

Technical factsheet

Matters of material significance reportable to the charity regulators (updated October 2021)

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INTRODUCTION

In April 2020, the UK charity regulators issued updated guidance on [Matters of Material Significance](#) for auditors and independent examiners. In the UK, there are three charity regulators:

- The Charity Commission for Northern Ireland
- The Office of the Scottish Charity Regulator
- The Charity Commission for England and Wales

The updated guidance applies for all audits or independent examination reports being issued, regardless of the accounting period being examined.

There is an important distinction between an independent examiner and an auditor. An independent examiner does not express an opinion on the financial statements as an auditor does. Instead, an independent examiner reviews the accounting records of the charity and compares the accounts presented with those records. Should the independent examiner discover differences between the accounting records and the financial statements, the report is qualified in respect of those differences. Where a report is qualified, it must be notified to the relevant charity regulator.

An auditor, on the other hand, expresses an opinion as to whether the financial statements give a true and fair view of the state of the charity's affairs. The assurance provided by the auditor is a high level of assurance, but it is not absolute assurance due to the inherent limitations of an audit; for example, the use of sampling, reliance on tests of control and the use of accounting estimates. As with an independent examination, where the auditor expresses a modified (qualified) opinion on the financial statements, this must be notified to the relevant charity regulator.

Auditors and independent examiners are only expected to report matters that they identify during the normal course of their work. This means that there is no additional requirement for auditors or independent examiners to carry out additional work aimed at identifying matters of material significance that are reportable. In all cases, professional judgment must be applied by the auditor or the independent examiner when considering whether, or not, to make a report to a charity regulator.

The normal course of their work includes planning, and [guidance](#) issued by the regulators highlights that 'It is anticipated that in planning their work the auditor or examiner should have asked the trustees to advise the auditor or examiner of any matters that they have reported, or are intending to report, to the charity regulator. The auditor or examiner should consider this information when planning their work and note which, if any, of the incidents reported by the trustees may give rise to a duty to report a matter of material significance to the charity regulator.'

Since the introduction of reporting matters of material significance in 2017, concerns have been raised by the various charity regulators that auditors and independent examiners are failing to report relevant matters. For example, where an auditor issues a modified audit opinion or includes an Emphasis of Matter or Material Uncertainty Related to Going Concern paragraph, the relevant charity regulator would expect to have a separate report of this as a matter of material significance.

This factsheet has been updated to reflect the latest guidance and should also be read in conjunction with the [joint guidance](#) issued by the charity regulators in the UK.

The charity regulators have expressed concern that where they review sets of financial statements that contain, for example, a modified audit opinion or a qualified examiner's report, there is no separate report of a matter of material significance. This indicates that auditors and independent examiners are failing to properly discharge their responsibilities.

It is important to emphasise that even if the charity trustees have reported a matter to the charity regulator, the auditor or independent examiner will have some additional information or perspective that the regulator needs in order to reach a fully informed assessment of the matter. Hence, the auditor or independent examiner is also expected to make a report to the relevant charity regulator.

Important point to note

A modified audit opinion or a qualified examiner's report that includes an Emphasis of Matter or Material Uncertainty Related to Going Concern paragraph is not sufficient, and a separate report of a matter of material significance is required.

MATERIAL SIGNIFICANCE

Charity law refers to the term 'material significance' to determine which matters are reportable to the relevant charity regulator. The term 'must' is also used, which means that the charity regulator is referring to a specific legal or regulatory requirement, and both auditors and independent examiners must report any matters of material significance that they encounter during their appointment.

Of course, auditors and independent examiners will have come across the term 'material' in the context of the financial statements. However, for the purposes of the charity regulators, the term has a different meaning to that which auditors and independent examiners are familiar with because it is wider than financial statement materiality.

Important point to note

The charity regulators require auditors and independent examiners to err on the side of caution when it comes to matters of material significance, and the guidance states that **'When in doubt, report it.'** This will ensure that the auditor or independent examiner complies with legislative requirements.

REPORTABLE MATTERS

There are nine reportable matters in the guidance issued by the charity regulators. The guidance states that a matter becomes reportable as soon as:

- the auditor or independent examiner becomes aware of it; or
- the auditor or independent examiner intends to offer a modified audit opinion or an audit opinion with an Emphasis of Matter or Material Uncertainty Related to Going Concern paragraph; or
- a qualified independent examination report identifies one or more concerns about the charity's accounts.

