



Operational Case Report

Society Network Foundation (1141518)

About the charity

The charity was registered in 2011. Its charitable objects include developing the capacity and skills of socially or economically disadvantaged people to help them participate in the democratic process, promoting the voluntary sector, and advancing education. The charity operates a trading arm, the Big Society Network. The trustees have advised the commission of their intention to wind the charity up.

Why the commission got involved

Queries were raised with us about the charity's accounts for the year ended July 2013. We scrutinised the accounts and identified potential concerns relating to connected party transactions. These are transactions between a charity and those involved with the charity or its trustees that may give rise to concerns about unmanaged conflicts of interest.

We also identified concerns about the apparent transfer of restricted funds to unrestricted funds¹.

Finally, we noted that the charity's accounts were not compliant with the Charities Statement of Recommended Practice (Charities SORP), which sets out how charities should report on their income and expenditure in their annual accounts.

We therefore needed to get involved to establish the facts and determine what role there might be for us.

What we found

Concerns about related party transactions

Our concerns related to three individuals, all of whom had received payments from the charity's trading company. We established that two of the individuals were not and had never been trustees of the charity. We concluded that there were no regulatory concerns with regard to the payments they had received for services they had provided to the trading company.

¹ Restricted funds are those subject to special trusts specified by the donor. These funds can only be used for the purposes for which they are given, unless the charity seeks permission from the commission or the donor for the restriction to be lifted.

The third individual was a trustee of the charity. We established that his involvement with the trading company predated the establishment of the charity. While payments to him were ceased shortly after the charity had become operational, we identified the potential for conflicts of interest to have arisen during a short period of time. However, the charity's governing document includes a provision allowing the remaining trustees to authorise such a conflict if it is in the charity's best interest.

Concerns about the transfer of restricted funds

These concerns related to the funds the charity had received from the Cabinet Office as a grant under the 'Get In' scheme. Following our scrutiny of the charity's accounts, we established that these funds were indeed restricted and that the charity did spend them on general charitable purposes. We asked the charity for information relating to the trustees' decision making. The trustees maintain that the Cabinet Office agreed during a meeting that the terms of the grant could be varied. The Cabinet Office takes a different view. We have concluded that the question of whether the Cabinet Office agreed that the terms of the grant were varied to allow the spending of the restricted funds on general purposes is a matter of dispute between the charity and the Cabinet Office. The resolution of this is a matter of contract law and lies outside our jurisdiction. We cannot conclude either way whether an agreement was made.

However, we are critical of the trustees for proceeding to spend the grant funds on general purposes based on a verbal discussion, without obtaining written confirmation that the terms of the grant had been varied.

We have noted that no charitable funds are being used to resolve the dispute with the Cabinet Office, as the charity is being advised pro-bono.

The action we took

The charity has notified us that it intends to wind up. We have therefore concluded that it would not be proportionate for us to take further regulatory action regarding the charity's failure to submit SORP compliant accounts. Also, given that the principal cause of concern is a matter of contractual dispute, it is outside our jurisdiction and therefore we did not take regulatory action with regard to that issue.

However we provided the trustees with regulatory advice, including on conflicts of interest, the importance of submitting SORP compliant accounts and on managing restricted funds.

Were the charity to continue operating, we would be monitoring its compliance with charity law and our guidance.

Lessons for other charities

Trustees have a legal duty to act in their charity's best interests when [making decisions as a trustee](#). If there's a decision to be made where a trustee has a personal or other interest, this is a conflict of interest and they won't be able to comply with your duty unless they follow certain steps.

For example, a trustee would have a conflict of interest if the charity is thinking of making a decision that would mean the trustees could benefit financially or otherwise, either directly or indirectly or if their duty to their charity competes with a duty or loyalty they have to another organisation or person.

Our guidance points to follow a 3 step approach (identify, prevent, record) so that trustees are able to comply with their duty and avoid making decisions that could be overturned and that could risk their charity's reputation.

Trustees must comply with their reporting duties and must ensure their accounts are compliant with the [Charities SORP](#).

A charity can only succeed in meeting its aims if it manages its money properly. This means it has to plan and monitor its income and outgoings so that it can meet its short, medium and long term aims. A charity's operational or strategic plan will set out what policies, strategies and actions will be needed to do this. Careful money management will also protect a charity's funds from misuse. This means the trustees, among other things, must know which funds they hold have restrictions on their use. These funds can only be used in the way specified. For further information see our guidance on [Managing charity assets and resources](#).