including suspending a charity trustee, prohibiting a particular transaction or activity or granting consent on particular terms involving significant charitable assets or liabilities;

- Modified Audit Opinion or Qualified Independent Examiner's Report: on making a modified audit opinion, emphasis of matter, material uncertainty related to going concern or issuing a qualified independent examiner’s report identifying matters of concern to which attention is drawn, notification of the nature of the modification/ qualification/ emphasis of matter/ or concern with supporting reasons including notification of the action taken, if any, by the trustees subsequent to that audit opinion, emphasis of matter or material uncertainty identified / independent examiner’s report; and

- Conflicts of Interest and Related Party Transactions: evidence that significant conflicts of interest have not been managed appropriately by the trustees and/or related party transactions have not been fully disclosed in all the respects required by the applicable SORP, or applicable regulations.
6 A CASE STUDY: DEFINED BENEFIT PENSION LIABILITIES

6.1 Introduction

The ICAS Charities Panel has developed this case study, Trustworthy Charitable Trust (TCT), to assist ICAS members apply the Guide. While the case study accompanies Jane Brain CA through her independent examination of TCT’s accounts where the charity’s defined benefit pension liabilities have given rise to a going concern issue, the study is designed to illustrate the broader principles set out in the following chapters of the Guide:

- Chapter 3: Identifying going concern issues
- Chapter 4: Gathering and assessing evidence
- Chapter 5: Reporting on going concern issues

Accounting for pension liabilities by charities

Under the Charities SORP (FRS 102), a charity with a defined benefit (DB) pension scheme is likely to be required to recognise liabilities relating to the scheme. However, this is a complex area of accounting with pension liabilities being an issue for consideration by the trustees in assessing the charity’s ability to continue as a going concern.

Where the existence of pension liabilities is considered by the trustees to give rise to a material uncertainty that casts significant doubt upon the charity’s ability to continue as a going concern, there is a requirement to disclose the uncertainty in the accounts.

It is also possible for pension liabilities to undermine a charity’s ability to continue as a going concern, so the going concern assessment made by a charity’s trustees could be a finely balanced judgment.

ICAS has published the following guidance on:

- Accounting for pension liabilities under the new Charities Statements of Recommended Practice (SORPS)

This guidance pre-dates the withdrawal, by the Financial Reporting Council (FRC), of the Financial Reporting Standard for Smaller Entities (FRSSE) and the Charities SORP (FRSSE) but is still broadly relevant for charity accounts prepared under FRS 102 and the Charities SORP (FRS 102).

6.2 Case study: Trustworthy Charitable Trust

Jane Brain CA has been newly appointed as independent examiner for the Trustworthy Charitable Trust.

Identifying the issues

Shortly following the end of TCT’s financial year, Jane reviewed the draft accounts which showed that TCT had a healthy balance sheet, with net assets of £300,000 funded by restricted funds of £260,000 and free reserves of £40,000. However, she noticed that it was a participating employer in a multi-employer defined benefit scheme which remained open to future accrual. TCT’s share of the scheme’s net deficit had not been recognised in the balance sheet and there was a statement in the accounting policy note that the scheme was being accounted for as a defined contribution scheme.

Jane had recently attended a training course at CA House and understood that if the scheme actuary could provide a charity with sufficient information about its share of a multi-employer DB scheme’s net deficit, it is required to recognise that deficit. If such information is not available, the charity is required to recognise liabilities arising from any agreement with the pension scheme to fund its share of the scheme’s deficit.
While Jane knows it is not her responsibility to report on whether the accounts of the charity give a ‘true and fair’ view, Jane could immediately see that membership of a multi-employer DB scheme could have implications for the charity’s going concern status and for the preparation of the accounts. She will need to assess the implications of this for her independent examiner’s report.

**Initial gathering and assessment of the evidence**

Jane discussed her initial findings with Jim Jolie, Chair of the board of trustees. After some initial resistance because “this is how we have always done things”, Mr Jolie agreed to:

- speak to TCT’s financial controller, Vicky Abacus, to find out if the charity had agreed a deficit recovery plan;
- inquire whether the scheme actuary could provide sufficient information on the scheme’s net deficit.

