

AUDIT • TAX • ADVISORY

WEBINAR | 12 MAY 2021

# Going Concern and Financial Sustainability

Why all charities need to consider  
these challenges in 2021



Welcome



Stuart McKay

Partner, MHA

There will be a Q&A session at the end of this webinar to address any specific questions you have.

Please submit your questions via the **Q&A button**, located at the bottom of your screens.

## SPEAKERS



**Sudhir Singh**  
*Partner, Head of  
Not for Profit, MHA*



**James Gare**  
*Partner, Not for Profit  
specialist, MHA*



**Jim Clifford, OBE**  
*CEO and Founder at Sonnet  
Advisory & Impact*



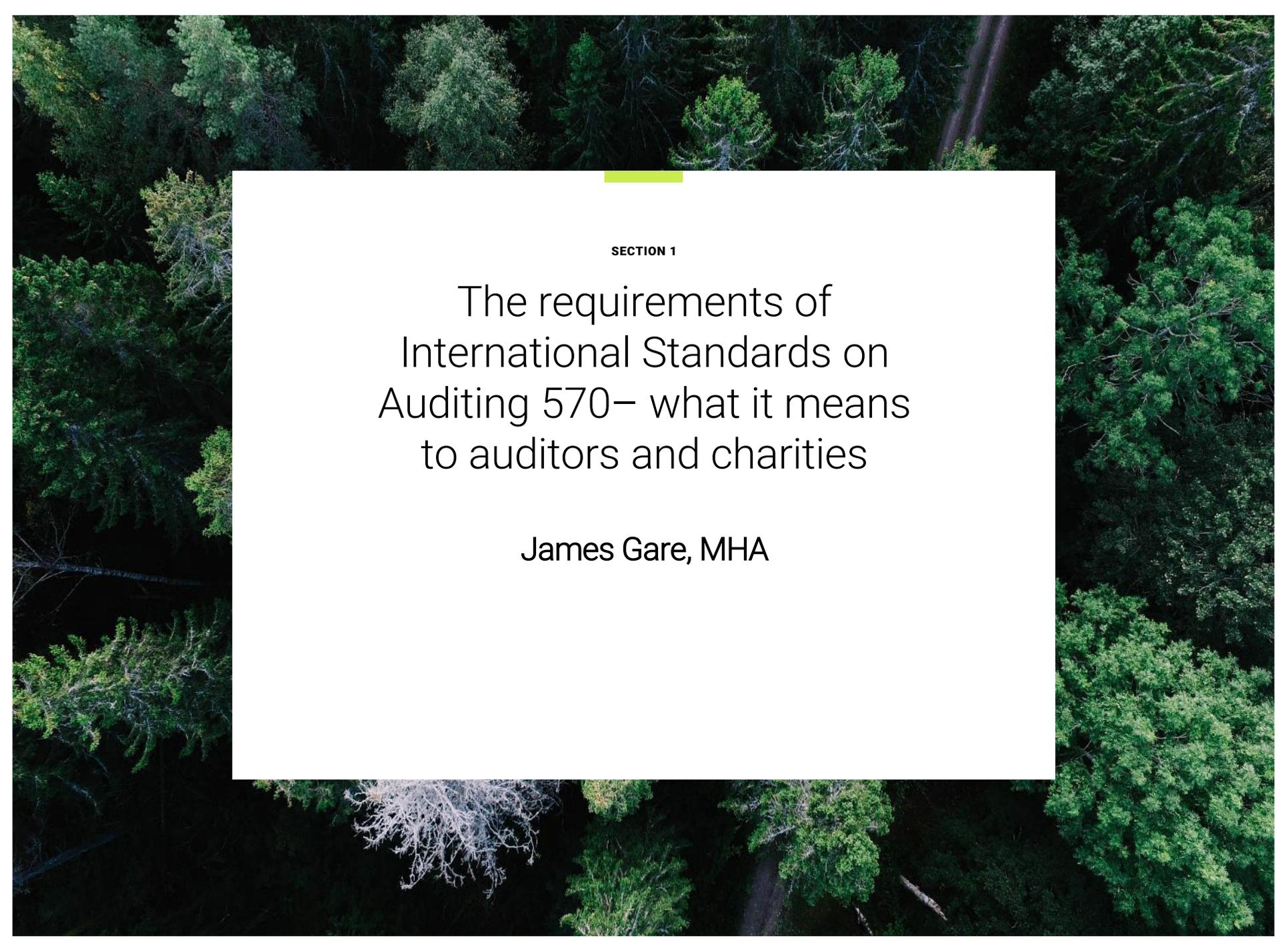
Agenda



Going concern and financial sustainability are key challenges for all charities in 2021”



1. The requirements of International Standards on Auditing 570– what it means to auditors and charities – **James Gare**
2. Future sustainability – good practice in financial management and governance – **Sudhir Singh**
3. What charities can do to respond to financial difficulties including opportunities for mergers and restructuring, and understanding the obligations of the new insolvency rules – **Jim Clifford**

An aerial photograph of a dense forest with various shades of green and brown. A white rectangular text box is centered over the image. At the top of the white box, there is a small horizontal lime green bar.

SECTION 1

The requirements of  
International Standards on  
Auditing 570– what it means  
to auditors and charities

James Gare, MHA



# What, Why, When?



Auditing  
Standards



Going  
Concern

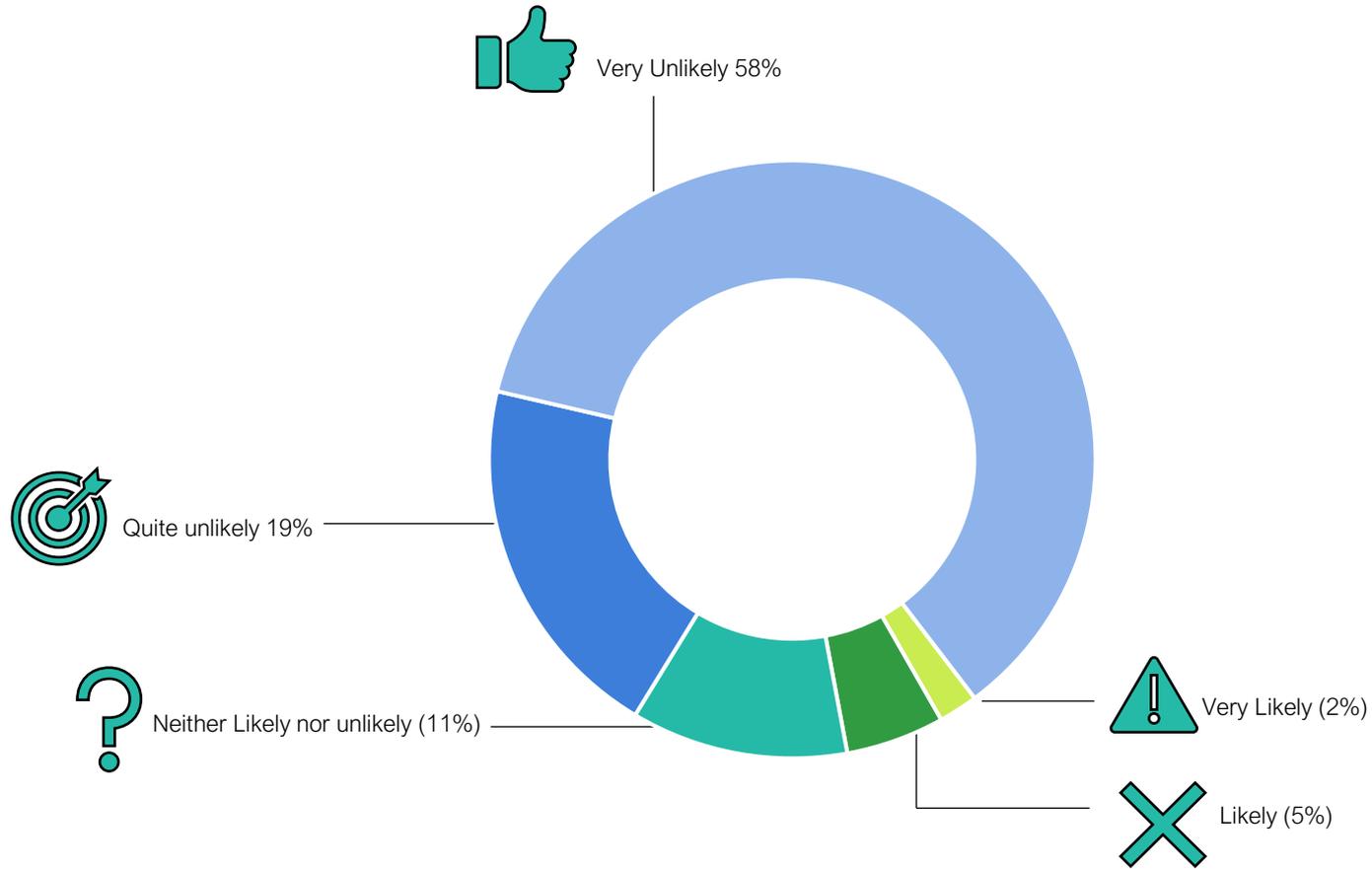


Periods from-  
15 December  
2019





What is the likelihood that your organisation will be no longer be operating next year?



