

By Email

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**Your ref:**  
**Our ref: nkd/isa 570**

**Date: 12 June 2019**

Dear Kate,

## **Proposed International Standard on Auditing (UK) 570 (Revised) Going Concern**

The Charity Commission is the Independent Regulator of Charities for England and Wales. In partnership with the other UK charity regulators, the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland, we published an updated list of matters of material significance to be reported by auditors (and independent examiners) effective from 1 May 2017. Included within the updated list of reportable matters is advising us of a material uncertainty related to going concern.

Practice Note 11(Revised) November 2017 includes additional charity specific guidance for auditors including reference to the charity trustees' assessment of going concern and the reserves and reserves policy. Paragraph 180 considers the feasibility of trustees' contingency planning.

We welcome the exposure draft and the additional guidance to auditors and anticipate that Practice Note 11 will also be updated for this auditing standard. Our response focusses on the public interest question.

### **Question 2. Do you believe that the revisions appropriately address the public interest?**

We would welcome paragraphs 10-1f and 12-2c being strengthened further to require that the auditor actively reviews the judgments and explanations that management consider mitigate significant business risk and justify a going concern basis of preparation for the financial statements and to test these judgments and explanations against the prevailing and anticipated financial conditions. Also the auditor, whether or not in agreement to that going concern assessment, should be required to set out any management judgments and

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explanations upon which their audit conclusion as to going concern, in whole or part, relies in giving their audit opinion on the financial statements.

We advocate this change so that the user of the financial statements can make an informed assessment of the entity, having had the significant explanations and judgments brought to their notice alongside the audit opinion. This would further counter the risk from undisclosed management bias. We have in mind the observations of the Public Administration and Constitutional Affairs Committee's (PACAC) report on the charity Kids Company. In particular PACAC's findings that:

Paragraph 13 '...the Chief Executive and Trustees relied upon wishful thinking and false optimism and became inured to the precariousness of the charity's financial situation'.

Paragraph 21 'Kids Company had 19 years of statutory audits, but the charity was wrong to take comfort from this. The charity was signed off as a going concern, but the auditors repeated warnings about the precariousness of its finances and the dependency of the charity upon future Government grants...'

Paragraph 77 'Kingston Smith has offered no credible explanation for changing the warnings of insolvency from those issued by the preceding auditors. Mr Brooks stated that Kingston Smith's softer language still indicated that Kids Company was "living on a knife-edge".'

By having set out any judgments and explanations upon which the audit opinion as to going concern, in whole or part, relies the reader can then make their own assessment of financial risk and decide to whether to donate, support or engage with the charity.

Kind regards,



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