



## Supplementary Guidance Note (SGN) 01

# Going Concern – Auditors’ responsibilities for local public bodies

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### About Supplementary Guidance Notes

Supplementary Guidance Notes (SGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act). SGNs are prepared and published when the C&AG wishes to address a particular issue. SGNs are part of the full suite of Auditor Guidance Notes (AGNs) which as such constitute guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in SGNs supports auditors in meeting their requirements under the Act and the [Code of Audit Practice](#) published by the NAO on behalf of the C&AG.

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The firms that are local auditors under the Act may use these communications to update their own internal communications and reference tools.

SGNs are numbered sequentially and published on the NAO’s website. Any new or revised SGNs are brought to the attention of local auditors through the WACs.

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Local auditors should not assume that SGNs are comprehensive or that they will provide a definitive answer in every case.



This Supplementary Guidance Note is relevant to all local auditors of local public bodies covered by the Local Audit and Accountability Act 2014 and the [Code of Audit Practice](#) including auditors of NHS foundation trusts. Guidance on auditors’ work on value for money arrangements is published in AGN 03, considerations when exercising additional powers is published in AGN 04 and reporting is published in AGN 07.

## Introduction and context

The guidance within this document is prepared to assist auditors in meeting their responsibilities as the statutory auditor of local public bodies, under the Code of Audit Practice (the Code).

This SGN sets out guidance for auditors to have regard to in their assessment of going concern on audits of financial statements of local health and local government bodies and is relevant to local government audits and NHS audits at the commencement date of the 2024 Code. However, this SGN does not replace auditors’ own procedures or fetter a statutory local auditors’ exercise of his or her discretion. Auditors should draw on relevant technical briefings prepared by their firms.

Auditors of local public bodies (NHS providers, NHS commissioners, local government and other relevant authorities) conduct their work under the Code which requires them per paragraph 2.6, to “*comply with auditing standards currently in force in the United Kingdom.*” The relevant ISA covering going concern is ISA (UK) 570 (Revised September 2019) (Updated May 2022) - *Going Concern*.

The interpretations and guidance on the application of ISA (UK) 570 set out in [Practice Note \(PN\) 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, \(Revised 2022\)](#) are relevant to the work undertaken under the Code. Therefore, the C&AG’s expectations on how auditors approach going concern is based upon the principles and guidance set out within PN 10.

Local public bodies are established in statute and are mostly funded by the government and through raising taxes and other income locally. The application of going concern in the public sector context has, however, come under focus in recent years due to the continuing financial pressures within both the NHS and local government which have been widely publicised including:

- The continuing financial pressures within the provider and commissioning sector have been widely publicised. The NAO’s first report on [NHS backlogs and waiting times in England](#) shows that the performance against these was deteriorating before the COVID-19 pandemic and worsened since it began. The NAO’s second report on [Managing NHS backlogs and waiting times in England](#), November 2022, stated that activity in 2022 had continued to lag behind the pre-pandemic level and was well below the planned trajectory. The government announced a multi-year funding

settlement in September 2021, which included £8 billion to support the recovery of elective care in the three years to 2024-25. The NHS’s funding package is being eroded by inflation, so that its overall funding up to 2024-25 is set to grow more slowly than the long-term average in real terms. The report sets out concerns that the 129% activity target and the target to eliminate all waits of longer than 52 weeks by 2025 are at serious risk of not being achieved. There are significant threats to the recovery, including the effects of strain on the workforce, uncertainties about whether new initiatives will be able to deliver results as quickly as NHS England needs them to, and the pressures elsewhere in the NHS and adult social care.

In response to the NAO’s report, the Public Accounts Committee published its report [Managing NHS backlogs and waiting times](#) which included a series of recommendations to DHSC and NHS England including the level of cancer waiting times; the circumstances in which the NHS would be trying to recover elective and cancer care; funding for elective recovery; the effectiveness of elective recovery programme initiatives; NHS England’s programme management of the recovery; and plans for the future of the workforce and capacity of adult social care.