ISA 570 (revised)

NCVO - respond, recover, reset



Of charities believed it was likely or very likely that they would no longer be operating in a year's time.



Of charities saw an increased demand over the November 2020 lockdown.

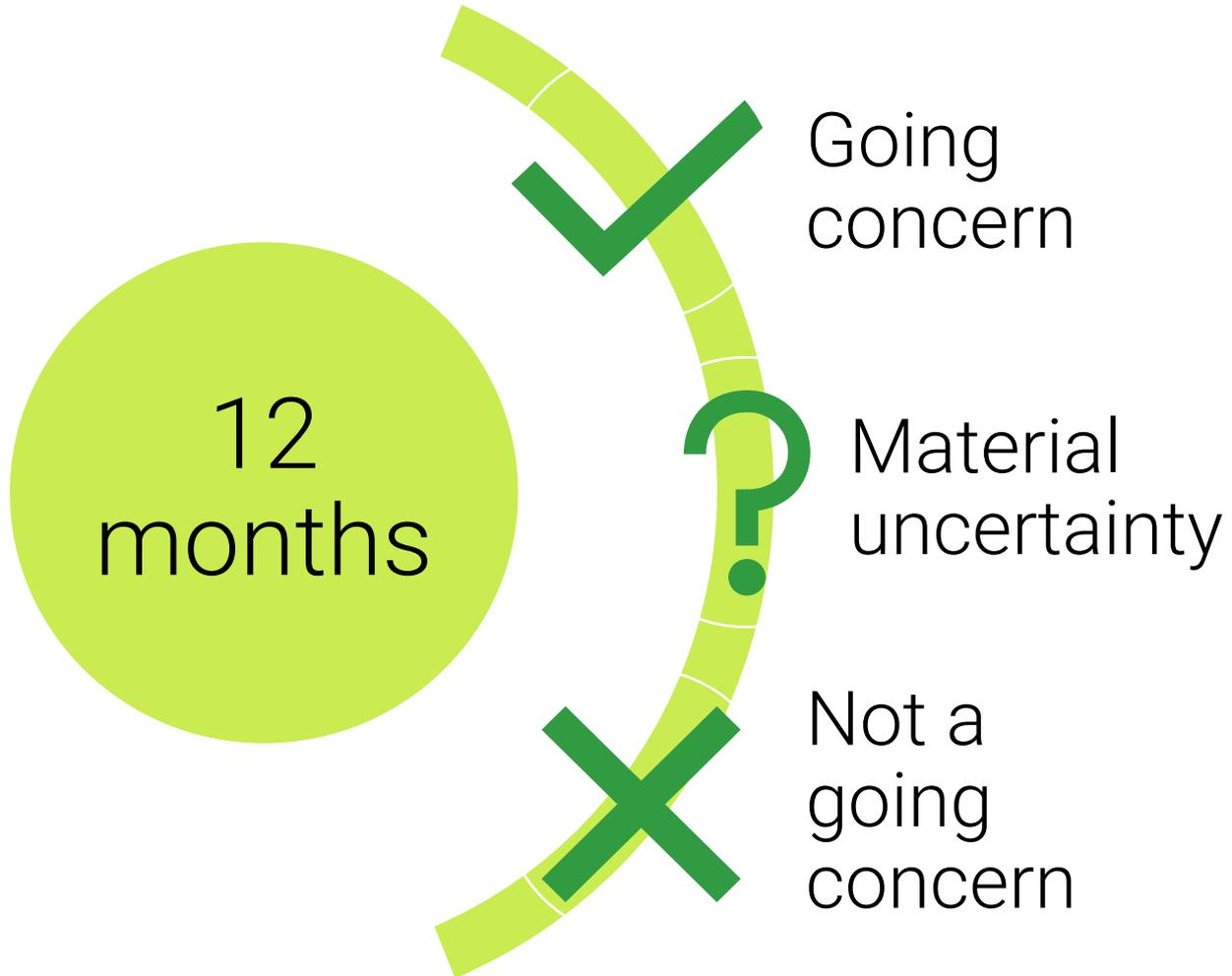
ISA 570 (revised)

# Coronavirus





# What auditors need to consider



## What has changed



More challenge



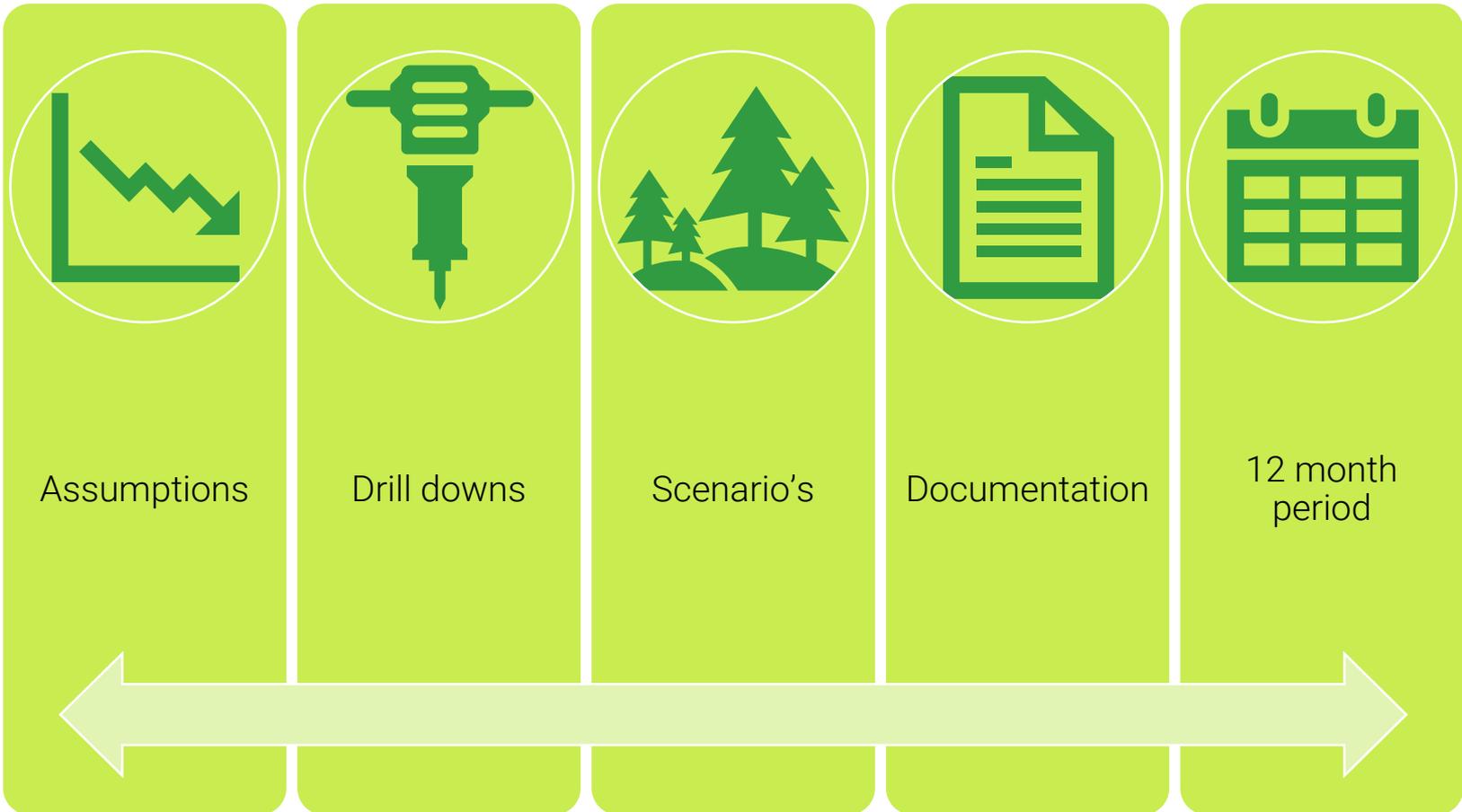
Stand back



Increased reporting



## Impact on audit approach – more work





ISA 570 (revised)

Impact on audit approach – more time and costs





ISA 570 (revised)

## Brydon Review and ARGA



<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

ISA 570 (revised)

# Conclusion



An aerial photograph of a dense forest with various shades of green and brown. A white rectangular text box is centered over the image. At the top of the white box, there is a small horizontal lime green bar.

