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CHARITY COMMISSION
FOR ENGLAND AND WALES

Inquiry Report

Al-Hassan Education Centre

Registered Charity Number 1078159

A statement of the results of an inquiry into Al-Hassan Education Centre (registered charity number 1078159).

Published on 1 February 2017.

The charity

Al-Hassan Education Centre ('the charity') was registered on 10 November 1999. It is governed by a memorandum and articles of association incorporated on 3 March 1999, and amended by special resolutions dated 7 August 1999 and 16 September 1999.

More details about the charity are available on the [register of charities](#) ('the register').

Background

On 20 September 2013, the Charity Commission ('the Commission') opened a statutory class inquiry ('the class inquiry')¹ into charities that were in default of their statutory obligations to meet reporting requirements by failing to file their annual documents² for 2 or more years in the last 5 years and met certain other criteria.

Having failed to submit its annual documents to the Commission for the financial year ending 31 March 2012 and 31 March 2013, the charity became part of the class inquiry on 16 April 2014.

On submission of the outstanding annual documents, the charity ceased to be part of the class inquiry on 8 November 2013. The Commission published [a statement of the results of the class inquiry](#) into the charity on 4 August 2014.

Issues under investigation

The deadline for the charity to submit its annual documents to the Commission for the financial year ending 31 March 2014 was midnight on 31 January 2015.

Despite having been sent a number of reminders from the Commission to file its annual documents ahead of the deadline, and the fact that the charity had previously been subject of the class inquiry, the charity defaulted on its statutory obligation by failing to submit the required annual documents to the Commission by its due date.

¹ The latest update on the statutory class inquiry provides further information [press release](#).

² The annual documents consist of annual return, and if the income exceeds £25,000 a trustees annual report and accounts.

On 25 February 2015 the Commission opened a statutory inquiry ('the inquiry') into the charity under section 46 of the Charities Act 2011 ('the act') to examine the following issues:

1. The administration of the charity by the trustees, particularly in relation to whether the trustees had fulfilled their legal duties and responsibilities as charity trustees.
2. The failure of the trustees to fulfil their statutory duty to submit annual accounts, reports and returns for the financial year ending 31 March 2014.
3. The financial management of the charity to determine whether the trustees had failed to properly manage the charity's funds and therefore, had put the charity's funds at risk.

The inquiry closed on 1 February 2017 with the publication of this report.

Findings

Trustees of charities with an income of £25,000 or over are under a legal duty to submit annual documents to the Commission as the regulator of charities. Failure to adhere to these obligations is a criminal offence and is also mismanagement and misconduct in the administration of a charity. Trustees are also accountable for their charity's resources and should be able to demonstrate that their charity is complying with the law, is well run and effective.³

Having previously been included in the class inquiry the trustees were aware of their obligations to file their annual documents on time. In a letter dated 1 August 2014 the trustees were informed that if they failed to submit future annual documents on time then it would be considered a serious regulatory concern.

The trustees' failure to meet their legal obligations to file accounting information with the Commission for the financial year ending 31 March 2014, before the deadline of 31 January 2015, resulted in an order under section 84 of the act being issued to the trustees directing them to prepare and submit the outstanding annual documentation, and explain what steps had been taken to prepare and submit the 2014 annual documentation. The trustees were also informed that they should revise and resubmit the accounts for 2012 and 2013 by 28 April 2015 as the trustees' annual report ('the TAR') lacked details and did not meet the requirements of the Statement of Recommended Practice ('SORP').

In response to the order, the Commission received the charity's accounts and TAR for 2014 on 9 April 2015, but no explanation of what steps had been taken by the trustees to prepare and submit the 2014 annual documentation, or submit the charity's annual return. In failing to file all the required documentation the trustees were in breach of the section 84 order. Additionally, the trustees did not re-submit the re-drafted 2012 and 2013 accounts at this point as they had been asked to do.