The list above is not conclusive. Auditors and independent examiners must apply professional judgment where other matters emerge. ACCA also advises that sufficient documentation is retained by the auditor or independent examiner to support any reportable matters.

The nine reportable matters of material significance are as follows:

1. dishonesty and fraud
2. internal controls and governance
3. money laundering and criminal activity
4. support of terrorism
5. risk to charity's beneficiaries
6. breaches of law or the charity's trusts
7. breach of an order or direction made by a charity regulator
8. modified audit opinion or qualified independent examiner's report
9. conflicts of interest and related party transactions

Each of the above nine matters are discussed in detail below. Text in red denotes extracts from the charities regulators' guidance.

Important point to note

To assist practitioners, The regulators have provided sample reports:

- [Charity Commission for Northern Ireland](#)
- [OSCR \(Scottish Charity Regulator\)](#)
- [Charity Commission for England and Wales](#)

Dishonesty and fraud

During the course of an audit/independent examination, matters suggesting dishonesty or fraud involving a significant loss of, or material risk to, charitable funds or assets.

Inaccurate or misleading information presented to the auditor or independent examiner is indicative of dishonesty. The guidance states that duplicate invoices that appear to have been altered in their dates or values, or signatures on documents that do not tally with others submitted are two basic examples that may give rise to concerns by auditors or independent examiners.

The Fraud Act 2006 applies in England, Wales and Northern Ireland, but does not apply in Scotland. In Scotland, criminal fraud is mainly dealt with under common law and a number of statutory offences. The guidance states that in Scotland, fraud is committed where someone achieves a practical result by the means of a false pretence.

Example

During the independent examination, the examiner discovers an invoice for £500 paid for by a charity that appears to be for private expenditure for a senior trustee. The senior trustee has confirmed that the payment should not have been made by the charity but has arisen because of a mix-up within the banking system. The charity's financial statements show gross income of £128,000 and a surplus of income over expenditure amounting to £17,000.

In terms of materiality, the amount in question is immaterial to the financial statements, but in this instance it becomes material in nature because it indicates a breakdown in internal controls.

Even if a matter is *potentially* fraudulent, it should be reported to the relevant charity regulator as a matter of material significance.

Internal controls and governance

During the course of an audit/independent examination, matters suggesting failure(s) of internal controls, including failure(s) in charity governance, that resulted in, or could give rise to, a significant loss or misappropriation of charitable funds, or which lead to material charitable funds being put at major risk.

The charity must have systems and controls in place whose primary objective is to safeguard the charity's assets. While it is generally accepted that no internal control system can be 100% effective against theft or misappropriation of assets (for example, because of the risk of management override of internal controls), charities must have systems in place to protect assets. A weak internal control environment, or a lack of internal controls, places charitable funds at risk.

Example

A charity raises funds through a variety of activities, including attending supermarkets and other events using collection boxes to raise funds. In the past few months, a new treasurer has been appointed but she is still trying to sort through a backlog of paperwork that has been left by the previous one. As a result, no record of the cash collected is maintained, nor are there any checks on the monies. The volunteers who collect the cash at the various have been informed to bank the money and make a note of the amount banked so the treasurer can account for this when time allows.

This fundamental weakness in the control environment places income completeness at particular risk. As there are no checks or controls in place over the cash collected, the scope for theft is much greater. The independent examiner must report such failings in the control environment to the relevant charity regulator as a matter of material significance.

In the example above, there were weaknesses in the control environment over the completeness of the cash collected. Even in situations where there are authorisation procedures in place, if there are no procedures in place to guide staff, this, in itself, may warrant reporting to the relevant charity regulator.

The guidance also states that the scale of assets is important and involves the use of judgment based on materiality for the auditor or independent examiner. The guidance goes on to state that if the risk of misapplied charitable funds is low, then raising the matter with the charity only may be more appropriate than raising it with the charity regulator.

Money laundering and criminal activity

During the course of an audit/independent examination, knowledge or suspicion that the charity or charitable funds, including the charity's bank account(s), have been used for money laundering, or such funds are the proceeds of serious organised crime, or that the charity is a conduit for criminal activity.

The guidance recognises that this matter requires a more specific nature of suspicion arising from documents and information available to the auditor or independent examiner.