Vicky reported back that a deficit recovery plan was in place and that TCT was now in year 3 of a 10-year deficit recovery plan and was required to pay £30,000 per annum: £60,000 of the £300,000 already having been paid.

The scheme actuary, Elizabeth Merriweather, got in touch to say that she would be providing sufficient information about TCT’s share of the scheme’s net deficit at the balance sheet date, and could provide prior year comparatives. Elizabeth also added that the pension scheme shared the same financial year end as the charity and that the next triennial review for scheme funding purposes was underway, based on the scheme’s position at end of the financial year just past.

TCT received the information required from the scheme actuary the following week. The information provided stated that TCT’s share of the scheme’s net deficit was £320,000.

Using the information provided by Elizabeth and information about the deficit recovery plan, Vicky prepared a revised draft of TCT’s accounts on a going concern basis. Information about the pension scheme in the accounts now included:

- an updated accounting policy note on pensions explaining that there had been a change in accounting treatment following the correction of a material error and that TCT’s accounts now recognised its share of the pension scheme’s net deficit;
- revised main statements and related notes, including a balance sheet recording TCT’s share of the pension scheme’s net deficit and the restated prior year comparative figures;
- all the related disclosures required by the Charities SORP (FRS 102) and Section 28 of FRS 102 on employee benefits, including details of the deficit recovery plan to comply specifically with FRS 102.28.41(a) to disclose its policy towards the funding of the pension scheme.

Jane was delighted to receive the revised draft and continued with her independent examination. The trustees had reluctantly agreed to report that the previous year’s accounts had to be restated due to a material error rather than a mere change in accounting policy: this was a relief to Jane.

**Further gathering and assessment of the evidence**

Her next steps were to:

- consider the trustees’ assessment of going concern;
- review the cash flow forecasts for the next two years which Vicky has prepared;
- identify and review any bank lending covenants to establish if these had been breached.

The trustees had formally minuted their assessment of going concern at a meeting to discuss the revised draft accounts. Members of the board of trustees had expressed alarm about the impact of the change in accounting for pensions on TCT’s balance sheet, which now reports net liabilities of £20,000 rather than net assets of £300,000. The deficit was allocated as follows: £50,000 to free reserves, reducing the free reserves from £40,000 to minus £10,000 and restricted funds from £260,000 to minus £10,000.
However, Vicky had prepared the cash flow forecasts based on a ‘best estimate’ for the current financial year and the following year. The forecasts indicated that the annual deficit payments of £30,000 and on-going employer contributions to the scheme were manageable. Also, funding for services had been secured for the current year and negotiations for the following year had commenced.

TCT’s revised draft accounts indicated that it has no borrowings and that its bank account was not overdrawn at the year-end. However, she did identify an overdraft facility of £5,000 which had been utilised on several occasions during the year to manage cash flow. Attached to the overdraft facility was a requirement to notify the bank of any material adverse change in TCT’s finances. Jim contacted Edwin Manners, TCT’s relationship manager at the bank, to discuss recent events and to agree a way forward. Following a frank discussion and review of TCT’s revised draft accounts and cash flow forecasts, Edwin agreed that the bank would continue to offer the current over-draft facility on the condition that TCT updated and shared its cash flow forecasts quarterly for the current and following year.

Also, critical to the future of TCT will be the response of key funders and suppliers when the accounts are finalised. Jim took steps to arrange meetings with key funders and suppliers to explain that TCT could fund the current level of deficit payments. As funding negotiations for the following year are on-going and would not be concluded prior to the accounts being signed off, Jim received assurances from the funders that the pension deficit would not automatically lead to a withdrawal of support.

Considering all the available evidence, the trustees’ concluded that TCT is a going concern and therefore that the accounts must be prepared on a going concern basis to comply with the requirements of FRS 102 and the Charities SORP (FRS 102). However, the trustees concluded that its participation as an employer of the DB scheme did create material uncertainty which cast doubt on its ability to continue as a going concern. The trustees’ based their conclusion on:

- TCT’s pension deficit and net liabilities and negative reserves position at the balance sheet date in the accounts under examination; and
- the long-term nature of the deficit recovery plan and the possibility that deficit recovery plan payments and on-going employer contributions to the pension scheme could increase following the triennial actuarial valuation.