The NAO’s report on [Access to unplanned or urgent care](#), June 2023 gives a factual overview of NHS services that may be used when people need rapid access to urgent, emergency, or other non-routine health services, and whether such services are meeting the performance standards the NHS has told patients they have a right to expect. More people than ever before are receiving unplanned and urgent NHS care every day. To support these services, the NHS is spending increasing amounts of public money and employing record numbers of people. Nevertheless, patients’ satisfaction and access to services have been worsening, suggesting there is no single, straightforward solution to improving what is a complex and interdependent system. NHS England’s recovery plan for urgent and emergency care aims to improve services by March 2024. The long-term trends in workforce, activity, spending and performance indicate this will be a significant challenge. The Public Accounts Committee [reported](#) there are “significant assumptions and uncertainties” attached to DHSC and NHS England’s plans.

The NAO published its report on [NHS financial management and sustainability 2024](#) which concluded that concludes that the scale of challenge facing the NHS today and foreseeable in the years ahead is unprecedented. Following the statutory introduction of Integrated Care Systems (ICSs) in 2022, the NAO concluded that they needed time and capacity to build relationships and design services that could better meet local needs. While some transformation is occurring, the pace of change has been slow as ICSs struggle to manage the day-to-day pressures of elective recovery following the pandemic, continual rising demand for NHS services, and significant workforce and productivity issues. As they are statutorily required to do, NHS England and NHS systems have prioritised trying to live within their allocated funding. But, despite great in-year efforts to do so – some of which privilege the

short term at the expense of the long term – an increasing number of NHS bodies have been unable to break even. Considering how the health needs of the population look set to increase, the report sets out concerns that the NHS may be working at the limits of a system which might break before it is again able to provide patients with care that meets standards for timeliness and accessibility.

The continuing financial pressures within local government have been widely publicised, with an increased number of Section 114 notices being issued as well as more councils being subject to intervention and formal improvement panels. The NAO has examined the financial pressures in our report [Financial sustainability of local authorities 2018](#) and subsequently in our [Financial sustainability of local authorities visualisation update, 2021](#). Local authorities continue to face a range of new demands and cost pressures leading to overspends and having to draw on reducing reserves. There is an increasing risk of more authorities not being able to set a balanced budget. Our 2020 report [Local authority investment in commercial property](#) highlighted that the acquisition of commercial property can help authorities to generate income, while also supporting regeneration. However, the scale of investment in the last three years, the concentration of activity in a relatively small group of authorities, and use of borrowing to finance such investments is striking. Benefits from investment must therefore be considered against any potential financial sustainability and value-for-money risks that may emerge. It is important to note, therefore, that the going concern assumption is not negated by the circumstances whereby a local authority issues a Section 114 notice.

This SGN sets out the C&AG’s view on how auditors should approach their work in respect of going concern in the context of local public bodies and the wider public interest.

In accordance with *International Accounting Standard (IAS) 1: Presentation of financial statements*, the primary responsibility of assessing an entity’s ability to continue as a going concern when preparing that entity’s financial statements rests with the management of the entity. Where relevant, this may require the inclusion of appropriate disclosures within the financial statements, annual report or narrative report concerning financial sustainability.

When considering this SGN auditors should be mindful that audits under the Code are integrated. Auditors should therefore consider the extent to which any issues highlighting risks to the opinion on the financial statements, or which suggest that non-standard reporting may be necessary, impact on their risk assessment and any additional procedures required to inform their work on arrangements to secure value for money under AGN 03.

Auditors should also consider whether it is appropriate to draw particular attention to any issues arising from their work under this SGN by exercising their additional public reporting powers, such as making statutory recommendations or issuing public interest reports. Further guidance on relevant considerations when exercising additional powers can be found in AGN 04.



