The Journal for Citizens Advice Bureau trustees

Leaders in Governance

'Going concern' issues for trustees

Sue Theodoreson

Bureaux preparing financial statements usually do so with the implicit presumption that they are financially stable, will continue operating in the foreseeable future and will not cease activities in the short term. This concept is known as 'going concern'.

Why is 'going concern' so important?

'Going concern' is important as it has an impact on how the bureau accounts are prepared and how they are viewed by others. Doubts raised in the financial statements about the ability of a bureau to continue will influence the behaviour of funders and other stakeholders. Recent guidance issued to auditors from their own professional regulators insists that they pay more attention to the issue of 'going concern', and that more rigorous evidence is obtained to support this presumption.

'Going concern' issues

For all but the smallest charities, the law states that their financial statements must show a 'true and fair view'. For bureaux, this usually means compliance with the Charity Statement of Recommended Practice (SORP) and, where applicable, the Companies Acts. However, more fundamentally it also means following the 'going concern' concept when preparing financial statements. It is the trustees and directors (who are the same for charitable companies) who make this assessment of 'going concern'.

Preparing accounts on the 'going concern' basis makes the presumption that the bureau will continue to operate for the foreseeable future unless there is a statement in the accounts to the contrary. This future period is normally taken to be at least 12 months from the date the accounts are signed by the trustees (not the date the accounts were prepared up to). With a benign economic environment, with funding readily available, that presumption may be easy to justify without too much

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Need more skills on your board?

The need for trustees' financial, legal, HR and IT skills has never been greater, given the current challenges facing all charities. Getting on Board, a registered charity, can help you find skilled people for your board vacancies.

Getting on Board aims to strengthen the governance of charities, schools and public bodies by encouraging employers to support their staff as trustees of these organisations. We do this by talking to employers, and running seminars for employees about board-level volunteering, explaining the benefits both for communities and individuals.

After registering their interest in board level volunteering, Sally Connolly, our Brokerage Director matches individuals to available vacancies, and these candidates themselves contact any of the charities that interest them.

Getting on Board works with some excellent candidates, who would make a real difference to any organisation they might join.

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difficulty. In these more challenging economic conditions, however, that may not be the case, and indeed there is an obligation to test this assumption by bureau auditors and independent examiners, who may not agree with trustees.

When a bureau has an audit or an independent examination, the auditor or examiner will formally address the issue of 'going concern'. Bureaux should not put themselves in a position where an auditor or examiner has raised an unexpected question mark over the bureau's future existence. Having effective governance procedures will ensure that any financial problems should be well understood and identified early on with plans in place to tackle the root causes before they come to the attention of the external auditor or examiner.

Auditors and examiners are required to evaluate the means by which the trustees have satisfied themselves that it is appropriate to adopt the 'going concern' basis. They must also decide whether they agree with the trustees and consider the appropriateness of any disclosures made in the accounts to reinforce the presumption (if any). Where there is a divergence of opinion with the trustees, the bureau auditors or examiners may have to draw attention to this in their report. Although independent examiners are not (unlike auditors) required to give an opinion as to whether the accounts are 'true and fair', they are still required to satisfy themselves that the accounts are prepared on a basis consistent with the 'going concern' assumption.

A bureau's statutory accounts, having had independent external scrutiny without a 'going concern' issue being raised, are persuasive evidence to the outside world that the bureau is financially stable and is able to operate for the foreseeable future.

Evidence to support 'going concern'

An auditor or examiner will not simply take at face value assurances from trustees that the bureau can continue to function as before, especially in the current economic environment. These assertions must therefore be supported with evidence. Examples of this evidence would include:–

- **Security of future funding streams.** Evidence of a commitment by the local council to support the bureau and to continue with core funding would be persuasive. A good relationship with local government will demonstrate that the bureau is embedded in the community and is perceived as a key long-term partner. A decline in core unrestricted funding and an over-reliance on short-term restricted project funding to plug the gap can threaten bureau viability if this funding stops or is significantly curtailed. Similarly over-reliance on one particular funding source can be risky. This would be the case, for example, where the Legal Services Commission monthly payments are needed to keep the bureau solvent. If contract performance is below target as well and the 'buffer' is increasing beyond authorised limits, this puts the bureau at high financial risk and would certainly be raised as a 'going concern' issue.
- **Signed contracts or service level agreements for other continuing projects.** Evidence of diversification of income with bids for appropriate projects and services will signify an enterprising and vibrant organisation looking to the future.
- **Detailed budgets for the following financial year and a business plan for the longer term that is financially prudent.** The bureau, in other words, understands its funding streams and its cost base and avoids setting dangerous deficit budgets. Bureau projects are clearly allocated a fair proportion of indirect costs. During the year there should be regular management accounts issued to trustees that are of sufficient quality to allow all the trustees to understand the financial performance and financial strength of the bureau.
- **Adequate liquidity.** A healthy bank balance shows that the bureau is able to meet its obligations going forward. Regular cash flow reports demonstrate that cash resources are being managed effectively.
- **A reserves policy that demonstrates sufficient reserves going forward.** A bureau may hold reserves for a number of reasons, such as to protect against unexpected costs on projects. Having low reserves and in particular low or negative free reserves would imply that the bureau is fragile and unable to withstand financial shocks. Reserves can be used to cover expenditure to 'buy some time' in the event of reduced income or changes in circumstances.

- **Evidence of a well-run charity.** Apart from financial evidence, auditors and examiners will want to have confidence in the charity generally and to be able to rely on what trustees tell them. By examining the board minutes there ought to be evidence of purpose and direction, and of a strong board with a variety of skills and experience that is accountable and transparent.
- **Formal risk identification and management procedures.** Auditors and examiners will want to appraise how effective these are . The risk assessment process should highlight potential contingent liabilities that could threaten the 'going concern' presumption of the bureau. Examples here would include – employer withdrawal payments triggered under defined benefit pension schemes (sometimes referred to as 'final salary schemes'), significant lease obligations such as dilapidations payments, potential employment tribunal compensation, a withdrawal of bank overdraft facilities or a default on loan payments.