Jane considered the trustees’ going concern assessment and concluded that it met the requirements of the accounting framework and agreed that the going concern note in the final version of the accounts must include details of the material uncertainty.

**Reporting**
Now satisfied that the accounts had been prepared in accordance with charity law and the relevant accounting regulations, Jane completed the independent examination and in doing so:

- included a statement in her independent examiner’s report that:
  - a matter had come to her attention to which attention should be drawn to enable a proper understanding of the accounts and she provided details of the matter.

Jane concluded that it was necessary to draw attention to the going concern issue in her independent examiner’s report in view of the following:

- previous years’ accounts had contained a material error;
- the correction of the error resulted in the closing balance sheet reporting net liabilities and negative free reserves and restricted funds;
- an actuarial valuation was underway which could result in increased employer contributions, including deficit contributions, to the pension scheme.
• submitted a report to the charity regulator to comply with the requirements of “Matters of material significance reportable to UK charity regulators”. She reported:
  o that there had been a failure of internal controls and governance due to the board of trustees having an insufficient understanding of implications for the TCT’s ability to continue as a going concern arising from its participation in the pension scheme;
  o that there had been a failure of internal controls and governance as previous years’ accounts contained a material error due to a failure to record the pension deficit and to make the appropriate related disclosures;
  o that she had issued a qualified independent examiner’s report;
  o the steps taken to date by the trustees to address the reportable matters.

• issued a management letter to trustees making recommendations:
  o for improving internal controls and governance around monitoring the impact of the pension scheme on TCT’s finances and making appropriate and timely decisions about TCT’s on-going relationship with the pension scheme;
  o for improving internal controls and governance around the preparation of accounts;
  o to consider what steps the board of trustees should take to place the charity’s finances on a more sustainable footing over the medium-term.

6.3 Key areas of judgment and learning points

Identifying issues
Jane identified that TCT had a potential going concern issue at the beginning of the examination process by reviewing the draft accounts. However, this could have been achieved by reviewing last year’s TCT accounts prior to taking on the engagement. This could have enabled the trustees to take swifter action, for example, by ensuring that the first set of draft accounts included the pension deficit.

Not all going concern issues will be visible by simply reviewing the previous year’s accounts and it would still be necessary to review other key documents and information to identify potential going concern matters.

Jane was up to date with her CPD which meant that she was confident in challenging Jim and the other board members about the accounting treatment.

Jane was quite clear in her own mind about the scope of the engagement and her responsibilities as independent examiner. Therefore, she took steps to ensure that trustees understood that responsibility for ensuring the accounts gave a ‘true and fair’ view sat with the board.

Initial gathering and assessment of the evidence
Jane’s initial review of key documents formed the basis of a dialogue with TCT and highlighted additional material which the charity needed to complete the accounts preparation process satisfactorily. The additional material was vital evidence for Jane’s independent examination of the accounts.

Further gathering and assessment of the evidence
Jane understood that gathering and assessing evidence was an iterative process. While the revised draft accounts were a big step forward, the existence of a pension deficit prompted further work for the charity and the gathering and assessing of additional evidence by Jane.

Jane did not extend her work by preparing her own assessment of TCT’s ability to continue as going concern or to consider TCT’s medium and long-term sustainability. However, she did satisfy herself that the board of trustees had undertaken taken a going concern assessment which satisfied the requirements of charity law and the charity accounting regulations.

Jane did not request a letter of representation from the trustees setting out their views on TCT’s ability to continue as going concern. A letter of representation is not a legal, regulatory or guidance requirement, and Jane felt that this was not necessary in the circumstances, given the nature of the information received from the pension scheme actuary.
The independent examiner’s report

Every independent examiner must issue a report on the accounts which complies with charity law and the charity accounting regulations.

