

Inquiry Report

Life Changing Ministries International Church South Cheshire Trust

Registered Charity Number 1065192



A statement of the results of an inquiry into Life Changing Ministries International Church South Cheshire Trust (registered charity number 1065192).

Published on 14 November 2014.

The Charity

1. Life Changing Ministries International Church South Cheshire Trust ('the Charity') was registered as a charity on 31 October 1997. It is governed by a declaration of trust dated 7 September 1997.
2. The Charity's objects are:
In Cheshire and in such other parts of the United Kingdom or the world
 - a) To advance the Christian faith
 - b) To relieve persons who are in conditions of need or hardship or who are aged or sick and to relieve the distress caused thereby
 - c) To advance education in accordance with Christian principles
 - d) To promote and fulfil such other charitable purposes beneficial to the community
3. As stated in the Charity's annual return for 2013 the Charity undertakes international Christian missions offering Christian ministerial support around the world. Within the UK the Charity networks churches with Pentecostal Holiness Vision - teaching and building up church members in line with the scriptures authorised by the British monarch James and in doing this upholding within the nation Great Britain's constitutional Acts of 1534, 1689 and 1700 and the Queen's Coronation Oath of 1953, all of which are still valid today.
4. Details of the Charity can be found on the register of charities.

Background and issues under investigation

5. In February 2012 the commission received an anonymous complaint from a member of the public alleging that trustees of the Charity were personally benefiting from the Charity's funds. On its own an anonymous complaint unverified by other sources may not have lead the commission to take regulatory action. However, due to the nature of the concerns raised, the commission examined the Charity's report and accounts for the financial year ending 30 April 2011. These showed that the independent examiner of the accounts had concerns about possible unauthorised trustee benefits. These accounts also noted that the Charity's income included a donation of £50,000 from the 'proceeds from sale of a gifted property'.
6. The commission then engaged with the Charity through an operational compliance case about the possible trustee benefits and a concern that a property owned by the Charity was sold to a trustee. During the course of this engagement the commission identified that a loft conversion at a property owned by two of the trustees had been paid for from the Charity's funds.

7. The trustees failed to address the commission's written questions in a full and frank manner and so the commission pursued the issues by way of meeting. The trustees disagree with the commission on this point and state that:

"The trustees have shown great willingness with the commission at great personal expense and devotion particularly relevant as the commission dealing with not only unpaid volunteers but also volunteers who have contributed massively into the cause."

The trustees declined two requests for a meeting, one at the commission's offices and then at the Charity's premises. On the first invitation as some of the trustee body were suffering from ill health a meeting was not possible at that time. In response to the second invitation the Charity chair stated that the trustees agreed "a meeting with you [the commission] in Liverpool is not something we are led to at this time."
8. As a result, on 2 October 2012 the commission opened a statutory inquiry ('the Inquiry') into the Charity under the then section 8¹ of the Charities Act 1993 ('the Act'). The inquiry closed on 14 November 2014 with the publication of this report.
9. The Inquiry was opened to investigate and resolve the following key issues:
 - whether a property was gifted to the Charity and subsequently sold to a trustee without complying with charity law and/or the Charity's governing document
 - potential receipt of unauthorised trustee benefits
 - the management of conflicts of interest and whether the decisions taken by the trustees were within the range of reasonable decisions open to the trustees to take
10. In the course of its enquiries the Inquiry discovered that a payment of £95,000 was made into a bank account in the name of Life Changing Ministries Trading Limited (registered company number 04607412), a private company. This issue was also investigated as part of the inquiry.

Findings

Whether a property was gifted to the charity and subsequently sold to a trustee without complying with charity law and/or the Charity's governing document

11. The initial complaint received by the commission alleged that the Charity was bequeathed a property and that the property was subsequently sold to a trustee of the Charity without complying with the relevant charity law requirements for disposing of charity property.
12. At the beginning of the investigation there was some confusion about whether the property had been gifted to the Charity and subsequently sold to one of the trustees. This confusion was caused by the information previously provided by the trustees to the commission regarding this transaction which was unclear and contained contradictory explanations. The trustees subsequently explained to the commission that the sale was a private transaction between the owner of the property and a trustee in their personal capacity. The trustees claimed the Charity itself was not a party to the transaction.

¹ Now section 46 of the Charities Act 2011.

