stewardship

transforming generosity

A church-eyed view of going concern

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Stewardship Briefing Paper

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- Tell others in your church or charity about our resources.

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About Stewardship

Stewardship's mission is to transform generosity by:

- making giving easy
- inspiring greater generosity
- strengthening Christian causes

and our vision is:

- for the world to encounter Jesus through the generosity of his church

Since 1906, Stewardship has been helping the Christian community in the UK to give and receive. We love **making giving easy** and help over 25,000 individuals to give around £60 million each year, to our database of over 19,000 charitable causes.

We are committed to **strengthening Christian causes**, by offering practical, tailored support to help Churches and Christian charities to transform the world.

And we **inspire greater generosity** from this community too, through our wealth of resources, courses and campaigns for individuals and churches alike, including the multiple award winning 40acts campaign and website.

1 Going concern in a nutshell

Going concern is a fundamental assumption underpinning financial reporting. It means that an entity will not have to stop operating in the near future nor significantly curtail what it is doing. When applied to churches, it means, in general terms, that the trustees expect the church to continue operating as normal for the foreseeable future, being able to meet its obligations as they fall due and not having to stop a major part of what it is currently doing.

For most trustees, most of the time, assessing going concern will be routine. Fortunately, history tells us that the financial collapse of churches is rare, but conversely, when it does happen the associated ripples that it causes are significant.

2 If so often routine, why mention going concern now?

Although the going concern concept has been around for a long while, there are two reasons why church trustees ought to consider afresh the way in which they assess going concern.

SORP 2015

First, the 2015 charity SORP based on FRS 102 which now applies to all churches preparing accounts under the accruals basis, states in paragraph 3.14 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, 12 months from the date the accounts are approved" (bold print added for emphasis).

Charity Commission's Directions for Independent Examiners

Second, the Charity Commission's Directions to Independent Examiners include a new Direction (expected to be introduced early in 2017) which explicitly requires independent examiners to "check the charity's financial sustainability and the trustees' assessment of going concern".

As a consequence of this new Direction, we think that it is likely that as a matter of course, independent examiners will be expecting to see evidence that going concern has been considered and assessed by the trustees and will perhaps request some form of budget or projection to support the conclusion reached.

We believe that together, these changes in emphasis raise the profile of going concern within the charitable sector generally and that they will require some thought by church trustees even if only to satisfy the increased requirements of their auditors or independent examiners. Let's give some thought to what such an assessment might look like.

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3 What form might a trustee assessment take?

As with so much in life, there is no definitive 'one size fits all' answer to the form that an assessment might take. It will depend upon factors including:

- The recent financial history of the church e.g. does it regularly run annual surpluses or deficits?
- The level of reserves held;
- The breadth and financial security of its donor base;
- Known or anticipated future changes to either income or expenditure;
- Planned future capital projects.

However, a good starting point for any assessment is likely to be an evaluation of the current financial position of the church combined with some form of budget. For some churches, budgets will already be a way of life, an important part of a financial management framework; for others they will be something completely new and for others still they may even be regarded as a pointless man-made exercise whose only value is to constrain the impact of the church.

We would argue that an appropriately constructed budget (it does not have to be overly complicated) is a helpful tool, not only to assess going concern but also because it can provide other benefits including:

- Helping a church and its leaders prioritise future actions;
- Providing information that allows the church leaders to react earlier to developing financial situations (large surpluses as well as deficits);
- Being used to inform and encourage church congregations about future plans;
- Adding a layer of accountability within churches;
- Allowing the church to be intentional rather than existing in 'maintenance mode';
- Demonstrating good practice to those outside the church.

For larger churches which are running a number of different activities, a budget might be a significant exercise requiring the involvement and input of different people from within the church; for smaller or long-established churches, a budget is likely to be far more straightforward with previous years' income and expenditure often forming the basis for future projections.

Given the requirement for an assessment of going concern to look out 12 months from the date that the accounts were approved, an annual budget will not extend sufficiently to cover that whole period. Do not despair: unless the current situation and the annual budget reveal a difficult or deteriorating position, there is unlikely to be the need to project even further ahead.

4 But surely God will provide

Some church leaders see little or no value in church budgets, holding the view that budgeting is a purely business tool which serves to constrain the impact of the church and in some way detracts from our faith, often citing 'God will provide' as a reason why it has no real place in the church.

In Luke 14:28-30 Jesus uses the concept of planning ahead within the context of considering the cost of becoming a disciple:

"Suppose one of you wants to build a tower. Won't you first sit down and estimate the cost to see if you have enough money to complete it? For if you lay the foundation and are not able to finish it, everyone who sees it will ridicule you, saying, 'this person began to build and wasn't able to finish.'"

The person with the half-built tower becomes a laughing stock.

The reality is that churches do run into financial difficulties. At the time of writing this paper, Stewardship is working with three churches which are in danger of imminent collapse through lack of finance, and with others whose cheques are bouncing because of cash flow problems. This type of situation has serious implications for the church's ministry and reputation—not to mention the blood pressure of the trustees, leaders and the treasurer.

However, on the other hand, churches are warned in Genesis 41 and later in Matthew 6 not simply to hoard cash for its own sake but to make use of it as a way of building His Kingdom; which interestingly is very similar to the stance taken by the Charity Commission asking trustees to spend donations on charitable activities within a reasonable time frame. This subject is explored in more detail in our briefing paper on how to think about reserves.