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## Regulatory Framework

### Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, 2022

#### Context and principles

1. The Financial Reporting Council's (FRC) Statement of Recommended Practice – *Practice Note (PN) 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, (Revised 2022)*, sets out the interpretation of going concern for non-trading entities within the public sector. PN 10 is relevant to the work undertaken under the Code of Audit Practice. Therefore, the C&AG's expectations on how auditors approach going concern is based upon the principles and guidance set out within PN 10.
2. Paragraph 1-144 of PN 10 states "*In the public sector, management's use of the going concern basis of accounting may be driven by the requirements of the financial reporting framework rather than the financial sustainability of the reporting entity.*" It is therefore expected that management's assessment of going concern will be driven by the requirements of the underlying financial reporting and legislative framework which adapt the requirements of IAS 1 - *Presentation of Financial Statements* for the purposes of the UK public sector. Reporting frameworks in this context are set out in the annexes of this guidance and include:
  - HM Treasury Government Financial Reporting Manual
  - Department of Health & Social Care Group Accounting Manual
  - NHS England's NHS Foundation Trust Annual Reporting Manual
  - CIPFA Code of Practice on Local Authority Accounting.
3. In accordance with this, the auditor's approach to going concern derives from the financial reporting and legislative framework of the body concerned which effectively set out how going concern should be considered in the context of the individual body.

## The Auditor's risk assessment

4. Paragraph 1-150 on PN 10 states *"If the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in this section of Practice Note 10 (the sections titled 'Continued provision of service approach – risk assessment procedures' and 'Continued provision of service approach – evaluating management's assessment')."*
5. In line with PN 10, the auditor's assessment of going concern should take account of the statutory nature of the entity and the fact that the financial reporting framework(s) for local government and local NHS bodies presume going concern in the event of anticipated continuation of provision of the services provided by the entity. Therefore, the public sector auditor applies a '*continued provision of service approach*', unless there is clear evidence to the contrary.
6. This would also apply even where those services are planned to transfer to another entity, as in such circumstances, the underlying services will continue.
7. Paragraph 1-155 of PN 10 states *"If the auditor applies the continued provision of service approach to going concern, performing the risk assessment procedures required by ISA 570 involves the auditor obtaining sufficient evidence to conclude that:*
  - a. the nature of the entity means that, notwithstanding any intention to liquidate the entity or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements;*
  - b. the financial reporting framework permits the entity to prepare its financial statements on the basis of the presumption set out under (a) above; and*
  - c. the entity's system of internal control to identify events or conditions relevant to going concern is proportionate to the low risk that a material uncertainty related to going concern exists."*
8. The requirement remains for the auditor to undertake the risk assessment procedures required by ISA (UK) 570 *Going Concern* in respect of understanding the entity and understanding the entity's controls around going concern. However, these procedures should reflect that the risk surrounding going concern is derived mostly from changes to legislation and the financial reporting requirements.

9. The auditor's risk assessment for such entities should include the following procedures:
  - Consideration of whether it remains appropriate to apply the continued provision of service approach in light of the current reporting framework;
  - a consideration of what the entity is doing to identify events and/ or conditions which may indicate that the services being provided by the entity will no longer continue; and
  - a consideration of whether the auditor is aware of any factors which may mean for the entity that either services will no longer be provided or that funding for these services will be discontinued.
10. It is important to note that for most bodies in the public sector, there is a statutory requirement for the provision of the underlying services and therefore an Act of Parliament would be required for the discontinuation of any such services. Given the presence of this primary legislation it is reasonable to assume that Parliament will continue to provide funding for such services annually through the Supply process in the absence of any clearly expressed government or parliamentary intention to discontinue these services. Therefore, the focus of this risk assessment is largely around whether there is parliamentary or government legislative intention to discontinue the provision of services, rather than around the financial sustainability of bodies concerned.
11. Paragraph 1-157 of PN 10 states *"The risk assessment set out in this section is based on a consideration of whether the services provided by the audited entity will continue to be delivered. Those services might, in future, be delivered by the same entity, by another public sector entity or entities, or outside of the public sector. The continued existence and funding, or otherwise, of the audited entity is not, in itself, relevant to the auditor's risk assessment procedures over going concern for entities for which the financial reporting framework provides for the adoption of the going concern assumption on the basis of the anticipated continuation of the provision of a service in the future. The auditor performs these risk assessment procedures in the knowledge that uncertainty regarding the future existence and/or funding of the audited entity does not create a material uncertainty related to going concern for such entities, provided that this uncertainty does not also extend to the future delivery of the services."*

#### Evaluating management's assessment

12. The requirement of ISA 570.10-3 that *"Where management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor shall*



*request management to make its assessment*” applies to the continued provision of service approach. Where management do not make such an assessment, then this should be reported to those charged with governance.