SECTION 2

Future sustainability –  
good practice in financial  
management and governance

Sudhir Singh, MHA



## INTRODUCTION

- Reports of many charities with financial difficulties already or anticipated in the next year
- Charities' practical response to ISA 570 (Revised)
- Potential for many more qualified or modified audit reports in 2021 – how best avoided?
- Are there lessons for post-Covid financial management and governance for all charities, not only those with weak finances?

Current state of the sector

HAVE  
NOTs

HAVE  
LOTS (or at  
least enough)

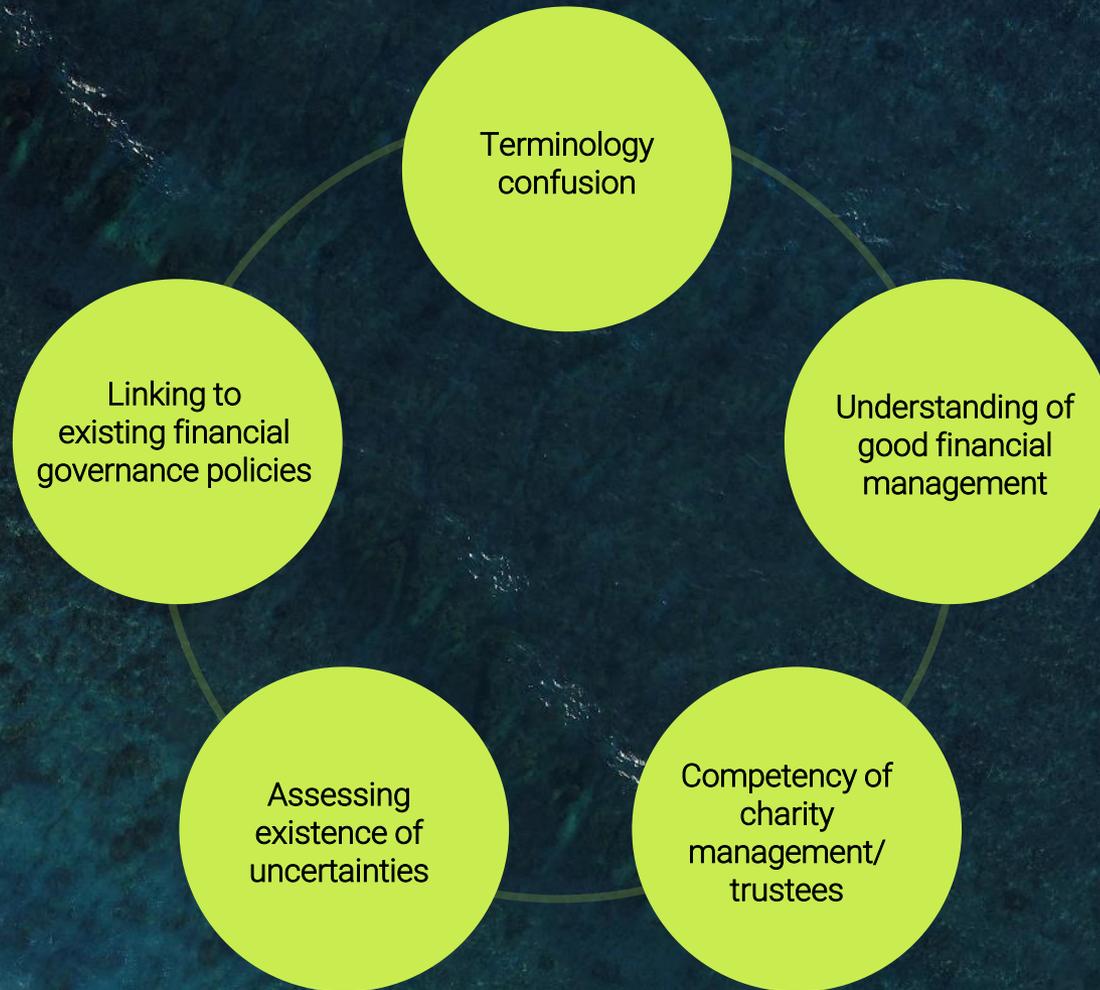
Spectrum of experiences

