A Trustee's Guide to Going Concern: Navigating Your Responsibilities



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CONTENTS

Executive summary 3

1.0 Understanding the Principle of Going Concern 4

1.1 What is "Going Concern"? 5

1.2 Why is it Critical for Charities? 5

2.0 The Trustee's Legal and Fiduciary Duty 6

2.1 The Core Responsibility 6

2.2 The Assessment Period 7

2.3 Required Disclosures in the Annual Accounts 7

3.0 How to Conduct a Going Concern Assessment: A Practical Checklist 8

Year-End Assessment Checklist 8

Identifying Potential Red Flags 9

4.0 Navigating Financial Challenges: Four Illustrative Scenarios 10

4.1 Scenario A: Planned Orderly Winding Down 10

4.2 Scenario B: Structural Financial Issues 10

4.3 Scenario C: Sudden Loss of Income 10

4.4 Scenario D: Cumulative Impact of Ongoing Deficits 11

5.0 Engaging with Your Auditor: Reporting Your Assessment 11

5.1 The Auditor's Role 11

5.2 Example Template: Trustee Assessment of Going Concern 12

How to Complete Your Assessment Document 13

5.3 Potential Outcomes in the Auditor's Report 14

About WDA 16

EXECUTIVE SUMMARY



1.0 UNDERSTANDING THE PRINCIPLE OF GOING CONCERN

The concept of 'going concern' is far more than a simple accounting term; it is a fundamental pillar of sound governance and strategic planning for any charity. It represents the board's considered judgment that the organization is financially sustainable and can continue to deliver on its mission for the foreseeable future. A robust assessment of going concern is essential for building and maintaining the trust of funders, beneficiaries, and regulators alike. This section will define the concept in clear terms and articulate its critical importance in safeguarding your charity's future.



1.1 What is "Going Concern"?

In simple terms, "going concern" is the assumption that a charity will continue its operations for the foreseeable future and will be able to pay its bills and meet its liabilities as they become due.

This principle is the bedrock upon which annual accounts are prepared under UK-Ireland Generally Accepted Accounting Practice (GAAP), as specified in Financial Reporting Standard 102 (FRS 102) and the Charities Statement of Recommended Practice (SORP). Unless you have made the decision to wind down the charity or have no realistic alternative, the accounts must be prepared on this basis.

As a starting point for your assessment, you can use two straightforward analytical perspectives:

- **Balance Sheet Test:** This is an assessment of whether your charity's assets exceed its liabilities. A positive result, known as having net assets, is a key indicator of financial health.
- **Cash Flow Test:** This is an assessment of whether your charity has, or has access to, sufficient cash to settle its bills and liabilities on time as they fall due.

Neither of these tests is conclusive on its own. A balance sheet is a static snapshot at a single point in time and offers limited insight into the timing of future liabilities. Similarly, a positive cash flow might be temporarily supported by credit facilities or expenditure cutbacks that are not sustainable in the long term. Together, however, they serve as crucial starting points for a deeper financial review by the trustee board.



1.2 Why is it Critical for Charities?

The going concern assessment is not merely a compliance exercise; it is a strategic imperative. It directly impacts your charity's ability to demonstrate financial stability to its key stakeholders—including funders, beneficiaries, staff, and regulators—thereby protecting its reputation and ensuring its operational viability.

In recent years, the financial pressures brought on by the Covid-19 pandemic and the subsequent cost-of-living crisis have made this assessment particularly acute. For many smaller charities, demonstrating sustainability has become a central challenge. A carefully considered going concern judgment provides assurance that you, as trustees, have a firm grasp of the financial realities and a credible plan for the future.

This conceptual understanding of going concern directly informs the specific legal and fiduciary duties it imposes on every trustee.

2.0 THE TRUSTEE'S LEGAL AND FIDUCIARY DUTY

The responsibility for assessing going concern is non-delegable and rests squarely with the trustee board. While management can prepare the analysis and external advisors can offer guidance, the ultimate judgment and sign-off on the annual accounts—including the going concern declaration—is a collective responsibility of the trustees. This section outlines the specific requirements of that duty.