When asked by the inquiry why they had failed to meet their statutory obligations in respect of the submission of accounting information, the trustees stated this was due to their accountant not being able to compile the accounts in time. This does not diminish the responsibility of trustees to file their accounting information on time as they have 10 months post the end of their financial year in which to do so. The trustees had sufficient time to file their accounting records and could have, if necessary, appointed another accountant to compile their documents to ensure they complied with their obligations.

Trustees must manage their charity's resources responsibly, reasonably and honestly. This is sometimes called the duty of prudence. Prudence is about exercising sound judgement and trustees must ensure that the charity's assets are only used to support or carry out its purposes, and avoid exposing the charity's assets, beneficiaries or reputation to undue risk.

³ Charity trustee: what's involved (CC3a),

The inquiry examined the accounts submitted for financial year ending 31 March 2014, along with the bank statements for the charity between April 2011 and August 2015. The 2014 accounts reflected the same deficiencies as the 2012 and 2013 accounts in that the TAR lacked detail and did not meet the requirements of SORP. The bank statements reflected that there were high levels of cash deposits to, and withdrawals from the bank accounts. This raised concerns for the Commission with regards to whether adequate financial controls for both receipt and use of funds were in place, and whether practical measures had been adopted to ensure that funds were protected.

The inquiry met with the trustees on 20 January 2016 to discuss the continued late submission of annual documentation, governance, and financial management of the charity, a books and records inspection was also completed.

Based on the examination of the charity's books and records the inquiry found that the financial governance of the charity was inadequate particularly in relation to cash collections and charitable expenditure, the trustee being able to fully account for their funds. In addition, the inquiry identified that there were wider governance issues including a failure to hold an annual general meeting ('AGM') since July 2013⁴; lack of policies including for loans, and money laundering; failure to hold 2 trustees' meetings a year; and failure to review policies in place (for example its counter terrorism policy).

At the meeting the trustees also provided re-drafted accounts (which included TARs) for the years 2012 through to 2014, and draft accounts for 2015, these were found to still not comply with SORP and the trustees were informed of this on 8 February 2016.

The inquiry subsequently received a number of redrafted versions of the accounts between March and April 2016, causing confusion as to whether the accounts were draft versions or finalised accounts. Having confirmed that the accounts for the 4 financial years ending 2012 through to 2015 were the finalised accounts; these still failed to comply with SORP. Although the trustees submitted the accounts, the annual returns were delayed due to technical issues with the online submission, and these were received for financial years ending 31 March 2014 and 31 March 2015 on 7 March 2016 and 9 May 2016 respectively.

In addition to the trustees failure to comply with their legal obligations to submit accounting documents on time, the inquiry considered that the trustees had placed charitable funds at risk by not being able to properly account for funds received and expended by the charity and as a result, the trustees had failed in their duty to protect their charity's assets. The inquiry was also not satisfied that the trustees had acted in the best interests of their charity by not only putting the charity's funds at risk, but due to the weaknesses in the charity's internal controls and governance.

As a result of the issues identified at the meeting and the further consideration of the finalised accounts, the inquiry considered that further regulatory action was required to ensure that the charity was properly governed. On 16 November 2016 the inquiry further exercised its powers under section 84 of the act and issued an order to direct the trustees to take steps to address the deficiencies in the charity's governance as identified. The Commission requires the trustees to comply with the actions specified in the order by no later than the 30 June 2017, and will monitor the trustees' compliance with this order.

⁴ The charity's governing document requires the trustees to conduct a yearly AGM. Following Commission intervention the trustees held an AGM on 20th March 2016; however, this was not done constitutionally and therefore invalid.