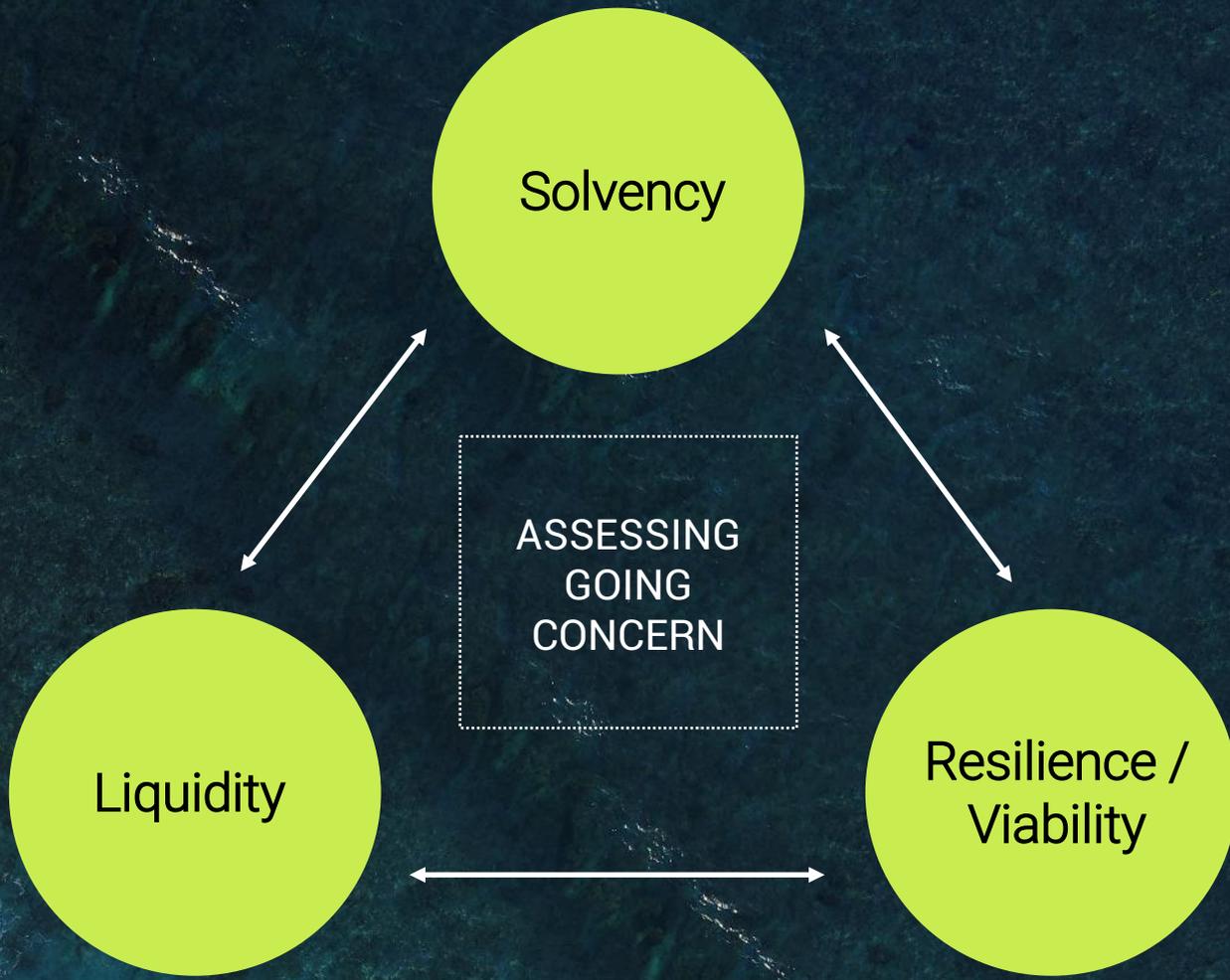


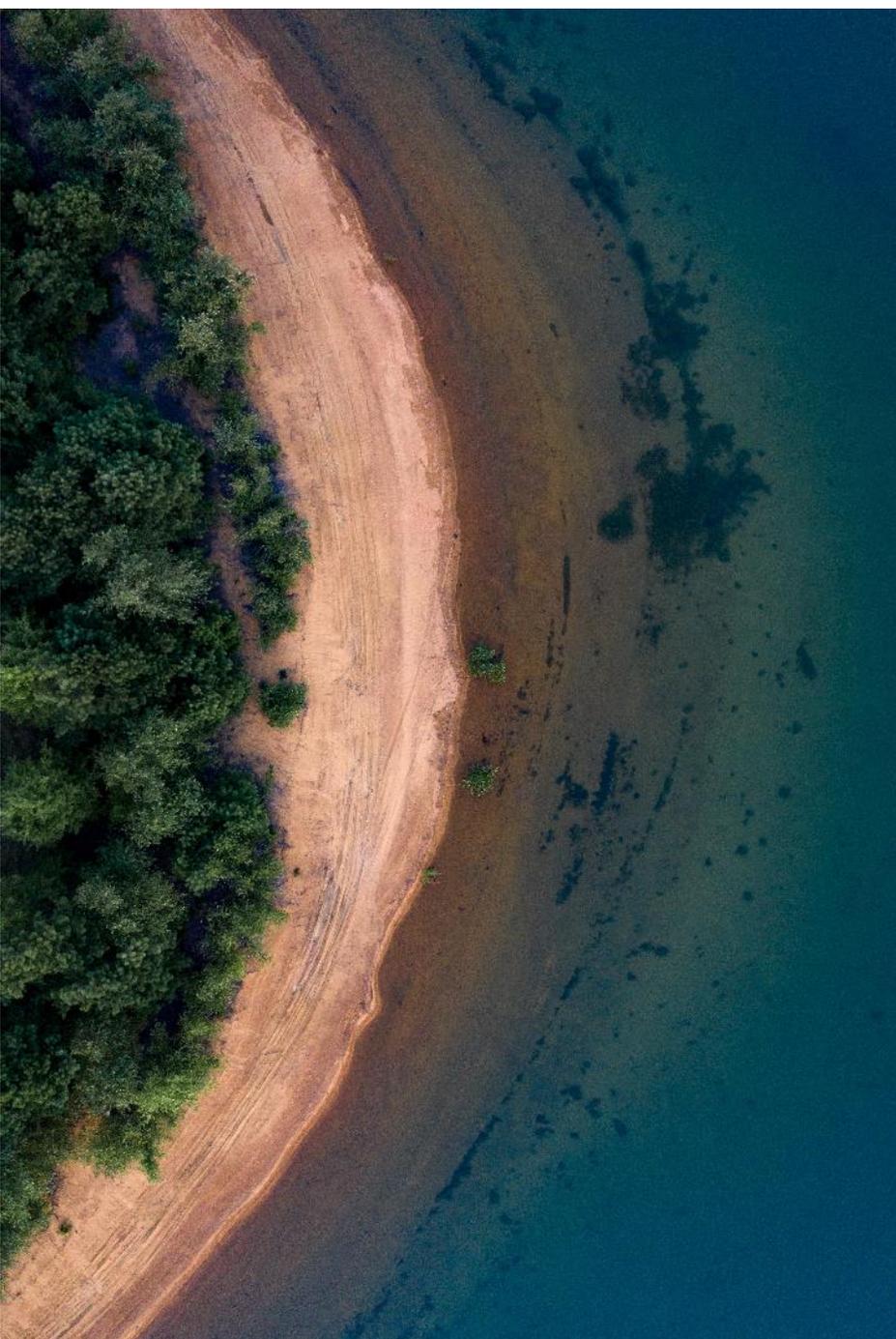
Going concern is now an issue for all



## Practical issues in addressing going concern







**SOLVENCY**



# What are my reserves?

R E S E R V E S	Endowment
	Restricted
	Designated
	Unrestricted

← = Free Reserves

**Top tips:**

1. Set a reserves policy - CC19 Charity Reserves: Building Resilience
2. Consider reporting requirements - Charity Statement of Recommended Practice (SORP) – Trustees’ Report requirements

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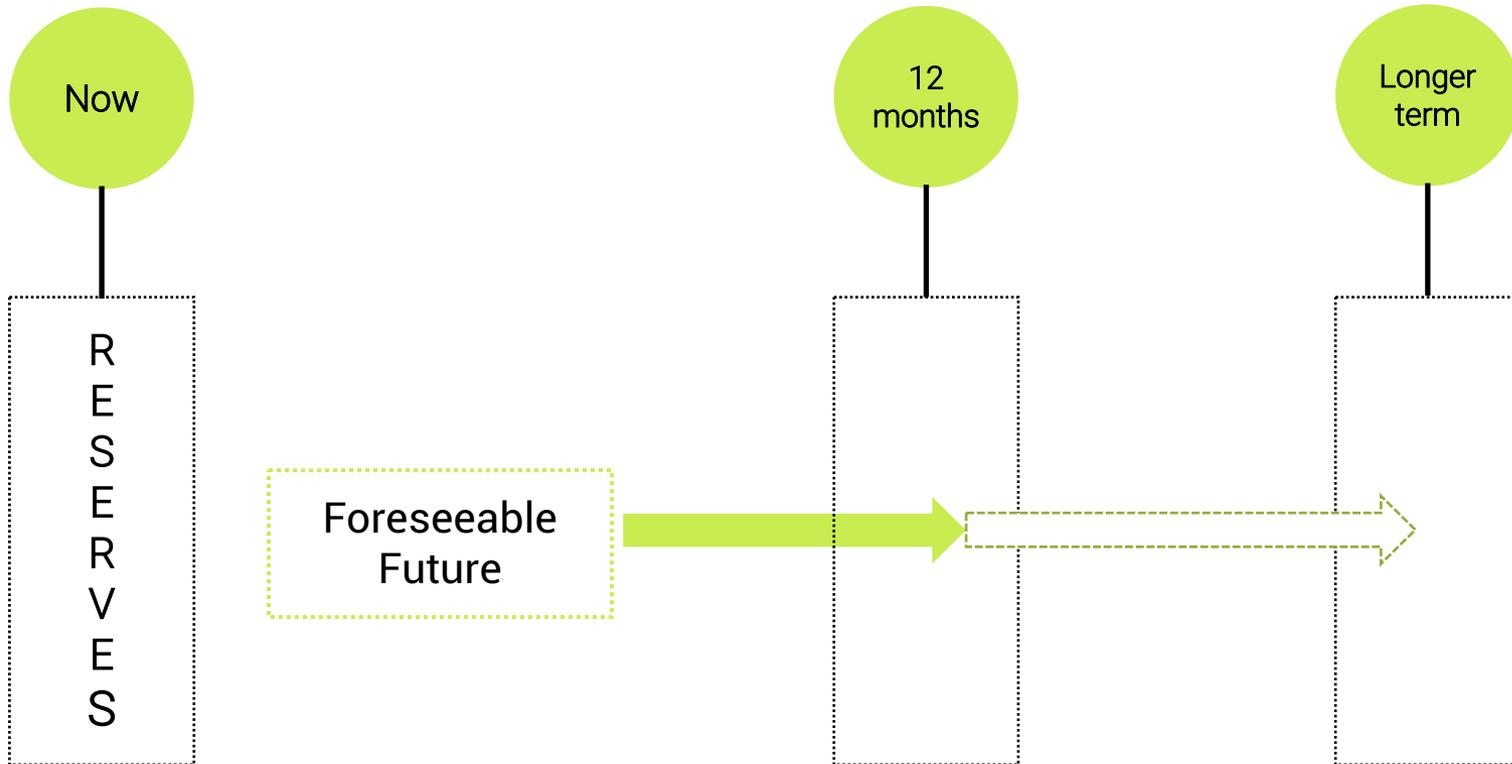
## Reserves policies & going concern