Constructing a budget or in other ways planning ahead in no way removes our reliance on God's provision, but it may serve to prevent us, or more importantly His Kingdom, from becoming a laughing stock in the eyes of others who see our half-finished plans as cause for ridicule.

5 What might set alarm bells ringing?

As we mentioned right at the outset, for most trustees an assessment of going concern will be straightforward.

- Current and future expenditure plans are expected to be covered by known or anticipated income streams;
- Unrestricted reserves are considered adequate to provide protection against financial fluctuations (please see our paper on how to think about reserves) and;
- There are no foreseeable future events that are considered likely to significantly alter the financial course of the church.

However when carrying out an assessment, there are situations or signals, either now or perhaps highlighted by the budget or projection, that may give rise to going concern doubts. These might include (but are not limited to):

- Running a persistent cash flow deficit;
- The imminent retirement or relocation of one or more significant donors;
- A change in pastor or minister, which could realistically result in major financial upheaval.
- Serious litigation which might require the church to incur significant legal costs to defend, or may result in a financial penalty that it is unable to meet;

Trustees who do not pay due regard to the regulations in this area are not acting in the best interests of the church and are failing in their legal responsibilities. Also, by ignoring genuine concerns, the financial well-being of the church may deteriorate and trustees may even oversee financial collapse with all of the reputational, legal and financial consequences which that brings to the individual trustees, the organisation, and to the Kingdom of God.

Any assessment of going concern by the trustees must be based solely on the church's unrestricted income and reserves. Restricted funds must, by law, only be used for the purposes for which they were given, and as such cannot be considered by the trustees for covering general financial shortfalls.

6 Trustee considerations in the event of hearing an alarm bell

As there are likely to be significant consequences arising from a trustee assessment that a church may not be a going concern, the trustees should not reach this decision lightly and without due regard to the surrounding circumstances and the options that are open to them.

For example, where a charity is running, or whose budget suggests will in the future run, monthly cash deficits, the trustees should include in their considerations:

- Whether, by continuing its current level of activities or operations, the deficit is likely to be temporary or whether it is embedded, repeating month after month;
- How large the church's reserves are and how quickly running a deficit will be likely to erode them;
- What actions the church might be able to take to increase its income. The outcome of these actions does not have to be certain, but must be more than just wishful thinking;
- What actions the church might be able to take to reduce its costs. Often the reduction of costs can be achieved quicker than increasing income. In effect this is creating a plan "B" which can be enacted if events do not turn out the way that was hoped.

As soon as it becomes apparent that there is a realistic going concern danger that can't readily be turned around by actions taken by the church, professional financial advice should be sought immediately.

7 Conclusions

Even well-run Christian churches are not immune from financial difficulties, and because of the introduction of the new Direction from the Charity Commission, trustee assessments as to going concern are likely to come under more scrutiny than perhaps they have done in the past. We would therefore suggest that trustees:

- Formally assess going concern on at least an annual basis, recording their conclusions and the main reasons supporting them in the minutes. This assessment may be required more frequently where the church's circumstances change;
- Construct an appropriate budget (appropriate to the size and complexity of the church) extending ahead for at least 12 months;
- Address as soon as possible any signals or concerns that might raise doubts as to going concern.
- Where necessary, work out a plan "B" in the event that things do not progress as you would like.

By recognising any potential concern early, and by putting in place plans to deal with them, most trustees should be enabled to form a positive going concern judgement without too many sleepless nights.

Appendix 1: Technical review

Charities SORP 2015

Going concern is specifically addressed in module 3 (link here) of the Charity SORP which covers accounting standards, policies, concepts and principles. Clause 3.14 states:

"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, 12 months from the date the accounts are approved."

Directions and guidance for examiners

The Charity Commission has issued draft guidance and Direction for examiners of charity accounts (expected to be published in early 2017) and for the first time have included a Direction (number 9) for examiners to explicitly "check the charity's financial sustainability and the trustees' assessment of going concern".

Clause 9.1 of that guidance reminds trustees that it is their responsibility to manage the charity's money and other resources properly and that they should consider what arrangements are necessary to ensure that the charity can pay bills and meet any liabilities as they fall due.

Clause 9.3 refers to receipts and payments accounts and reiterates that trustees preparing accounts on this basis are not required to make a judgement about going concern, but that if during the course of the examination the examiner has cause to believe that the charity is in financial difficulty the examiner must consider reporting this fact to the commission and should consider what to say in their examiner's report.

Clause 9.4 states that accounts should be prepared on a going concern basis except where the trustees prepare the accounts under an alternative basis in which case the trustees must disclose any material uncertainties about going concern in the notes to the accounts.

Clause 9.5 considers the responsibility of the examiner when examining accruals accounts. "Where the trustees have prepared accruals accounts on a going concern basis, the examiner must check that the trustees have carried out an assessment of going concern that meets the requirements of the applicable SORP that includes setting out the assumptions upon which the trustees are relying in reaching their conclusion that the charity is a going concern. Although the trustees may take the advice of the Honorary Treasurer and/or the charity's finance officer about the charity's financial situation as a going concern, it is a decision the trustees jointly take when approving the accounts."

Other clauses (9.6 to 9.8) go on to set out the types of documentary evidence that trustees may want to consider to support their conclusions, and the judgement that is then required of the examiner in assessing the conclusion reached by the trustees.

References

- **Charities SORP 2015 – module 3**

http://www.charitysorp.org/media/620733/frs102_module-3.pdf