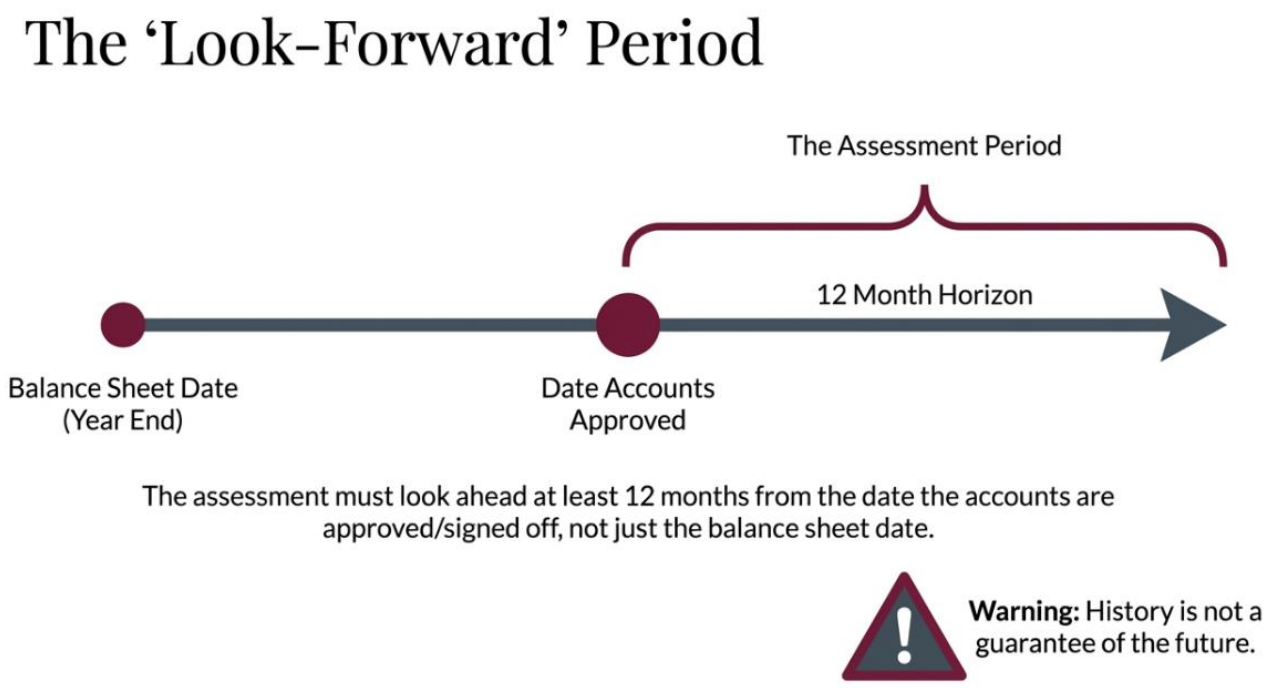
2.1 The Core Responsibility

The ultimate responsibility for assessing and confirming the charity's going concern status lies with you, the trustees, as you are the body that formally approves and signs the final annual accounts. For charities structured as companies, the trustees are also company directors and are therefore bound by the Companies Act. This duty is a fundamental component of a trustee-director's fiduciary duty to act honestly and responsibly in the best interests of the charity.

2.2 The Assessment Period

The timeframe for the going concern assessment is clearly defined. According to the Charities SORP (paragraph 3.14), you must look ahead for a period of **at least 12 months** from the date the annual accounts are **approved and signed**.

It is crucial to note that this period begins from the date of approval, *not* from your charity's balance sheet date (the financial year-end).



2.3 Required Disclosures in the Annual Accounts

The Charities SORP (paragraphs 3.38 and 3.39) mandates specific disclosures in the notes to the accounts based on the outcome of your going concern assessment. There are three potential outcomes, each with distinct reporting requirements:

1. **No Material Uncertainties Exist** If you conclude that the charity is a going concern and have not identified any material uncertainties, your disclosure in the notes to the accounts must state this fact.
2. **Material Uncertainties Exist** If you identify events or conditions that constitute a material uncertainty (e.g., the potential non-renewal of a major grant that underpins key services), you must provide a detailed disclosure. This must explain the nature of the principal events or conditions creating the uncertainty and outline your plans to address them. Crucially, the disclosure must state clearly that a material uncertainty exists. The accounts are still prepared on a going concern basis, but stakeholders are made aware of the risks.
3. **The Charity is Not a Going Concern** If you conclude that the charity is no longer a going concern (for example, you have decided to wind down operations), the accounts cannot be prepared on this basis. You must disclose the alternative basis on which the accounts were prepared (e.g., a 'break-up' or liquidation basis) and provide the reason why the charity is not considered a going concern.

