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Navigating the Going Concern Assumption & Developing a Reserves Policy

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Why this topic matters for charities today

Charity Sector Risk Assessment 2025

Larger charities spent **23%** more on delivering their charitable aims in 2023 compared to 2019

42.6% of charities reported expenditure that exceeded income in their 2023 Annual Return

The number of Charity Commission cases involving charities in financial difficulties nearly doubled between 2022-2024



Why this topic matters for charities today

Charities operate in an environment of uncertainty

Going concern is more than an accounting concept

Reserves policy is your safety net

A robust reserves policy strengthens your going concern assessment

Not just compliance exercises – strategic tools for sustainability



Understanding the going concern assumption



- Definition
 - Financial statements are prepared on the basis that the entity will continue its operations for the foreseeable future, typically at least 12 months from the date the financial statements are authorised
- Trustees' responsibilities
 - Trustees' must carry out an assessment of the charity's ability to continue as a going concern
 - Explicit statement in the Trustees' Responsibilities paragraph in the Annual Report
- Common misconception — it's the auditor's responsibility — it is NOT



Assessing going concern

- Budgets and forecasts
 - Income and expenditure
 - Cash flow
 - Balance sheet
- Sensitivity analysis
 - Scenario planning
 - Worse case scenarios
 - Contingency plans
- Include all known events and conditions
- At least 12months from expected sign off date



Assessing going concern

- Management produce budgets, forecasts and scenarios
- What should trustees do?
 - Check the integrity of the data
 - Understand the assumptions used
 - Compare the data with historical results
 - Compare the data with known future events
 - Raise appropriate challenge
 - Be transparent about any uncertainties
- Document — formal assessment and approval by trustees



Linking reserves to going concern

- A robust reserves policy strengthens a going concern assessment
 - Scenario planning — reserves provide a buffer in worst-case forecasts
 - Material uncertainty — adequate reserves reduce risk of disclosure
 - Trustee assurance — demonstrates proactive financial management
 - Stakeholder confidence — transparency about reserves supports credibility
- An inaccurate reserves policy can result in an incorrect going concern conclusion



Reserves policies

- Why do reserves matter?
 - Financial resilience during shocks e.g. pandemic, funding delays
 - Indicator of future funding needs
 - Builds trust with donors and regulators
- Core components of a reserves policy
 - Purpose — why do we need reserves e.g. cash flow gaps or strategic opportunities
 - Target level — benchmark
 - Actual level — free reserves
 - Review cycle — annual
 - Narrative and numbers



Developing a reserves policy

- No single method or approach to setting a reserves policy
 - Size
 - Complexity of activities
 - Legal structure
 - Nature of funds
- However, setting a reserves policy should involve:
 - Consideration of funds received and held by the charity
 - Risks
 - Future operational plans
- [CC19 – Charity reserves: building resilience](#)



How we audit your going concern assessment



- Common risk area identified by auditor's
- More assurance taken when an entity has undertaken a thorough going concern assessment
- Challenge and test your assessment
 - Robustly challenge assumptions
 - Evaluate risk of management/trustee bias
 - Consider any contradictory evidence
 - Benchmark against market and sector data
 - Review latest management accounts compared to forecasts
 - Review subsequent events



Going concern conclusions

- Agree or disagree with your assessment
- Conclude on if going concern is appropriate
- Material uncertainty related to going concern
 - One or more events, individually or collectively, cast doubt on the charity's ability to continue as a going concern
 - Not a qualified opinion - modified
- Conclude on appropriate disclosure of going concern assessment
 - Transparent and honest



Summary

Going concern assessment is the Trustees' responsibility

Ensure your assessment is robust and formally documented

Integrate your going concern assessment with your reserves policy

Communicate transparently with stakeholders about reserves and financial health

Thank you



Any Questions?

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