- Why do charities have reserves policies?
- CC19 (Charity reserves: building resilience)
  - reserves for winding up (“risks of unplanned closure”)
- Experience of Covid pandemic – what have we learned?
- Revisit “Explain and justify”?
- 3 lines of defence? Working capital; Risk Management; Development.
- A need to reassess reserves policy based on experience of risks faced and mitigated
- Only considers “free reserves” - but going concern means all reserves



VIABILITY

# Looking into the future

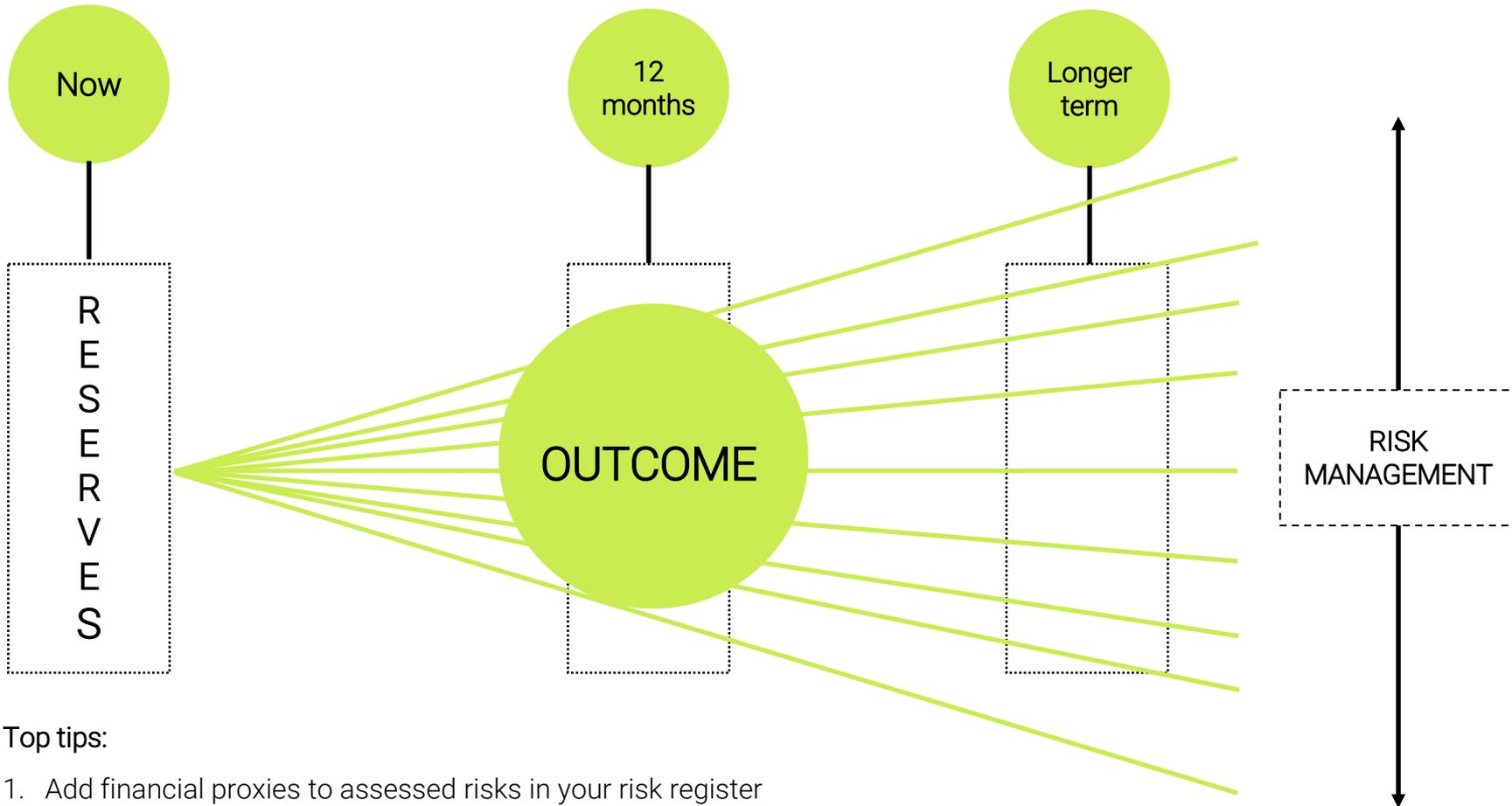


Top tips:

1. Strategic business plans – 2 to 5 years?
2. Multi-year or rolling budgets and forecasts

**FUTURE UNCERTAINTIES**

# How to identify?

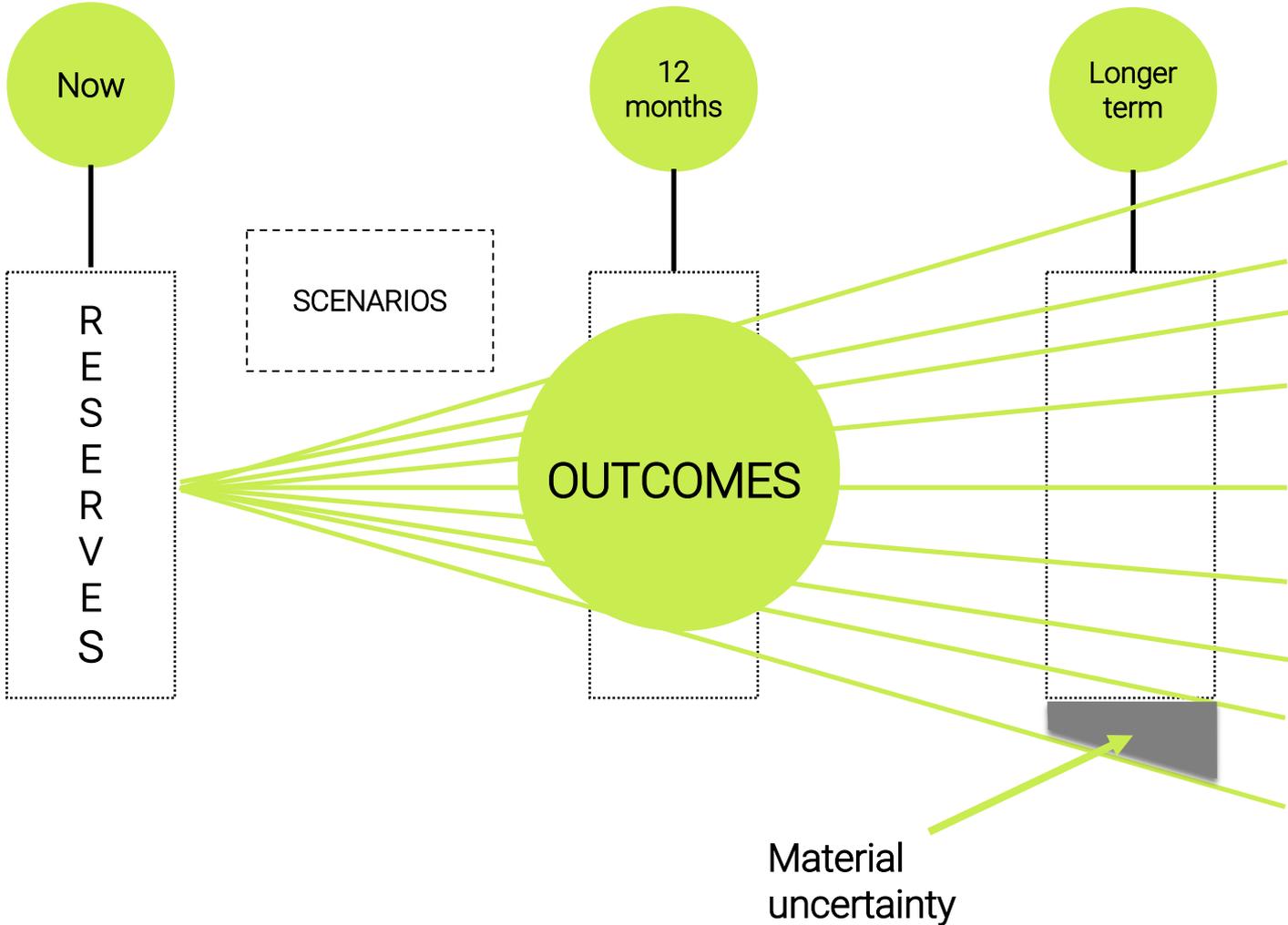


**Top tips:**

1. Add financial proxies to assessed risks in your risk register
2. Map out potential future scenarios to predict range of possible outcomes