Jane concluded that it was appropriate to report that no matter had come to her attention that gave her cause to believe that:

- accounting records have not been kept in respect of the charity in accordance with the relevant regulations;
- the accounts do not accord with those records;
- ‘true and fair’ accounts do not comply with relevant regulations;
- accounts stating that they have been prepared in accordance with the charities SORP have not in fact been prepared in accordance with the methods and principles set out in the SORP [England and Wales and Northern Ireland only]

She did make a finely balanced judgment about the maintenance of accounting records due to those records not having initially recorded the entries necessary to account for the pension deficit. This matter was subsequently rectified and the previous failure to account for the deficit had not arisen due to poor recorded keeping but due to an incorrect judgment on the accounting treatment.

The most significant area of judgment for Jane was whether the impact of TCT’s pension liabilities on its finances was a matter to which the independent examiner must draw attention. Even though Jane was satisfied with the accounting treatment and related disclosures, including the narrative on going concern, Jane decided that it was appropriate to refer to the material uncertainty arising from TCT’s participation as an employer in the DB scheme.

There were no matters to report by exception.

Reporting matters of material significance

Jane followed the UK charity regulator’s guidance on reporting matters of material significance and determined that there were matters to report in relation to two reportable matters and it was not a case of merely providing the relevant regulator with a single narrative:

- Matter 2 – internal controls and governance;
- Matter 8 – qualified independent examiner’s report.

Management letter

There is no legal, regulatory or guidance requirement for an independent examiner to issue a management letter. Jane chose to do so on this occasion as she believes that that TCT’s handling of the pension deficit highlighted that the charity has scope to improve its internal controls and governance arrangements and its strategic planning practices.
Appendix 1

Legislative framework

The primary legislation and significant regulations which determine the accounting and external scrutiny regime for charities in each UK charity jurisdiction is as follows:

In Scotland:

- The Charities and Trustee Investment (Scotland) Act 2005
- The Charities Accounts (Scotland) Regulations 2006 (as amended)

In England and Wales:

- Charities Act 2011
- The Charities (Accounts and Reports) Regulations 2008

In Northern Ireland:

- The Charities Act (Northern Ireland) 2008
- The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015

UK Charitable companies also need to comply with the accounts requirements of the Companies Act 2006 and accompanying regulations. An independent examination is solely a charity law requirement.
Appendix 2

Summary of accounts and independent examination thresholds

Requirements for the preparation of ‘true and fair’ accounts:

- the Companies Act 2006 requires all charitable companies to prepare ‘true and fair’ accounts regardless of their size;
- in Scotland non-company charities are required to prepare ‘true and fair’ accounts if their gross income is between £250,000 and £500,000. Above this level an audit is required;
- in Northern Ireland non-company charities are required to prepare ‘true and fair’ accounts where their gross income is between £250,001 and £500,000. Above this level an audit is required;
- in England and Wales non-company charities are required to prepare ‘true and fair’ accounts where their gross income is between £250,001 and £1,000,000. Above this level an audit is required;
- additionally, in England and Wales only charities with gross assets of less than £3.26m and gross income less £250,001 are eligible for independent examination and, in Scotland only charities with gross assets of £3.26m or less are eligible for independent examination.

Qualifications of independent examiners in UK charity law jurisdictions:

- in England and Wales and Northern Ireland the independent examiner of a charity with gross income of less than £250,001 is required to be an independent person with requisite ability and practical experience. Membership of a professional accountancy body is not required. Above this level the examiner is required to be a qualified person with membership of a professional body as set out in Appendix 3;
- in Scotland all ‘true and fair’ accounts prepared by a Scottish charity must be examined by a qualified person with membership of a professional body as set out in Appendix 3.
Recognised professional bodies

Members of the following professional bodies are recognised in all three UK jurisdictions for the purposes of undertaking the independent examination of charity accounts intended to give a ‘true and fair’ view:

- Institute of Chartered Accountants of Scotland
- Institute of Chartered Accountant in England and Wales
- Institute of Chartered Accountants in Ireland
- Association of Chartered Certified Accountants
- Association of Authorised Public Accountants
- Association of Accounting Technicians
- Association of International Accountants
- Chartered Institute of Management Accountants
- Institute of Chartered Secretaries and Administrators
- Chartered Institute of Public Finance and Accountancy
- A full member of the Association of Charity Independent Examiners
- Institute of Financial Accountants

In addition, members of the following professional bodies are recognised in England and Wales and in Northern Ireland:

- The Certified Public Accountants Association