13. In December 2012 the Inquiry team met with the trustees and conducted an inspection of the Charity's records ('the trustee meeting and records inspection'). After examining the information made available during the trustee meeting and records inspection the Inquiry found and verified the trustees' claim that the transactions that took place regarding the sale of the property were between private individuals (albeit that the purchaser was a trustee) and the Charity was not legally involved.
14. During the trustee meeting and records inspection the Inquiry found that the profits from the sale were subsequently donated to the Charity and that the mechanics of the sale were arranged so that the donation was made by the purchaser in order to claim gift aid on the donation. The commission was concerned as to the legality of this arrangement. Given these arrangements the Inquiry advised the trustees to consider obtaining independent professional advice as to whether gift aid was properly claimed by the Charity on this donation. As a result in a letter dated 28 February 2013 the trustees confirmed to the investigation that they had sought professional advice, self-reported the matter to HMRC and repaid the gift aid. The trustees have stated that they "are willing to repay the gift aid, on condition it is found out to be the legal requirement. However, the trustees remain to be convinced of this, as the [individual] concerned in this private arrangement agreed for the gift aid to be paid to the Charity". Consequently, the Charity's accounts for the financial year end 2013 detail gift aid repayable of £13,602 as falling due within one year.

Potential receipt of unauthorised trustee benefits

15. The Inquiry examined the transactions between the Charity and its trustees, particularly the payments to the chair and secretary, who are also husband and wife ('the Two Trustees'). The analysis of the Charity's bank accounts by the Inquiry was undertaken and identified that payments had been made jointly to the Two Trustees. They included payments of at least including £36,000 paid in March 2011, £18,000 in April 2011 plus a further £1,500 per month from April 2011 - April 2012. The amount totalled £72,000.
16. At the trustee meeting the trustees attributed these payments to the Two Trustees to cover expenses incurred in the running of the Charity from their private residential property ('the Property'). However, from the information examined, the Inquiry determined that the decisions taken to make the payments were not made in accordance with the Charity's governing document. The governing document provides that there shall be a quorum of one third of the trustees or two whichever is the greater. Only trustees who are not personally conflicted count towards a quorum. As a further two trustees were also living at the Property there were insufficient un-conflicted or independent trustees available to form a quorum to make the decision. Furthermore, the trustees were unable to produce adequate records documenting the decision to make the payments. The trustees disagree with the commission on this point and state that:

"All the trustees are open out together, our unity being in Christ first. Then an excitement comes over the trustees because of going the right way for we have all heard from God. The 'all' is important here because this is genuine unity from the heart."

The trustees also stated that:

"The narrow perspective of the founders [the Two Trustees] being out of the room when their expenses were discussed is in our view showing complete lack of understanding of the spiritual element of how the Charity has been run."

17. The Inquiry also established that the Charity had paid £28,287.63 for a loft conversion at the Property. The trustees told the investigation that the conversion had been for the purpose of creating a radio studio for use by the Charity. However, during the trustee meeting and records inspection, which was held at the Property, the Inquiry team was shown the converted loft. It was clearly being used as an additional bedroom and not as a radio studio.
18. As a result, in February 2013 the Inquiry made clear to the trustees it had found that that the payments to the Two Trustees for expenses of running of it were not properly authorised under charity law. The Inquiry advised that independent trustees should consider an expenses policy and what might be fair and reasonable expenses in connection with the use of the Property. It also made it clear that it was not satisfied that evidence had been provided that the payments were properly made nor authorised and that the sum of £72,000 should be repaid to the Charity by the Two Trustees. The letter also pursued the issue of expenditure of £28,287.63 for the loft conversion and whether it furthered the purposes of the Charity. As the conversion was made to a privately owned property, the Inquiry advised professional advice should be sought to determine the best way to secure the use of the Charity's capital on the Property's development.
19. On 27 February 2013 the trustees confirmed they would seek repayment of the unauthorised trustee payments from the Two Trustees. Although the requested clarification regarding the loft conversion was not provided, the trustees confirmed that the charitable funds spent on the conversion would also be repaid by the Two Trustees.
20. In April 2013, the Inquiry was advised that the repayments being delayed as these were to be funded from a substantial inheritance due to one of the Two Trustees.
21. On 6 November 2013 the Inquiry received satisfactory evidence from the trustees that on 24 July 2013 the sum of £72,000 was deposited into the Charity's account by the Two Trustees and that on the same date a further sum of £28,287.63 was also deposited into the Charity's account by them. This evidence was subsequently verified independently by the commission.