# Identifying material uncertainties

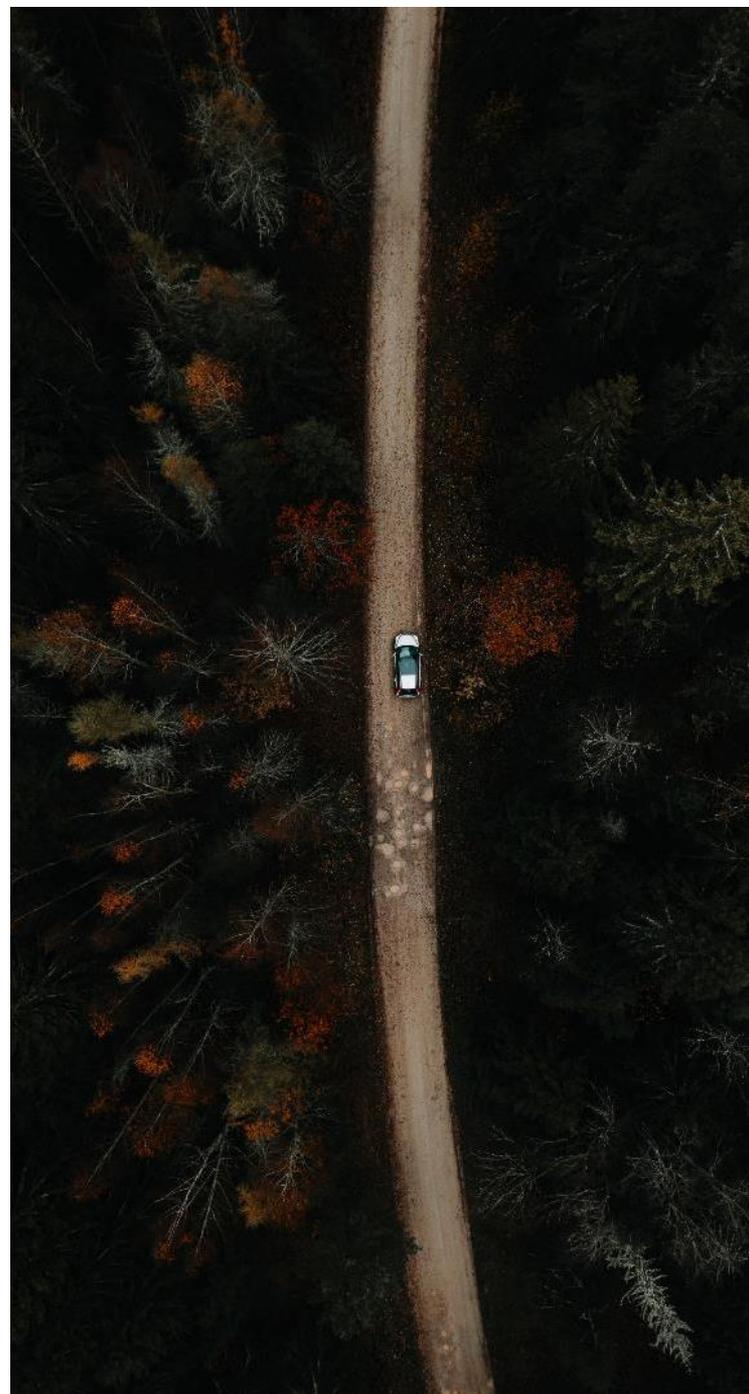


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## Material uncertainty

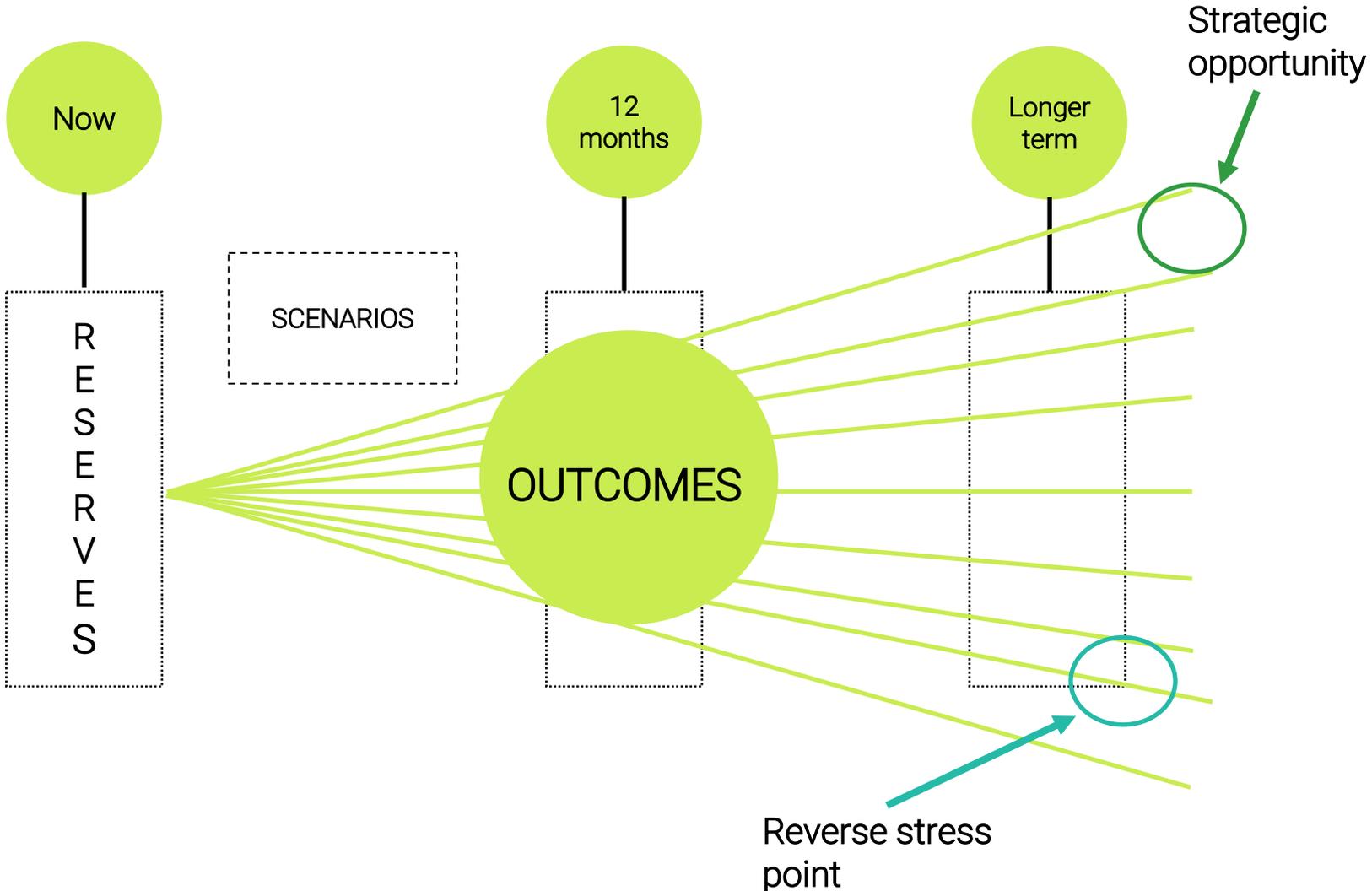
Disclosing the existence of material uncertainties in statutory financial statements and audit reports:

- Is a different perspective needed?
- Can identification be seen as a positive demonstration of managing a difficult position, NOT a negative reflection on poor management or inherent weakness?
- An opportunity for telling a better story?
- A demonstration of trustees' responsibilities fulfilled, and auditor's duties exercised?
- Benefits both charities and auditors?