Some practical steps to take

It is important that trustees monitor and protect the status of the bureau as a healthy 'going concern' organisation. To do this:–

- Ensure that the bureau has good financial governance procedures in place to pick up any financial problems at an early stage and before they could potentially start to threaten the viability of the bureau.
- It makes sense to engage with auditors and independent examiners early to identify and resolve issues that may cause them concern and to doubt the ability of the bureau to continue.
- Challenge any intention to add a comment about 'going concern' in the bureau accounts which you consider to be unjustified. Trustees must 'of course' be clear why the 'going concern' principle is still valid. If a comment has to be included, ensure that the trustees have agreed that the wording is fair and that any relevant mitigating factors are included.
- Provide evidence (see above) to support the proposition that the bureau is a 'going concern'.

Guidance and support from Citizens Advice is available for bureaux facing financial difficulties that cannot be successfully resolved internally. Where there are serious concerns identified surrounding the future of the bureau, the trustees must be diligent in addressing these early to avoid the possibility of wrongful trading. The Charity Commission has issued guidance in its publication CC12 'Managing financial difficulties and insolvency in charities' which sets out the position in dealing with an insolvent situation and the liability of trustees. Trustees would need to think carefully about their own personal liability in this scenario where the bureau is unincorporated.

Sue Theodoreson
Head of Financial and Legal Support

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Bureaux are particularly attractive options for individuals who have been identified as their employers' future leaders.

Getting on Board's brokerage is cost-effective, as it is free for charities. The experience of being a trustee enables an individual to learn a range of new skills and develop existing ones, particularly leadership skills. For employers, board-level volunteering is a low-cost means of developing staff, as the skills acquired by employees in these volunteer roles are transferable into the workplace.

David Mulholland, of British Telecom, has recently been appointed as a trustee of a CAB, through Getting on Board, and he says:

"I am thoroughly enjoying the experience. I'm very grateful to Getting on Board for matching me with such an interesting and challenging role so quickly. I really feel I am putting something back into the local community."

If you would like Getting on Board to help your board, what should you do? First, send us information about your trustee vacancy. Tell us what is required of your board members - for example, frequency and timing of meetings, and the skills you are seeking. We will then aim to match your vacancy with our candidates. As with all new trustees, it is vital to provide a really good induction, and to make sure that you make full use of your new recruit's skills.

You can find out more about Getting on board at www.gettingonboard.org or contact sarah@gettingonboard.org.

Sarah Hodgkinson
Chief Executive, Getting on Board

Chair's diary – conduct unbecoming?

Gordon Pankhurst

One of the oddities of growing older (I'll be 63 in May) is that there is very little I haven't seen before, it's just that I've forgotten it, or failed to learn the lessons. In my former profession as an IT Project Manager, I used to point out to people who mismanaged projects that there was really no excuse, because all the lessons had been learnt in the generations since major projects had been undertaken and delivered. I actually profess atheism, but referred them to the Old Testament book of Ecclesiastes, said to have been written about 2000BC, and which includes the '90% complete' syndrome which afflicts IT development to this day.

I recently came across a new (to me) piece of wisdom by an 18th century Quaker preacher, John Woolman, who said "Conduct is more convincing than language". It was included in a new booklet 'Codes of Conduct for Trustees', sent to me by Charity Trustee Networks. They offer one of the many internet based resources available to charity trustees. They say that 'in CTN's experience, key issues that can cause difficulties on a board include:

- trustees being passive or uninvolved
- trustees coming to meetings unprepared
- trustees not attending meetings
- trustees being too dominant
- an ineffective chair
- a difficult trustee
- a trustee or chair who does not want to leave the board
- a failure to manage conflicts of interest
- difficult trustee-staff relationships.'

Does any of that look familiar? They suggest that a well written and used Code of Conduct could help avoid such problems. There is a suggested Code of Conduct for bureaux on BMIS, based on the Nolan principles, but it doesn't go quite far enough for me. The Trustee Network advice suggests a more detailed Code, including:

- Attend meetings and other appointments (or give apologies) – engaging in discussions and decision-making processes.
- Prepare fully for meetings and all work for the organisation – reading papers, querying unclear or difficult things and thinking through issues in good time before meetings.
- Actively engage in respectful discussion, debate and voting in meetings – contributing positively, listening carefully, challenging sensitively and avoiding conflict.

That level of conduct would really help – and not just in bureau trustee board meetings. It is increasingly important that bureau trustee boards engage with other nearby bureaux, and with their Citizens Advice colleagues through the forums which are being started in England (we've had them in Wales for some time) and by all other means. We will increasingly need to work together and with other partners, for example, to secure LSC funding under the new contract proposals.

Has your board signed up to a Code of Conduct for trustees? If not, it might help. If so, is it adequate, and is it used?

Gordon Pankhurst
Trustee and Chair of Governance Advisory Board

Governance Matters is an essential bi-monthly emailed newsletter for trustees. To sign up send your email address to tim.toghill@citizensadvice.org.uk.

New Relief Manager Team

Citizens Advice is recruiting a small team of relief managers to be available to work in bureaux for a fixed period when, for example, a manager leaves suddenly or is on extended sick leave. This is in recognition of the difficulties bureaux can face in filling short-term or unexpected vacancies. The posts will be advertised in the national press and on the Citizens Advice website during April. Further details of how the team will operate will be available shortly through CABlink and Bureaux Direct.

Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux.
Registered charity number 279057

www.citizensadvice.org.uk