Example

A charity has paid out several large round-sum amounts to a third party. The treasurer has posted these amounts to 'legal and professional' fees in the bookkeeping system. The independent examiner has requested supporting documentation for the payments, but the treasurer became very defensive and said that no paperwork had been received by the charity. Various checks on the third party, such as checks at Companies House and internet searches including checks on social media by the independent examiner, revealed no additional information.

This would be a trigger for the independent examiner to suspect money laundering and/or criminal activity is taking place, and hence would warrant a report to the charity regulator as a matter of material significance.

The purpose of money laundering is to conceal the proceeds of crime by processing money through an intermediary, or a series of intermediaries, to make the money appear legitimate. The charity regulators' guidance recognises that money laundering can be in various forms, such as cash, money transfer, cheque, bitcoin and similar cryptocurrencies.

Example

A charity receives a donation of £20,000 from an individual, which is paid electronically into the charity's bank account. On the same day, the sum is paid out to another party in exchange for an asset. The independent examiner has obtained information that the donor of the cash is connected to the other party where the charity has obtained the asset from.

In this example, it would not be unreasonable to be concerned about the fact that money laundering has been attempted. The independent examiner must comply with their own money-laundering protocol, which would involve making a report to their money laundering reporting officer or making a suspicious activity report to the National Crime Agency.

In addition, the independent examiner should also file a separate matter of material significance report with the relevant charity regulator.

There are nine indicators in the guidance (which are not intended to be exhaustive) of money laundering, as follows:

- refusal by the trustees to explain an unusual transaction
- concerns about the honesty, integrity or identity of the trustees
- large or regular donations that require the charity to transfer those funds to a nominated party inside or outside of the UK, or to buy goods or services from the donor or a named third party
- loans from an unknown or unverified source, at a zero, low or commercial rate of interest, which the charity is asked to repay by cheque or by bank transfer to the donor or third party
- request by a donor to return funds by cheque or bank transfer because they were 'paid from the wrong account'
- 'loaning' of the charity's bank account to enable deposits or transactions by other third parties or individuals
- making money transfers inside or outside the UK on behalf of a third party in return for a fee
- illogical transactions or routing of funds through a series of bank accounts

- unusual investment or property transactions without a clear investment purpose or rationale.

Support of terrorism

During the course of an audit/independent examination, matters leading to the knowledge or suspicion that the charity, its trustees, employees or assets have been involved in or used to support terrorism or proscribed organisations in the UK or outside the UK, with the exception of matters related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (Sentences) Act 1998.

The guidance states that the emphasis here is twofold. Documents and information provided to the auditor and independent examiner would be that which would generate the suspicion; and the suspicion must relate to the support of terrorism or proscribed organisations.

If the concern of the auditor or independent examiner relates to the support of a particular organisation, a check on the Gov.uk website will confirm whether the organisation is a proscribed organisation.

Where the auditor or independent examiner discover evidence that suggests a trustee or any other person is using the charity's assets to support terrorist activity, this should be immediately reported to the relevant charity regulator as well as to the police.

Risk to the charity's beneficiaries

During the course of an audit/independent examination, evidence suggesting that in the way the charity carries out its work relating to the care and welfare of beneficiaries, the charity's beneficiaries have been or were put at significant risk of abuse or mistreatment.

Auditors and independent examiners must notify the relevant charity regulator where charity beneficiaries are put at significant risk of abuse or mistreatment.

Example

A charity works with young and vulnerable people, and its aim is to enable them to have a better quality of life. The charity does not have a safeguarding policy in place, nor does it carry out any Disclosure and Barring Service (DBS) checks on its volunteers.

This issue should be reported to the relevant charity regulator because it puts the young and vulnerable people at risk of abuse or mistreatment.

Auditors and independent examiners should read the [guidance on safeguarding](#).

Breaches of law or the charity's trusts

During the course of an audit/independent examination, matters suggesting single or recurring breach(es) of either a legislative requirement or of the charity's trusts, leading to material charitable funds being misapplied.

Auditors and independent examiners should familiarise themselves with the charity's purposes and governing document. During the course of their work, they may discover breaches of legal or trust requirements, which should be raised with the charity and/or charity regulator. The auditor or independent examiner will consider the scale, nature and frequency of the breach when dealing with the relevant reporting aspects.

Example

During the year, a charity disposes of property contrary to the terms of the original trust.

This would be reportable to the charity regulator because it is a breach of the charity's trust.