With these legal duties in mind, the following section provides a robust checklist to ensure your assessment is thorough, evidence-based, and capable of withstanding scrutiny from your auditor.

3.0 HOW TO CONDUCT A GOING CONCERN ASSESSMENT: A PRACTICAL CHECKLIST

This section provides an actionable toolkit to guide you through the going concern assessment process. The following checklist is based on the information that independent examiners and auditors are required to review, offering a robust and best-practice framework for your board's year-end evaluation.

Year-End Assessment Checklist

1. **Review Reserves and the Reserves Policy** Your reserves policy is a critical starting point, as it articulates your strategy for managing financial resilience. The SORP requires you to state the amount of free reserves held and provide a clear rationale for why they are held. This policy provides the immediate context for understanding the charity's capacity to absorb financial shocks. Your auditor will see this as the foundation of your financial planning.

2. **Establish a Forward Look** While the minimum assessment period is 12 months from the date of signing the accounts, you must consider if this is sufficient. If your charity is facing significant events that will crystallise beyond this window (e.g., a major lease expiring in 16 months), a longer-term view may be necessary to form a complete and fair judgment.

3. **Develop a Cash Flow Forecast** A cash flow forecast is an indispensable tool for anticipating the flow of money into and out of the charity. For charities facing potential material uncertainty, this forecasting should be detailed and frequent—at least on a weekly basis. Your auditor will expect this forecast to be based on reasonable, well-documented assumptions, not just optimistic projections.

4. **Analyze the Budget and Budget Deviations** The budget is your primary financial planning tool. Throughout the year, analyzing significant deviations from it is crucial for identifying unforeseen developments—both positive and negative—that could impact the charity's long-term financial stability. These variances must be understood and factored into your final going concern assessment.

5. **Document Trustee Discussions on Financial Risks** The assessment of financial risks should be a continuous, dynamic process that features regularly on the board's agenda, not just a year-end formality. Minutes of trustee meetings should evidence ongoing discussions about financial challenges and their implications for reserves and future plans. These cumulative discussions inform your final, evidence-based judgment on going concern at the year-end.

Identifying Potential Red Flags

During your assessment, you should be alert to events or conditions that may cast doubt on the charity's ability to continue as a going concern. The following examples, drawn directly from International Standard on Auditing (Ireland) 570, provide a framework of indicators that auditors are trained to look for.

Financial Indicators	Operational Indicators	Other Indicators
• Net liability or net current liability position.	• Management intentions to liquidate the entity or cease operations.	• Non-compliance with capital or other statutory requirements.
• Fixed-term borrowings approaching maturity without realistic prospects of renewal.	• Loss of key management without replacement.	• Pending legal or regulatory proceedings against the entity.
• Indications of withdrawal of financial support by creditors.	• Loss of a major market, key customer(s), or principal supplier(s).	• Changes in law, regulation or government policy.
• Negative operating cash flows indicated by financial statements.	• Labor difficulties.	• Uninsured or underinsured catastrophes when they occur.
• Adverse key financial ratios.	• Shortages of important supplies.	
• Substantial operating losses.	• Emergence of a highly successful competitor.	
• Arrears or discontinuance of dividends.		
• Inability to pay creditors on due dates.		
• Inability to comply with the terms of loan agreements.		
• Change from credit to cash-on-delivery transactions with suppliers.		
• Inability to obtain financing for essential investments.		

Seeing these principles in action through real-world scenarios can help clarify how they apply in practice.

4.0 NAVIGATING FINANCIAL CHALLENGES: FOUR ILLUSTRATIVE SCENARIOS

This section distils four detailed scenarios into concise case studies to demonstrate how the principles of going concern assessment and disclosure apply in different, challenging real-world situations. Each case highlights the importance of context in shaping your judgment and the resulting impact on the financial statements.