Conclusions

Based on the evidence viewed by the Commission, it is concluded that:

- there had been mismanagement and misconduct in the administration of the charity by the trustees due to their failure to provide financial information to the Commission in accordance with charity law
- there was further mismanagement and misconduct in the administration of the charity by the trustees due to their failure to fully comply with the section 84 order issued
- the trustees were in breach of trust due to not complying with the charity's governing document in relation to:
 - annual general meetings
 - holding and keeping a written record of trustees' meetings
- there had been mismanagement by the trustees in the financial governance of the charity because there were no financial controls policy or procedures for cash collected/expended following Friday prayers
- there had been mismanagement in the general governance of the charity due to appropriate policies and procedures either not being in place or not reviewed in order to protect the charity's assets, beneficiaries and reputation

Regulatory action taken

The Commission used its information gathering powers under section 52 of the act to obtain the charity's bank records and financial information relating to the financial years ending 31 March 2012 to 31 March 2015. These were used in connection with the Commission's scrutiny of the charity's accounts.

On 31 March 2015, the inquiry exercised powers under section 84 of the act to direct the trustees to prepare and complete the relevant missing annual documents for the charity for financial year ending 31 March 2014 and provide copies of these to the Commission.

On 16 November 2016 the Commission further exercised its powers under section 84 of the act to direct the trustees to take the following actions:

- resubmit accounts & TARs for the 4 financial years ending 31 March 2012 through to 31 March 2015 which must meet (at least) the minimum SORP requirements
- ensure clause 34 of the charity's governing document is complied with by providing details of those persons recommended for appointment or reappointment not less than 7 nor more than 28 clear days before an AGM to all persons entitled to receive notice of the next AGM
- comply with clause 3 of the charity's governing document and ensure that there is no more than 15 months between one AGM and the next – the next AGM must be held by 20 June 2017
- review all the charity's existing policies including its counter terrorism policy, to ensure that they are fit for purpose and make any amendments necessary

- adopt a policy and procedure on the receipt of loans, to include the requirement of a formal agreement with those who provide loans
- adopt a policy and procedure on money laundering
- hold a minimum of 2 full trustees' meetings within any 12 month period and keep a written record of any decisions taken
- ensure that all cash donated after Friday prayers is recorded and any cash payments made from these donations is recorded

Issues for the wider sector

Trustees of charities with an income of over £25,000 are under a legal duty as charity trustees to submit annual returns, annual reports and accounting documents to the Commission as the regulator of charities. Even if the charity's annual income is not greater than £25,000 trustees are under a legal duty to prepare annual accounts and reports and should be able to provide these on request. All charities with an income over £10,000 must submit an annual return.

Failure to submit accounts and accompanying documents to the Commission is a criminal offence. The Commission also regards it as mismanagement and misconduct in the administration of the charity.

Trustees must ensure that their charity has adequate financial controls in place, it is important that the financial activities of charities are properly recorded, and their financial governance is transparent. Charities are accountable to their donors, beneficiaries and the public. Donors to charity are entitled to have confidence that their money is going to legitimate causes and reaches the places that it is intended to, this is key to ensuring public trust and confidence in charities. In this case there was no clear audit trail of cash donations from donor to bank, or to expenditure. The Commission has produced guidance to assist trustees in implementing robust internal financial controls that are appropriate to their charity. **Internal financial controls for charities (CC8)** is available on GOV.UK. There is also a **self check-list for trustees** which has been produced to enable trustees to evaluate their charity's performance against the legal requirements and good practice recommendations set out in Internal financial controls for charities.

Charity trustees should ensure that adequate records are kept of their decisions so that they can demonstrate that they have acted in accordance with the governing document and with best practice. In this case there were no records of either trustees meetings or decisions taken in relation to the charity. Such records ensure that trustees can demonstrate that they had:

- acted honestly and reasonably in what they judged to be the best interests of the charity
- taken appropriate professional or expert advice where appropriate
- based their decisions on directly relevant considerations

Trustees are jointly and equally responsible for the management of their charity. To be effective and to meet their statutory duties as charity trustees they must contribute to the management of the charity and ensure that it is managed in accordance with its governing document and general law. All charities should have appropriately tailored internal policy documents which address the specific risks associated with the kind of activities that are undertaken. Trustees should ensure that these policies are implemented and reviewed at appropriate junctures. A failure to implement internal policy documents could be evidence of mismanagement in the administration of the charity and can put assets, beneficiaries and a charity's reputation at risk.