13. Given the financial reporting framework and statutory status of most local public bodies, it is likely that where there are no indications of changes to the continued provision of services, management’s assessment will be relatively straightforward.
14. Circumstances that give rise to a material uncertainty are likely to be rare and will usually be driven by legislative change. Therefore, the auditor demonstrates professional scepticism primarily through review of the legislative framework and whether any changes are appropriately reflected in management’s assessment. Unless the body is reliant on significant alternative funding sources, management’s assessment of cashflows are unlikely in themselves to give rise to material uncertainty. However, the relevant underlying financial reporting framework may still require such issues to be disclosed by management.
15. Paragraph 1-163 of PN 10 states *“For audited entities for which the financial reporting framework provides for the adoption of the going concern assumption on the basis of the anticipated continuation of the provision of a service in the future, the auditor’s conclusions regarding management’s assessment, as set out in this section, are concerned with whether the services provided by the audited entity will continue to be delivered. Management’s assessment – and the auditor’s evaluation thereof – need not address any uncertainty over the continued existence and funding, or otherwise, of such an entity, provided that this uncertainty does not also extend to the future delivery of the services.”*

## Other auditor considerations

### Group accounts

16. A local public body may prepare group accounts that consolidates a significant (e.g. material in the context of the audit) controlling commercial interest in a trading entity where there are material uncertainties concerning the trading entity’s ability to continue as a going concern. In such cases, management of the company should make the appropriate disclosures on going concern under IAS 1 in its financial statements. However, there remains a clear distinction regarding going concern between the local public entity itself (e.g. the council) and that of the group.

## Public interest entities

17. Local public bodies that are audited under the Act are generally not ‘public interest entities’ or ‘other entities of public interest’<sup>1</sup>. However, where a local public body meets the definition of a ‘public interest entity’ set out in [Auditor Guidance Note 1 \(AGN 01\): General Guidance Supporting Local Audit](#) then auditors should apply the relevant requirements of ISA 570 where additional procedures may be required.

## Auditor reporting where a disclaimer of opinion is included in the audit report

18. Where the auditor includes a disclaimer of opinion in the auditor’s report, they will not include any commentary on going concern.

## Wider considerations in the public sector

### Financial sustainability

19. Whilst the auditor’s risk assessment may not identify a material uncertainty in relation to going concern, they may identify issues in relation to financial sustainability. In such cases, the auditor should consider whether to use other reporting powers e.g. their commentary on VFM arrangements (AGN 03), and/or additional powers under AGN 04 such as statutory recommendations or a public interest report. Significant financial sustainability issues should be adequately reflected and disclosed within the entity’s annual report/narrative.

20. This does not, however, necessarily impact on the going concern consideration as illustrated by the following extracts from PN10:

21. Paragraph 1-143 (e) of PN 10 states:

*“For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. These matters are not directly relevant to the auditor’s opinion, but the auditor may wish to use additional reporting powers to draw the user’s attention to financial sustainability concerns”.*

22. Paragraph 1-144 of PN 10 states:

*“In the public sector, management’s use of the going concern basis of accounting may be driven by the requirements of the financial reporting framework rather than*

<sup>1</sup> The definition of a public interest entity is set out in Article 2.13 of Directive 2006/43/EC – commonly referred to as the Audit Directive. The UK Government has not designated any bodies as public interest entities that do not meet this definition. The definition of an ‘other’ entity of public interest is set out in the FRC’s *Glossary of Terms (Auditing and Ethics)*, dated December 2019.