4.1 Scenario A: Planned Orderly Winding Down

- **Situation:** A performing arts charity decides to close in 16 months due to difficulty in recruiting new volunteers and the departure of its artistic director.
- **Trustees' Judgment:** Although the charity has sufficient reserves to operate, the formal decision to close means the trustees consider it no longer appropriate to prepare the financial statements on a going concern basis.
- **Key Accounting Impact:**
    - The notes to the accounts must disclose the alternative basis of preparation and explain the reasons for the planned closure.
    - An impairment charge is recognised for assets (e.g., stage props) that are unlikely to be used in the final year.
    - A portion of unrestricted funds is designated to cover the estimated future costs of closure.

4.2 Scenario B: Structural Financial Issues

- **Situation:** An arts venue charity with significant illiquid endowment assets suffers extensive, uninsured flood damage, forcing it to close for repairs it cannot afford from free reserves.
- **Trustees' Judgment:** The charity's survival depends on receiving approval from the regulator to sell an endowed asset, which is not guaranteed. Therefore, the trustees conclude it is not appropriate to prepare the accounts on a going concern basis.
- **Key Accounting Impact:**
    - Deferred income from advance ticket sales is reclassified as a creditor.
    - Contingent liabilities are recognised for potential redundancy costs and dilapidations on its lease.
    - Stock and equipment are reviewed for impairment.

4.3 Scenario C: Sudden Loss of Income

- **Situation:** A charity operating overseas loses a material government contract unexpectedly, jeopardising a planned merger that is now essential for its survival.
- **Trustees' Judgment:** As the merger is not wholly within the trustees' control and survival depends on this uncertain outcome, they decide it is not appropriate to prepare the accounts on a going concern basis.
- **Key Accounting Impact:**
    - An increased allowance for bad debts is recognised.
    - Provisions are made for potential redundancy costs.
    - Contingent liabilities are recognised for contracts with overseas suppliers that may now be considered onerous.

4.4 Scenario D: Cumulative Impact of Ongoing Deficits

- **Situation:** A care charity has exhausted its reserves after successive years of operating deficits, and attempts to find a merger partner have failed, leaving closure as the only option.
- **Trustees' Judgment:** With closure now definite and imminent, the trustees conclude that the going concern basis is inappropriate and the accounts must be prepared on a 'break-up' basis.
- **Key Accounting Impact:**
    - Fixed assets, such as property, are reclassified as current assets held for sale and valued at their likely quick-sale price.
    - Provisions are made for all closure costs, including redundancy pay and professional fees.
    - All liabilities are reclassified as current.

These examples lead to the final step: formally documenting the assessment and engaging with your charity's auditor or independent examiner.

5.0 ENGAGING WITH YOUR AUDITOR: REPORTING YOUR ASSESSMENT

Trustees and auditors have collaborative yet distinct roles. You are solely responsible for performing the going concern assessment and making a judgment. Your auditor is responsible for independently evaluating that assessment and the evidence supporting it. This section provides a practical template for presenting your assessment to your auditors and explains the potential outcomes in their final report.

5.1 The Auditor's Role

The auditor’s responsibility is to obtain sufficient appropriate audit evidence to conclude on:

1. The appropriateness of your use of the going concern basis of accounting in preparing the financial statements.
2. Whether a material uncertainty related to going concern exists that requires disclosure.

The auditor does not make the decision for you but provides an independent, professional opinion on the judgment you have made.

5.2 Example Template: Trustee Assessment of Going Concern

Providing a clear, well-structured document to your auditors will facilitate an efficient and effective review. The following template can be adapted for this purpose.

Trustee Assessment of Going Concern for the Year Ended [Date]

1. Assessment Period

This assessment covers the period from the date of approval of these financial statements, [Date of Approval], to [Date at least 12 months after approval].

2. Summary of Financial Position & Forecasts

[Provide a brief overview of the charity's current financial health, referencing key metrics from the balance sheet (e.g., total reserves, free reserves) and attaching detailed budgets and cash flow forecasts.]

3. Key Assumptions

[List the critical assumptions underpinning the financial forecasts. Be specific.]

4. Identified Risks & Mitigating Factors

| Identified Risk / Condition | Mitigating Actions Planned by Trustees |

| [Detail a specific potential event or condition that could threaten going concern] | [Detail the specific plans the board has to mitigate this risk, including actions and timelines] |

5. Trustee Conclusion

[Provide a concluding statement affirming the board's judgment. State clearly whether the charity remains a going concern and whether or not any material uncertainties exist that require disclosure.]