Breach of an order or direction made by a charity regulator

During the course of an audit/independent examination, evidence suggesting a deliberate or significant breach of an order or direction made by a charity regulator under statutory powers including suspending a charity trustee, prohibiting a particular transaction or activity or granting consent on particular terms involving significant charitable assets or liabilities.

A breach of an order or direction made by a charity regulator is a serious matter, and there is an expectation that the charity will bring any such issues to the attention of the auditor or independent examiner.

Ordinarily, when a charity regulator issues an order or direction to a charity, a public announcement is made and hence the auditor or independent examiner should be aware of such through their initial planning of the assignment.

Example

On 30 March 2021, a trustee was suspended pending an investigation into fraudulent expenses claims. Expenses claims continued to be submitted by the suspended trustee, which were honoured by the charity.

The trustee has been suspended and hence should not be carrying out any further work for the charity. The fact that they continue to be submitting expense claims (which are already the subject of a fraud investigation) is a breach of an order or direction, and hence is reportable to the relevant charity regulator.

Modified audit opinion or qualified independent examiner's report

On making a modified audit opinion, emphasis of matter, material uncertainty related to going concern, or issuing of a qualified independent examiner's report identifying matters of concern to which attention is drawn, notification of the nature of the modification/qualification/emphasis of matter or concern with supporting reasons, including notification of the action taken, if any, by the trustees subsequent to that audit opinion, emphasis of matter or material uncertainty identified/independent examiner's report.

The overarching objective of an auditor is to express an opinion as to whether the charity's financial statements give a true and fair view, and have been prepared in accordance with the applicable financial reporting framework (eg FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*) and applicable legislation.

An independent examiner does not form an opinion on the charity's financial statements, but instead expresses a conclusion as to whether anything has come to their attention that suggests the financial statements differ from the accounting records. Independent examiners also consider if there are any matters that require disclosure.

An auditor may sometimes judge a qualified opinion to be appropriate in the circumstances – for example, because the auditor disagrees with an accounting treatment or a material disclosure (such as a related party) that the auditor has concluded is inadequate or has not been made. Qualified opinions are expressed only as a last resort where the disagreement between the auditor and the charity’s trustees cannot be resolved. A qualified ‘except for’ opinion would be expressed where an unresolved matter is material but is not pervasive to the financial statements – for example, where the charity has capitalised a material amount of expenditure as property, plant and equipment that does not meet the recognition criteria in FRS 102, Section 17, *Property, Plant and Equipment*.

Adverse opinions are more serious because such opinions are expressed when the auditor concludes that a misstatement (or multiple misstatements) are both material **and** pervasive, meaning the charity’s financial statements fail to give a true and fair view.

Disclaimers of opinion are very serious. An auditor expresses a disclaimer of opinion when they are unable to form an opinion on the charity’s financial statements. Such a disclaimer may be expressed, for example, when the charity’s has failed to keep adequate accounting records to support the amounts and disclosures in the financial statements, or the trustees fail to provide the auditor with written representations acknowledging their responsibilities for the financial statements.

All modified auditor’s opinions are required to be disclosed to the relevant charity regulator, together with a sufficient level of detail to explain the nature of the matter and, where applicable, any action that has been taken by the trustees in respect of the modification.

Example

Sunnie & Co have audited the financial statements of one of their charity clients for the year ended 31 October 2021. During the audit, the audit senior discovered a number of fixed asset additions that did not meet the recognition criteria in FRS 102, Section 17, *Property, Plant and Equipment* and should have been recognised as expenditure in the statement of financial activities. The trustees disagree with the auditor and have refused to adjust the financial statements. The value of the additions to fixed assets is material.

The auditor must express a modified audit opinion on the financial statements for the year ended 31 October 2021 on the grounds of a material misstatement. As the incorrectly capitalised items are material but not pervasive, the auditor will express a qualified ‘except for’ opinion. The Basis for Qualified Opinion paragraph will describe the matter in more detail and quantify the misstatement.

The auditor also has a duty to report the matter to the relevant charity regulator. It is insufficient to simply qualify the auditor’s report and expect the charity regulator to be made aware of the issue through this means. To discharge their obligations properly, the auditor must make a separate report to the charity regulator, which must include a sufficient level of detail to explain the nature of the matter and, where appropriate, any action that the trustees have taken in respect of the modified opinion.