*the financial sustainability of the reporting entity. Where the auditor considers that the use of the going concern basis of accounting is appropriate, but there are nevertheless significant financial sustainability issues to bring to the attention of the user of the accounts, the auditor uses those reporting powers that are considered appropriate in the circumstances. This reporting may not result in a modification to the auditor’s report. The following guidance on ISA 570 deals principally with going concern rather than financial sustainability reporting.”*

23. Paragraph 1-168 of PN 10 states:

*“Some public sector bodies may have a statutory duty to break even. The existence of such a requirement may influence the scope and nature of audit procedures; for example, it may be appropriate to consider the financial performance of the entity, including the effectiveness of financial recovery plans. Failing to break-even does not in itself indicate a going concern issue”.*

24. Paragraph 1-177 of PN 10 states:

*“Auditing frameworks may require public sector auditors to review and report upon the entity’s arrangements for securing value for money and in such cases it may be appropriate for auditors to consider how the entity ensures that it is able to maintain the sustainability of its services and finances. But, where auditors identify concerns about an entity’s general financial health, or its arrangements for maintaining the sustainability of its services and finances, this does not necessarily cast doubt upon the entity’s ability to continue to prepare its financial statements on a going concern basis.”.*



## Other Support and Raising Technical Issues or Queries on this SGN

25. Auditors in firms should raise queries within the firm, in the first instance, so that the relevant technical support service can consider whether to refer queries to the NAO's Local Audit Code and Guidance (LACG) team by e-mailing [LACG.queries@nao.org.uk](mailto:LACG.queries@nao.org.uk).
26. Information supporting auditors is available on the LACG extranet. This includes details of third-party reports and information. Copies of referenced third party information and service auditor reports will also be available on the LACG extranet following issue. Updates will be communicated through the Weekly Auditor Communication (WAC). If there is a need for further statutory guidance during the year, the NAO may issue an addendum to this SGN.
27. The NAO also engages with the firms through its Local Auditors' Advisory Group (LAAG) and supporting technical networks to consider any emerging regime-wide technical issues on a timely basis. Auditors should follow their in-house arrangements for bringing significant emerging issues to the attention of their supplier's representative on LAAG or the relevant technical network.

## Annex 1: Additional information relevant to local NHS audits

Summary of the relevant financial reporting frameworks (will be updated periodically should there be substantial changes to the reporting frameworks)

Financial Reporting Framework	Extract
<a href="#">2024-25 HM Treasury Government Financial Reporting Manual</a>	<p>IAS 1 adaption states:</p> <ul style="list-style-type: none"> <li>“for non-trading entities, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up;</li> <li>sponsored entities whose statements of financial position show total net liabilities should prepare their financial statements on the going concern basis unless, after discussion with their sponsors, the going concern basis is deemed in appropriate; and</li> <li>where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements.”</li> </ul>

[Department of Health and Social Care  
\(DHSC\) Group Accounting Manual \(GAM\)  
2024-25](#)

*Paragraphs 4.18 to 4.28 of the GAM is  
replaced by the following text:*

*“The FReM notes that in applying  
paragraphs 25 to 26 of IAS 1, preparers of  
financial statements should be aware of the  
following interpretations of Going Concern  
for the public sector context.*

*For non-trading entities in the public sector,  
the anticipated continuation of the  
provision of a service in the future, as  
evidenced by inclusion of financial provision  
for that service in published documents, is  
normally sufficient evidence of going  
concern.*

*A trading entity needs to consider whether  
it is appropriate to continue to prepare its  
financial statements on a going concern  
basis where it is being, or is likely to be,  
wound up.*

*Sponsored entities whose statements of  
financial position show total net liabilities  
must prepare their financial statements on  
the going concern basis unless, after  
discussion with their sponsor division or  
relevant national body, the going concern  
basis is deemed inappropriate.*

