

## Charity commission compliance case: conflicts, restricted funds and SORP

29 OCTOBER 2014

**CATEGORY:**  
ARTICLE

The Charity Commission spells out the importance of managing conflicts of interest, identifying restricted funds and filing SORP compliant accounts in an Operational Compliance Report.

The Charity Commission received queries about the accounts filed by the Society Network Foundation for the year ending July 2013.

The charity, registered in 2011, was constituted to advance education, promote volunteering and help socially or economically disadvantaged people participate in the democratic process. It had a trading arm known as the Big Society Network.

As a result of queries raised, the Charity Commission identified potential concerns relating to:

- connected party transactions (those between a charity and persons involved with the charity, or its trustees, that may lead to unmanaged conflicts of interest);
- the apparent transfer of funds from restricted to unrestricted uses; and
- accounts not prepared in accordance with the Charities Statement of Recommended Practice (SORP).

The Commission found that three individuals had received payments from the trading company. Two were not and had never been trustees. They had received payments legitimately for work done for the trading company. However, the third recipient was a trustee.

The Commission discovered that the trustee's involvement with the trading company ceased before the establishment of the charity, but that payments to him only ceased shortly after it became operational. Therefore, there was a short period where his interests (in receiving payments) may have conflicted with the interests of the charity. However, there were no regulatory concerns for the Commission because the charity's governing document permitted the remaining trustees to authorise the conflict if in the charity's best interest.

It was also found that Cabinet Office grant-funding, given for restricted purposes, had been spent on general charitable purposes. While the dispute between the Cabinet Office and the trustees about the change of use is a matter of dispute outside of the Commission's remit, the Commission looked unfavourably upon the charity's reliance on alleged verbal discussions rather than any written confirmation. The Commission noted that charity was being advised pro-bono, avoiding the need for charitable funds to be applied to resolve the dispute.

The Commission viewed it as disproportionate to pursue the matter of non-compliant accounts or take any other steps because the trustees advised that they intended to wind up the charity.

In the Commission's view, lessons for other charities include:

- identifying, preventing and recording matters relating to conflicts of interest;
- submitting SORP compliant accounts; and
- making use of the Commission's guidance on *Managing charity assets and resources*.