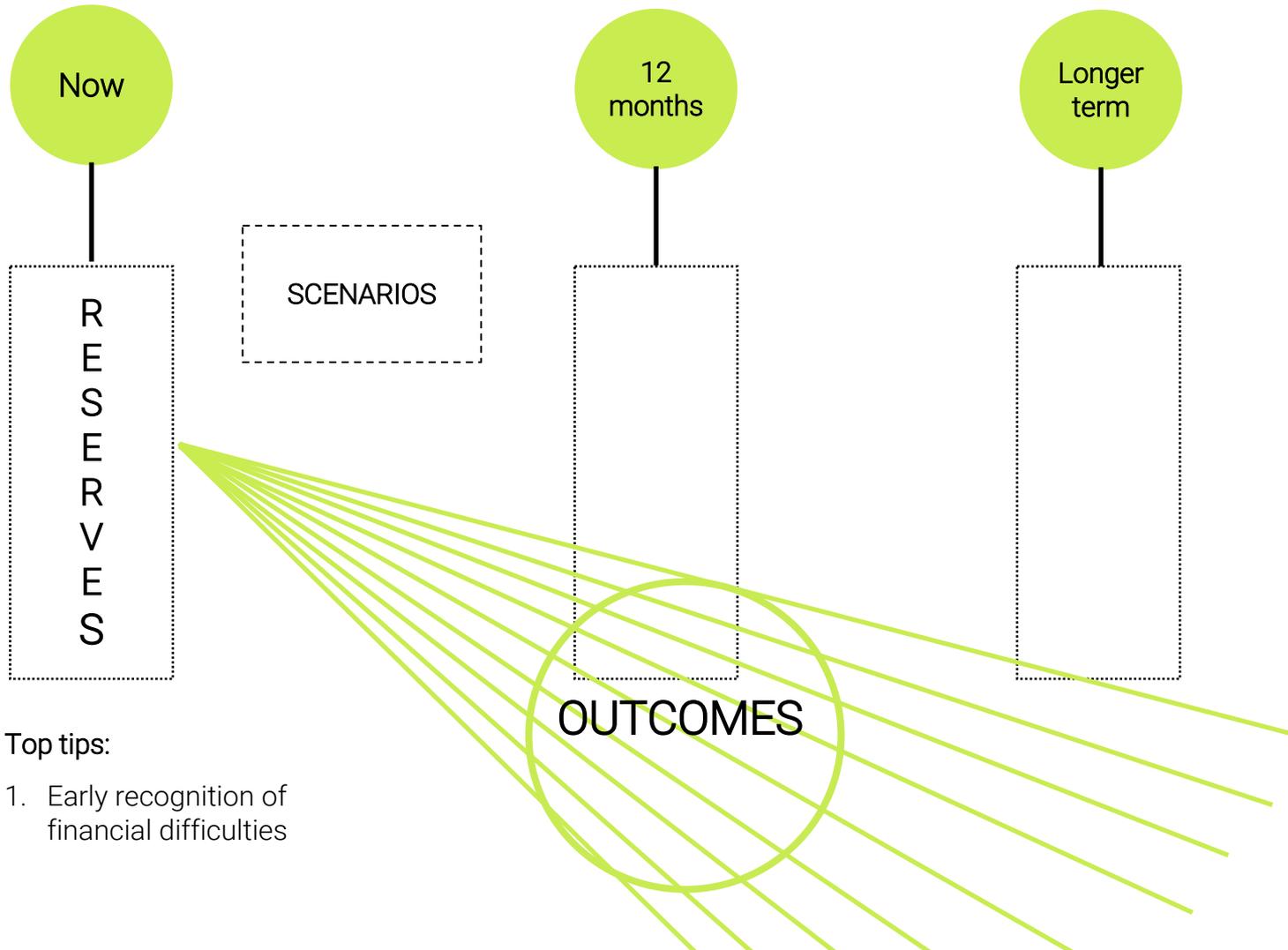


# The importance of scenario planning





## The importance of scenario planning

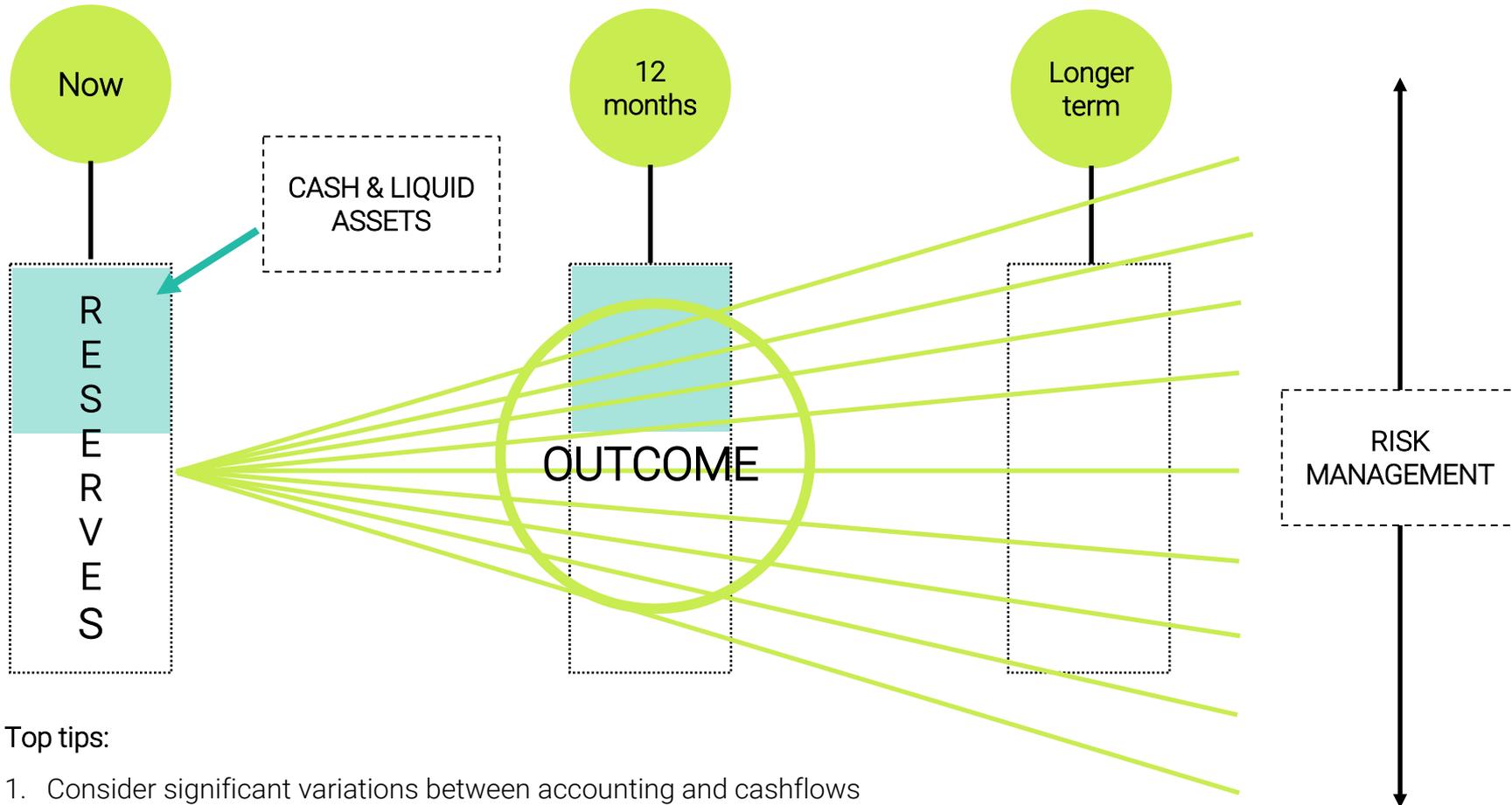


### Top tips:

1. Early recognition of financial difficulties



## Cashflow – meeting your liabilities



### Top tips:

1. Consider significant variations between accounting and cashflows
2. Prepare cashflow forecasts as part of budgeting process



# Integrated financial governance

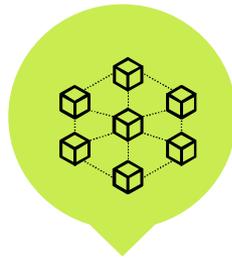




## Conclusions



**Long term financial viability** is a responsibility for trustees and management – ensure you have the rights skills and competencies



**Multi-year strategic financial planning** with consideration of scenarios is essential for most



Build on **existing financial governance** policies



Be a Covid-positive organisation – **apply the lessons of the last year**

An aerial photograph of a dense forest with various shades of green and brown. A white rectangular text box is centered over the image. At the top of the white box, there is a small horizontal lime green bar.