*Where an entity ceases to exist, it must  
consider whether or not its services will  
continue to be provided (using the same  
assets, by another public sector entity) in  
determining whether to use the concept of  
going concern in its final set of financial  
statements.*

*While an entity will disclose its demise in  
various areas of its Annual Report and  
Accounts such as in the Performance Report  
and cross reference this in its going concern  
disclosure, this event does not prevent the*

*accounts being prepared on a going concern basis or give rise to a material uncertainty in relation to the going concern of the entity.*

*DHSC group bodies must therefore prepare their accounts on a going concern basis unless informed by the relevant national body or DHSC sponsor of the intention for dissolution without transfer of services or function to another entity.*

*Where a DHSC group body is aware of material uncertainties in respect of events or conditions that may bring into question the going concern ability of the entity, these uncertainties must be disclosed.*

*As the continued provision of service approach, per paragraph 4.22, applies to DHSC group bodies, material uncertainties requiring disclosure, will only arise in very exceptional circumstances.*

*Should a DHSC group body have concerns about its ‘going concern’ status (and this will only be the case if there is a prospect of services ceasing altogether), or whether a material uncertainty is required to be disclosed (which will only arise in exceptional circumstances), it must raise the issue with its sponsor division or relevant national body as soon as possible.*

*Consideration of risks to the financial sustainability of the organisation is a separate matter to the application of the going concern concept. Determining the financial sustainability of the organisation requires an assessment of its anticipated resources in the medium term. Any identified significant risk to financial sustainability is likely to form part of the risks disclosures included in the wider*

	<p><i>performance report, but is a separate matter from the going concern assessment.”</i></p>
<p><a href="#">NHS Foundation Trust Annual Reporting Manual (FT-ARM) 2023-24</a></p>	<p>FT ARM states:</p> <p>2.15 <i>“There is no presumption of going concern status for NHS foundation trusts. Directors must decide each year whether or not it is appropriate for the NHS foundation trust to prepare its accounts on the going concern basis.</i></p> <p>2.16 <i>The FReM explains: “The anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements.”</i></p> <p>2.17 <i>An NHS foundation trust’s assessment of whether the going concern basis is appropriate for its accounts should therefore only be based on whether it is anticipated that the services it provides will continue to be provided with the same assets in the public sector. This is expected to be the case for NHS foundation trusts unless exceptional circumstances indicate otherwise; these should be discussed with NHS England and NHS Improvement. Where the continued provision of services in the public sector is anticipated to apply, there will not be any material uncertainties over going concern requiring disclosure.</i></p> <p>2.18 <i>Where an NHS foundation trust has or is expected to demise in its current</i></p>



*organisational form but its services (and accompanying assets) are transferring to another NHS body, this would not prevent the going concern basis for accounts being adopted, and would also not be a material uncertainty on going concern. Clearly the changes to organisational form are important to the user of the annual report and accounts; in this scenario the going concern disclosure should cross-reference to the relevant disclosures elsewhere in the annual report and accounts.*

*2.19 A typical disclosure would read: “After making enquiries, the directors have a reasonable expectation that the services provided by the NHS foundation trust will continue to be provided by the public sector for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the accounts, following the definition of going concern in the public sector adopted by HM Treasury’s Financial Reporting Manual.”*

*2.20 Consideration of risks to the financial sustainability of the organisation is a separate matter to the application of the going concern concept. Determining the financial sustainability of the organisation requires an assessment of its anticipated resources in the medium term. Any identified significant risk to financial sustainability is likely to form part of the risks disclosures included in the wider performance report, but is a separate matter from the going concern assessment.”*

## Illustrative examples of potential material uncertainty

A local NHS body which primarily provides a particular service where the government has indicated its intention to discontinue parliamentary funding of that service. In this example, the focus is on the cessation of funding for the service rather than the configuration of the body itself.