Signed on behalf of the Board of Trustees

[Trustee Name], Chair

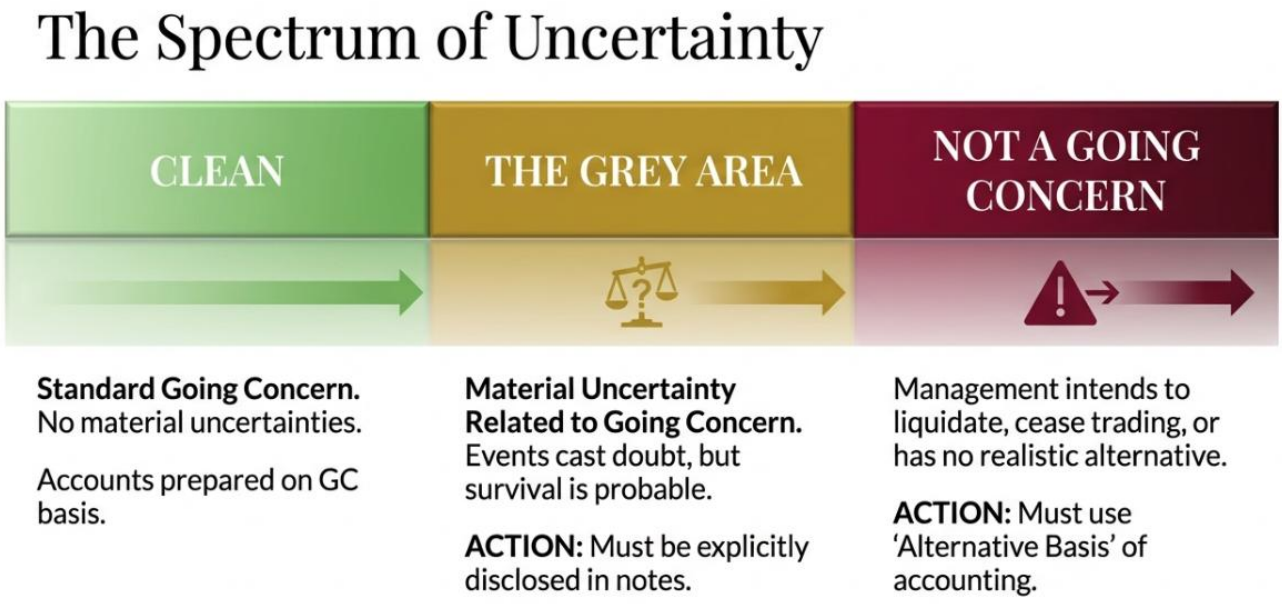
[Date]

How to Complete Your Assessment Document

- **Section 2: Summary of Financial Position:** State the key figures. For example: "As at the year-end, the charity held total reserves of €150,000, of which €70,000 were free reserves. Our cash flow forecast for the assessment period projects a closing cash balance of €25,000. This assessment is based on the attached detailed budget and cash flow forecasts."

- **Section 3: Key Assumptions:** List the assumptions your forecast depends on. For example: "We have assumed the successful renewal of our multi-year grant from Funder X, valued at €50,000," or "We have projected a 5% increase in community fundraising income, based on the launch of our new appeal."