Independent examiners who also qualify their examiner’s report must also report details of their qualified examination to the relevant charity regulator. Again, it is not sufficient to expect the charity regulator to be made aware of the issue simply from the qualified examiner’s report.

It must also be noted that where the regulations have not been updated, and an auditor or independent examiner concludes that they need to refer to a new SORP in their auditor’s opinion or independent examiner’s report because it is different to the one referred to in the regulations, such a reference is **not considered to be a matter of material significance to the charity regulator**.

Conflicts of interest and related party transactions

During the course of an audit/independent examination, evidence suggesting that conflicts of interest have not been managed by the trustees in accordance with guidance issued by the charity regulator and/or related party transactions have not been fully disclosed in all respects required by the applicable statement of recommended practice (SORP).

Conflicts of interest must be carefully managed by the charity, and each of the three UK charity regulators has issued guidance on how to deal with such matters.

Example

Stefan is the brother-in-law of Lisa. Both are trustees of the same charity. Stefan is responsible for setting trustees' remuneration, including Lisa's.

This is a conflict of interest because Stefan is related to Lisa and hence should not be involved in setting her remuneration. This is clearly a mismanagement of the conflict of interest and hence would be reportable to the relevant charity regulator.

Related party transactions often arise in a charity and, again, care must be taken to ensure that such transactions are appropriately managed. While charities are encouraged to obtain value for money, this should not compromise quality and, at the same time, a fair and transparent tendering process should be in place at the charity for ongoing supplies of goods and/or services.

Where transactions with related parties have not been disclosed; or related parties themselves have been discovered by the auditor or independent examiner and transactions have taken place with those previously undiscovered related parties, this is an indicator that the related party relationship has been mismanaged and hence will be reportable to the relevant charity regulator as a matter of material significance.

REPORTING TO THE REGULATORS

Matters of material significance must be reported to the relevant charity regulator by the auditor or independent examiner. Such matters must be reported immediately when the auditor or independent examiner becomes aware of them. In England and Wales, matters are required to be reported in writing, although in Scotland there is no requirement for written reports to be made.

Matters of material significance must be reported to the relevant charity regulator with whom the charity is registered. Charities that are registered in Northern Ireland have their registration numbers prefixed with 'NIC', whereas charities registered in Scotland have their registration numbers prefixed with 'SC'.

England and Wales

At present, until such time as the digital notification using an online form is established, a report must be made by email to:

AuditIEMoMS@charitycommission.gov.uk

The email subject line should be 'Matter(s) of material significance reported' and should provide the following information:

- a) the examiner's name and contact address, telephone number and/or email address
- b) the charity's name and registration number (if applicable)
- c) a statement that the report is made in accordance with section 156 of the 2011 Act
- d) under which of the nine headings of reportable matters the report is being made
- e) describe the matter giving rise to concern and the information available on the matter reported and, where possible, provide an estimate of the financial implications
- f) where the trustees are attempting to deal with the situation, a brief description of the steps being taken by trustees of which the examiner has been made aware
- g) if the report concerns terrorist, money laundering or other criminal activity, whether you have notified the National Crime Agency and/or police as appropriate
- h) if the report concerns the abuse of vulnerable beneficiaries, whether you have informed the police and/or social services.

The guidance provides an optional checklist for auditors and independent examiners in Appendix 1 for ease of reference.

Scotland

In Scotland, all reports of matters of material significance are to be sent in writing to the following email address:

Section46@oscr.org.uk

The email subject header should state 'Reporting matters of material significance'. The report should identify:

- a) the party reporting and the charity
- b) an explanation of the issue of concern
- c) identification of any supporting evidence regarding the matter under report
- d) a method of contact to follow up on the information.

Northern Ireland

In Northern Ireland, all matters of material significance should be sent in writing to the following email address:

concernsaboutcharities@charitycommissionni.org.uk

The email subject header should state 'Reporting matters of material significance'. The report should identify:

- a) the party reporting and the charity
- b) an explanation of the issue of concern

- c) identification of any supporting evidence regarding the matter under report
- d) a method of contact to follow up on the information.

FAILING TO MAKE A REPORT

Auditors and independent examiners who fail to report matters of material significant to a relevant charity regulator are in breach of their legal duties. The charity regulators will take very seriously any discovery that an auditor or independent examiner has failed in their legal obligation to report any relevant matters.

The charity regulators also reserve the right to take any further action. This includes notification to professional bodies, including ACCA, of the breach by a firm and or individual.

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