## Annex 2: Additional information relevant to local government audits

Summary of the relevant financial reporting frameworks (will be updated periodically should there be substantial changes to the reporting frameworks)

### CIPFA Code of Practice on Local Authority Accounting

CIPFA Code states:

*2.1.2.9 “Going concern – an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.”*

*3.4.2.23 “Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements shall be prepared on a going concern basis of accounting. Other bodies that prepare financial statements in accordance with the Code that may be discontinued without statutory prescription shall follow the going concern reporting requirements in IAS 1.”*

*3.8.2.14 “An authority shall prepare its financial statements on a going concern*



*basis unless there is an intention by government that the services provided by the authority will no longer be provided. An intention by government to transfer services from one authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern.”*

## Illustrative examples of potential material uncertainty

### Principles

As set out in the introduction to this SGN, in accordance with *International Accounting Standard (IAS) 1: Presentation of financial statements*, the primary responsibility of assessing an entity’s ability to continue as a going concern when preparing that entity’s financial statements rests with the management of the entity.

The statutory nature of a local authority means that material uncertainty over its ability to continue as a going concern is extremely rare. As a local authority is created under statute to provide specified services, a material uncertainty is likely to exist where a local authority identifies that it may have insufficient resources to deliver its statutory services, rather than being considered in relation to maintaining current service levels.

In order to maintain financial balance, authorities may often need to vary the levels of services provided. Such variation in itself is highly unlikely to lead to a material uncertainty, unless the variation threatens the delivery of statutory services. Under the Code, a reduction in the level of services provided is more likely to impact the auditor’s work on VFM arrangements.

### Considerations at single service bodies such as, but not limited, to national parks, waste disposal, and transport bodies

Material uncertainty may be more likely at a local government body which primarily provides few – or only one – service. Where a local authority identifies it may have insufficient resources to be unable to continue providing the service or, where the government has indicated its intention to discontinue parliamentary funding of that service, there may be sufficient evidence for the local authority to consider a material uncertainty where this arises, and for the auditor to consider the impact of any disclosures on the form and content of their auditor’s report.

## Pension funds

Whilst the audit of occupational pension schemes falls under Practice Note 15 (Revised) *The audit of occupational pension schemes in the United Kingdom*, the Financial Reporting Council’s (FRC) Statement of Recommended Practice (SORP) – PN10, sets out the interpretation of going concern for non-trading entities within the public sector. PN10 applies to all audits which are considered to be within the UK public sector and includes public sector pension funds (which are non-trading entities). Therefore, due to the status of PN10 (SORP), the auditor’s assessment of going concern should be undertaken in accordance with PN 10 and this SGN. This would include recognising the statutory nature of the entity and the fact that the financial reporting framework for local government (CIPFA Code of Practice on Local Authority Accounting) presumes going concern in the event of anticipated continuation of provision of the services provided by the entity.

## Group audit considerations

As set out in paragraph 16 of the SGN *“a local public body may prepare group accounts that consolidates a significant (e.g. material in the context of the audit) controlling commercial interest in a trading entity where there are material uncertainties concerning the trading entity’s ability to continue as a going concern. In such cases, management of the company should make the appropriate disclosures on going concern under IAS 1 in its financial statements. However, there remains a clear distinction regarding going concern between the local public entity itself (e.g. the council) and that of the group”*.

Where a group is likely to continue, even if there are changes to the components or subsidiaries making up the group, then material uncertainty is expected to be rare. However, although unlikely, it is possible material uncertainty may exist. For example, where the group consists of the authority and one other significant component, and an uncertainty is identified over whether a group of any form will continue. Where this arises, it is for the local authority to consider whether this represents a material uncertainty, and for the auditor to consider the impact of any disclosures on the form and content of their auditor’s report consistent with their firm’s approach to reporting such matters.

## Section 114 notice

It is important to note that the going concern assumption is not negated by the circumstances whereby a local authority issues a Section 114 notice. These are issued by the council’s Section 151 officer in circumstances where they believe that the local authority is about to incur expenditure deemed unlawful by the Local Government Finance Act 1988. These notices can be issued for several reasons, but the most common is where there is an expectation that the authority’s expenditure will exceed income for a particular financial year. This is not permitted under the 1988 Act.