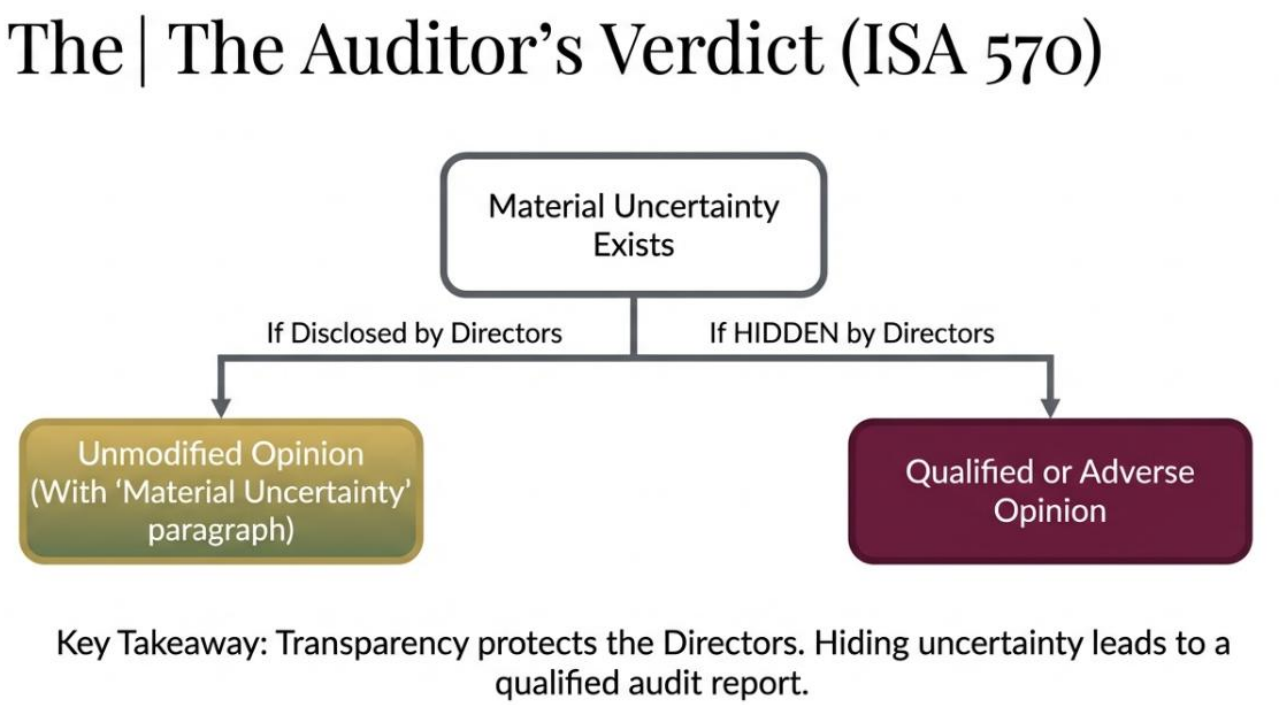
- **Section 4: Identified Risks:** Use this table to show you have considered threats and planned for them. For example:
    - **Risk:** *Non-renewal of the grant from Funder X.*
    - **Mitigating Action:** *We have identified three alternative grant opportunities and will submit applications by [Date]. We have also developed a contingency plan to reduce service delivery in Area Z to conserve funds if required.*