**SECTION 3**

What charities can do to respond to financial difficulties including opportunities for mergers and restructuring, and understanding the obligations of the new insolvency rules

Jim Clifford, Sonnet Advisory & Impact



Image: Shutterstock

- Focus on impact and what you can do best to make it happen
- Re-imagine resourcing
- Tackle effectiveness and efficiency
- Is the World so uncertain

Objects drive mission towards a beneficiary group, who have needs that can be met .....but how, and what can you best do ?

What do you have that others need, and what do you need that they have ?

How well we deliver  
How well we use resources

How can we work well around the real uncertainties ?

## Corporate Insolvency & Governance Act 2020:

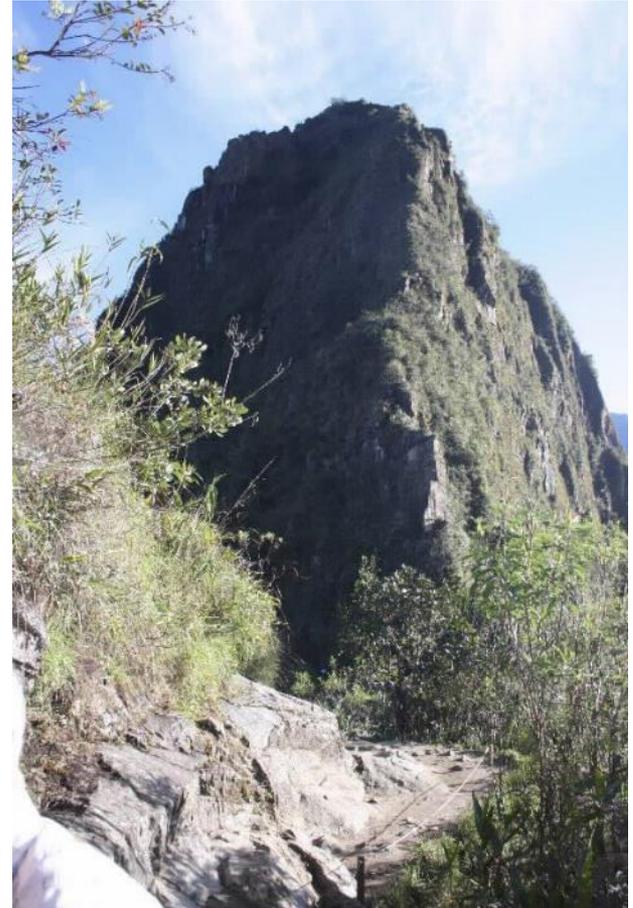
...Moratoria; continuation of supply;

restructuring plans

- Wrongful trading
- Preference
- Transactions at an undervalue
- Fraudulent trading (and acts)

Know where the edge lies and be sensible but positive...

COVID relaxations are temporary....and it's better not to rely on them



### Repositioning services

Prioritise based on contribution to impact:

- How does outcome arise ?
- What do we do that's key ?

Reframe to engage differently:

- Who else is interested in our beneficiaries ?
- What are others' views of priority needs, and can they align with ours ?

### New income sources

- Who else could gain from what we do ?
- Could they fund that ?

### Cost and resource sharing

- Where could we gain by sharing – surplus capacity ?
- What resource could we share with little cost to us ?
- Could we deliver as much, or more, resourcing differently ?

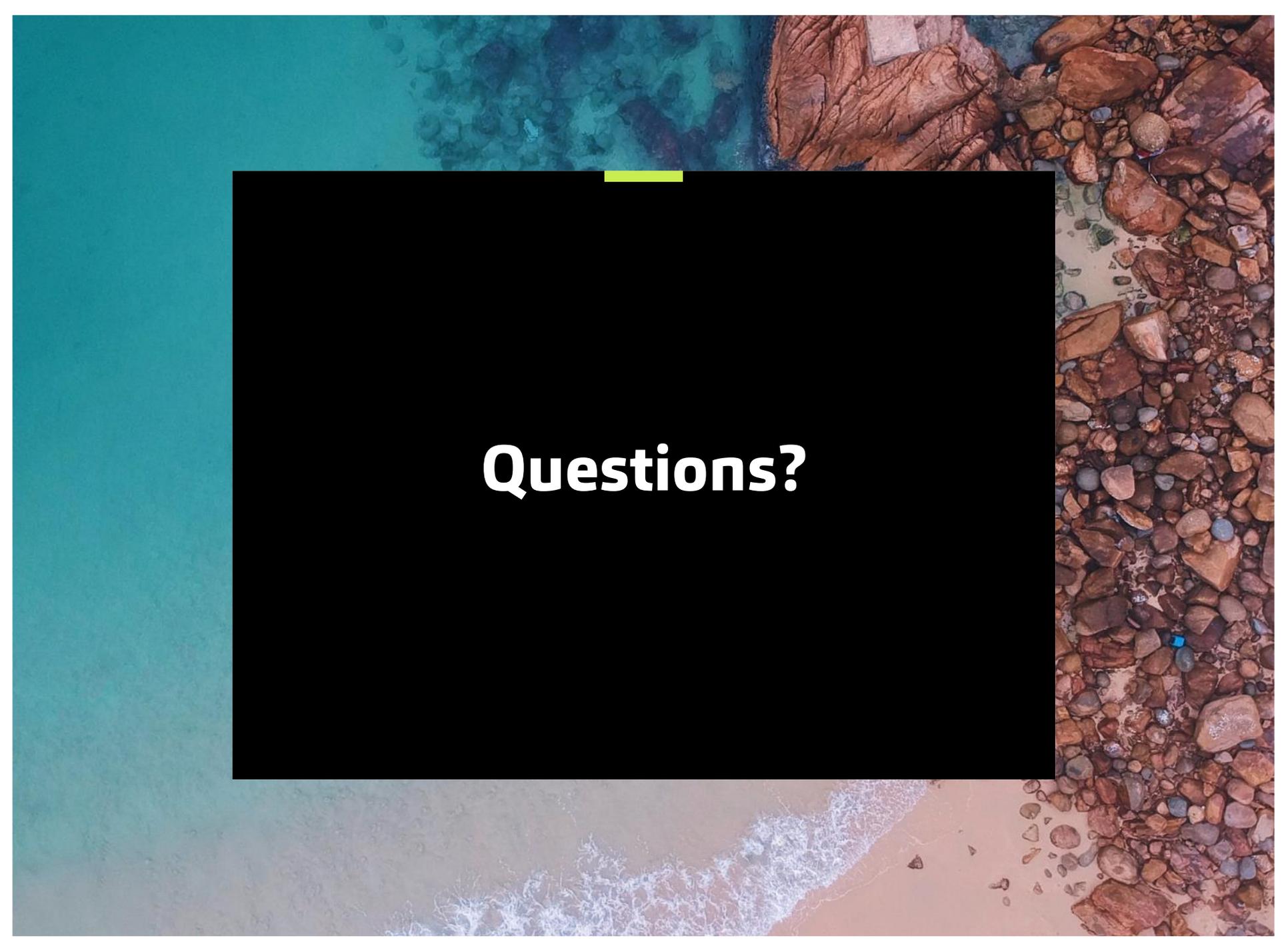
**e.g. Charity-run theatre cutting staff and passing assets to another (solvently) to refloat when the time is right**

**e.g. Charity in recovery partnering with private sector on public contracts for impact for beneficiaries, and additional income**

**e.g. £3m charity tying up with a larger one for improving reach, and greater resilience in back-office and front-facing resources**



- Acquisition by
- Acquisition of
- Grouping for strength and resilience
- Partnering one-to-one
- Partnering with more than one

An aerial photograph of a coastline. The top half shows clear turquoise water meeting a rocky shore. The bottom half shows a sandy beach with white foam from waves washing onto the shore. The rocks are reddish-brown and vary in size. A small blue object is visible on the rocks.

**Questions?**

## CONTACT US



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