



**CHARITY COMMISSION**  
FOR ENGLAND AND WALES

# Practitioner Briefing-

## The nine reportable matters of 'material significance' and the reporting process explained

Nigel Davies, Assistant Director, Accountancy  
Services

November 2021





## Briefing overview

- Who needs to report and why?
- The reporting duty in respect of matters of material significance (MoMS) and guidance- Practice Note 11 and publication CC32
- MoMS – the nine listed matters explained
- Finding a parallel to a ‘modified opinion’ in independent examination
- MoMS reporting- the process explained
- The difference your reporting makes





## Who needs to report and why?

- Duty initially came in following the Charities Act 2006 in England and Wales. The duty is now found in sections 156 to 161 of the Charities Act 2011 (Similar legislation applies in NI and Scotland)
- The requirement does not involve you planning to find reportable matters rather to report them when undertaking an external scrutiny of charity accounts
- Independent examination and audit are very different. The auditor gives an opinion as to whether the accounts are 'true and fair' (or limited assurance if simple receipts and payments accounts- see 2008 Regulations\*)
- Role of the independent examiner – he/she only reports on a limited number of specific matters with regard to the accounts.
- (\*The Charities (Accounts and Reports) Regulations 2008- SI 2008 No.629)





## Material significance (MoMS) explained:

- The guidance is developed and agreed by the three UK charity regulators- CCEW, OSCR and CCNI and is kept updated
- The term 'material significance' is used to determine which matters should be reported to the charity regulators so not necessarily to do with materiality of an item in the accounts
- The current MoMS guidance specifies nine areas where reporting is expected- see section 2:  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/879491/20200129\\_-\\_Matters\\_of\\_Material\\_Significance\\_guidance\\_April\\_2020\\_FIN\\_AL\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/879491/20200129_-_Matters_of_Material_Significance_guidance_April_2020_FIN_AL_.pdf)
- In this talk I look to give a brief overview of each matter in turn
- Please refer to the full text of the guidance when considering if there is a matter to report





## Matter 1- Dishonesty & Fraud

- ‘Matters suggesting dishonesty or fraud involving a significant loss of, or a material risk to, charitable funds or assets’
- There are two distinct aspects to this matter:
  - A. the suggestion of dishonesty or fraud and
  - B. a significant loss of, or material risk to, charitable funds or assets
- ‘It is hard to identify circumstances whereby a suspicion of dishonesty does not present as a risk to charity funds or assets. Consequently, it is for the auditor or independent examiner to use their judgement on the question of materiality – if you are unsure whether your findings are material then you should report the matter to the charity regulator, or contact the charity regulator to discuss’





## Matter 2- Internal Controls & Governance failure(s)

- ‘Failure(s) of internal controls, including failure(s) in charity governance that resulted in, or could give rise to, a material loss or misappropriation of charitable funds, or which leads to significant charitable funds being put at major risk’
- There are two parts to this matter:
  - the suggestion of failure of internal controls/governance and;
  - the outcome or potential outcome of the significant loss, misappropriation or charitable funds being placed at risk
- Depending on the audit approach testing of internal financial controls may be limited and it is not a required part of independent examination but review of accounting records and other evidence may give rise to this issue being noted





## Matter 3- Money Laundering & Criminal Activity

- This matter requires a more specific nature of suspicion arising from documents and information available to the auditor or independent examiner
- It is considered likely that an absence of adequate explanation for the movement of large sums of money in and out of the charity bank account(s) would be the most obvious trigger to such a suspicion, but it
- may also apply to the disposal of assets without appropriate return to the charity
- (See CCAB guidance for reassurance in respect of reporting to the charity regulator\*)
- \*CCAB guidance in respect of Money Laundering affirms MoMS reporting will not constitute a 'tipping off' offence, paragraph 6.7.18: <https://www.ccab.org.uk/wp-content/uploads/2020/09/AMLGuidance2020.pdf>





## Matter 4- Support of Terrorism

- Likely to be rare however be on guard in case
- Should the auditor or independent examiner uncover evidence that suggests that a trustee or any other person is using the charity's assets to support terrorist activity; this should be immediately reported to the relevant UK charity regulator (and to the police)







## Matter 5- Risk to charity's beneficiaries

- If in carrying out their work, auditors or examiners identify instances where charity beneficiaries have been put at significant risk of abuse or mistreatment auditors/ independent examiners must bring this to the attention of the charity regulator
- Evidence relating to this matter may be that harm has already occurred or that the charity does not have in place, or is not applying, a policy such as a safeguarding policy
- Auditors and independent examiners may, for example, identify information concerning legal action against the charity, a criminal investigation or an investigation or concern raised by another regulator or agency or that necessary eligibility checks on trustees or staff are not being carried out
- (Of the matters listed arguably the one most removed from accounts review)





## Matter 6- 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
- The most common breach of trust would be the application or disposal of property contrary to the terms of the original trust or
- trustees acting outside the powers given to them within their governing document





## Matter 7-Breach of an order or direction made by a charity regulator

- 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
- If in doubt, the auditor or independent examiner may raise the matter directly with the regulator to confirm whether any such orders or restrictions are in place





## Matter 8- -a modified audit opinion, emphasis of matter, material uncertainty related to going concern, or qualified independent examiner's report

- Generally, modified audit opinions will range from a qualification, being the least severe, to a disclaimer, being the most severe. Even where an unqualified opinion is offered the auditor may add an emphasis of matter paragraph or identify a paragraph advising a material uncertainty regarding going concern
- Finding a parallel to a 'modified opinion' in independent examination – not defined in the regulations but guidance is given in Direction 13 of the 'Independent Examination of Charity Accounts: Directions and guidance for examiners (CC32)
- See paragraph 13.21: '...the examiner has identified in their report a concern when making statements required by the 2008 Regulations...'





## Matter 9- 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 SORP
- Note: the SORP disclosures only applies to accounts prepared on a 'true and fair' basis and not simple cash accounts (Receipts and Payments Accounts)





## Reporting a matter:

- Timing of reporting (see section 2) can be nuanced but the general rule is as soon as possible but keep in mind audit guidance too
- Do not wait on the client to do their own reporting or simply attach a copy of their report as your own
- Client confidentiality is not grounds for the withholding of a report by the auditor or examiner, as the duty to report matters of material significance is a legal requirement under charity law
- Process depends upon which regulator(s) need advising – see section 4
- In England and Wales until such time as the digital notification using an on line form is established, a report is made by e-mail to [AuditIEMoMS@charitycommission.gov.uk](mailto:AuditIEMoMS@charitycommission.gov.uk) . The e-mail should be headed 'Matter(s) of material significance reported' and should give the required information advised in that section





## In closing, the difference your reporting makes:

- MoMS reporting has value to us in several ways:
  - Intelligence eg trends in issues such as financial difficulty (material uncertainty as to going concern/ emphasis of matter)
  - If done promptly, gives advance notice pre filing of issues for review by the regulator
  - Notification of issues justifying regulatory intervention which may include using our powers to put a situation on a proper footing or use of our protective powers including freezing bank accounts
  - Third party validation of matters reported by trustees as 'serious incidents'
  - Discretion to report 'relevant matters' – UK regulators offered advice as to our areas of interest:  
<https://www.gov.uk/government/publications/reporting-relevant-matters-of-interest-to-uk-charity-regulators>