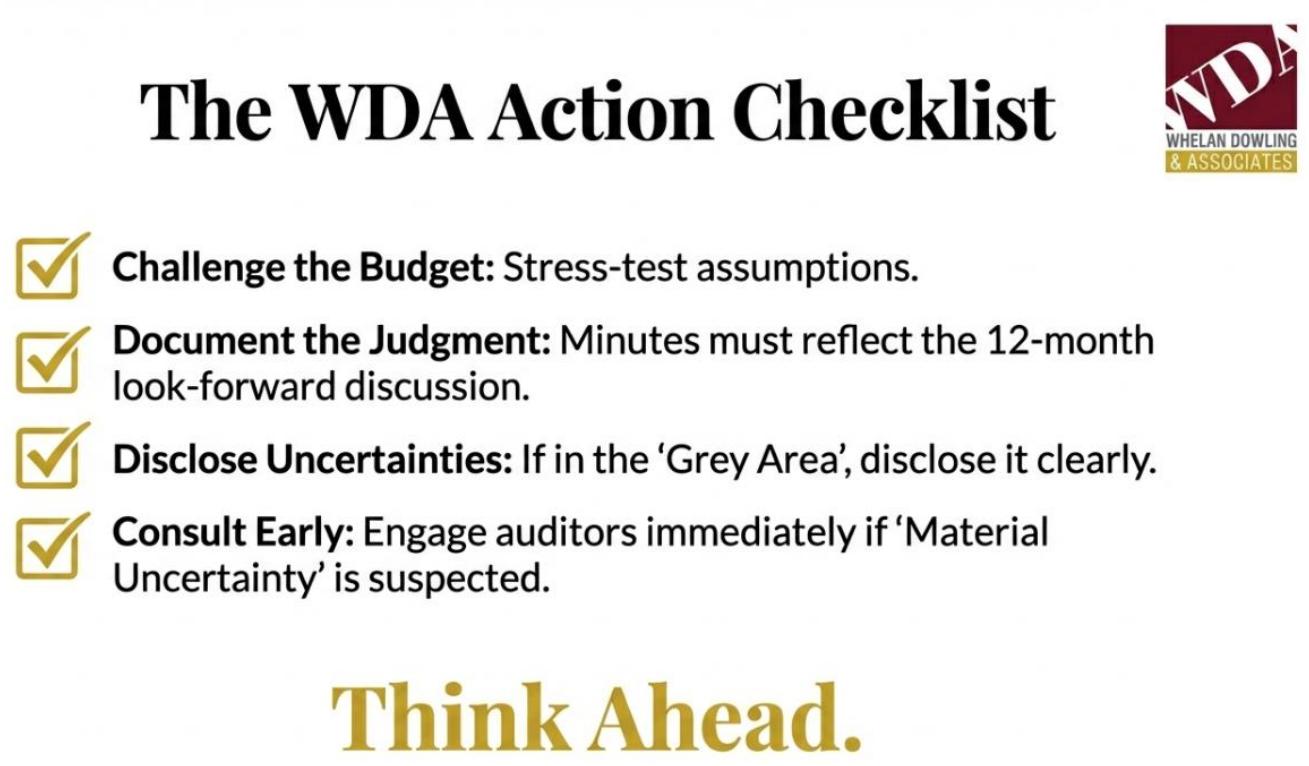
5.3 Potential Outcomes in the Auditor's Report

Based on their evaluation of your assessment, the auditor's report on the financial statements will reflect one of the following outcomes:

- **Unmodified Opinion:** This is the most common outcome. The auditor concludes that your use of the going concern basis is appropriate and that no material uncertainty has been identified.
- **Unmodified Opinion with a "Material Uncertainty Related to Going Concern" Section:** The auditor agrees with your assessment that a material uncertainty exists and that you have disclosed it properly. The auditor's opinion is *not* "qualified," but their report will include a separate section to draw users' attention to your disclosure.
- **Qualified or Adverse Opinion:** This is a serious outcome that occurs if the auditor disagrees with your judgment. They might issue this opinion if they believe the going concern basis is inappropriate, or if a material uncertainty exists but you have failed to disclose it adequately.




The Cost of Failure:
Penalties & Liabilities
1. Civil Penalties
- Disqualification: Ban from acting as a director for 5+ years.
- Personal Liability: For debts of the company if found guilty of reckless trading.
2. Criminal Penalties
- Fines up to €50,000.
- Imprisonment up to 5 years.
- Strike Off: Involuntary removal from the register.


The WDA Action Checklist
WHELAN DOWLING & ASSOCIATES
Challenge the Budget: Stress-test assumptions.
Document the Judgment: Minutes must reflect the 12-month look-forward discussion.
Disclose Uncertainties: If in the 'Grey Area', disclose it clearly.
Consult Early: Engage auditors immediately if 'Material Uncertainty' is suspected.
Think Ahead.

ABOUT WDA

- We are a mid-tier firm with two offices servicing our client bases in Dublin and Meath.
- WDA specialise in the provision of professional audit and consultancy services including to the Charity & Not for Profit Sector, with over 150 Charity clients across all sectors of the industry.
- Our professional staff comprises of 30 staff: - 4 Partners, 20 professional staff including 2 Audit Managers and 4 support/admin staff.
- Whelan Dowling & Associates has been providing audit and accounting services to the charity sector for over 40 years and are affiliated with the Chartered Accountants Ireland.
- Whelan Dowling & Associates (WDA) are an award-winning firm having achieved the "Best Medium Sized Accountancy Practice in Ireland in **May 2023** and ***again*** in **May 2026,** whilst also being named runner-up as best overall firm in Ireland for both years. We have also won best use of technology and have been shortlisted as a finalist many times over the past 10 years.
- WDA have acted as a Technical Assessor for the Good Governance Awards for several years,
- WDA is listed as a supplier of Audit and Professional services with the Charities Institute of Ireland

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