Diversion of funds from the Charity's bank account to a private company

22. When the Inquiry was verifying the repayment of the unauthorised benefits it became aware that on 5 August 2013 £95,000 was paid in to a bank account in the name of Life Changing Ministries Trading Limited (registered company number 04607412), a private company which appeared to have no legal connection to the Charity, albeit the signatories to the account were the Two Trustees.
23. On 24 April 2014 the Inquiry issued an order in accordance with section 47 of the Act directing the trustees to provide an explanation as to why they had decided to transfer £95,000 into a bank account in the name of the private company.
24. On 22 May 2014 the trustees advised the Inquiry that the payment made to the private company was made as a result of a clerical error on their part caused by a lack of distinction between each entity's account on the online banking service provided by the Charity's bank. Documentation was also provided evidencing that the money had been returned to the Charity's account.

The management of conflicts of interest and whether decisions taken by the trustees were within the range of reasonable decisions open to the trustees to take

25. Having examined the information provided to the Inquiry by the trustees in correspondence, during the trustee meeting and records inspection, the Inquiry found that conflicts of interest had not been appropriately avoided or managed and also identified that some decisions taken by the trustees may not have been within the range of decisions a reasonable body of trustees could reach in furtherance of the Charity's purposes and in the best interests of the charity.

Conflicts of interest

26. It appeared to the Inquiry from the information it considered that the trustees did not fully understand what it meant to comply with their duty to manage conflicting interests within a charity. For example in a letter dated 11 June 2012 the trustees stated that they did not:

"... accept [the commission's] premise that there have been several decisions that relate to transactions with trustees."

However, the Charity's accounts for the financial year ending 2011 clearly state that the Two Trustees and a former trustee of the Charity all entered into transactions with the Charity. Furthermore, the minutes of a meeting of the Charity trustees dated 2 October 2012 state:

"How can there be conflicts of interest when the trustees are giving in more than they are taking out?"

27. In relation to the payments to the Two Trustees it was unclear to the Inquiry, having reviewed the information it had, how the trustees who were not conflicted reached the decision that £1,500 per month was a proper and reasonable sum to cover the cost of the Charity's use of the Property or how the sum of £54,000 paid in two lump sums was calculated.
28. The payments were defective because of the failure of the trustees to comply with the duty to avoid conflicts and comply with the governing document. In its letter of 7 February 2013 the Inquiry recommended that the Charity put a written expenses policy in place to be applied in the decision making process in order that this can be addressed in the future.

Financial controls and decision making

29. During the trustee meeting and records inspection the Inquiry reviewed all the Charity's accounting records from 2008/09 onwards. The Inquiry found that the Charity's income was mainly received from offerings from the congregation and trustees, and the Charity's expenditure was mainly for the use of the Property, travel and subsistence expenses, printing costs and the purchase of electronic equipment.
30. The Inquiry determined that the Charity regularly operated beyond its means and relied on credit obtained from credit cards and loans from the trustees in order to fund and continue its activities. The Inquiry was concerned that prudent budgeting techniques were not employed in spite of apparent cash flow difficulties giving rise to the reliance on credit cards and trustee loans. With specific regard to trustee loans, during the records inspection no formal agreements setting out the terms of the loans or any policies or paperwork for dealing with repayments and requests for repayments were evident.
31. The approach adopted by the trustees with regards to travel and subsistence expenses appeared to be on an informal basis with no evidence of a policy or procedures in place regulating claims, limits or authorisation. It was therefore difficult for the Inquiry to establish whether the claims were reasonable and legitimate and in accordance with the charity's procedures.

32. The Inquiry also established that cash offerings from the congregation would often be kept by the Two Trustees and bank transfers made from their personal account to the Charity, instead of depositing the funds directly.
33. In the letter to the trustees of 7 February 2013 the Inquiry advised the trustees that when loans were arranged the liabilities of the Charity are increased and therefore the trustees must ensure that funds are managed with due care to ensure that the Charity will be able to repay the loans as they fall due. The Inquiry recommended that the Charity adopting procedures covering who, how and when loans are repaid. This would be both transparent to those lending money and would assist the Charity in maintaining a record of loans received and outstanding. The Inquiry also recommended the Charity avoid borrowing money from the trustees all together and avoid paying for Charity expenses from private finances and claiming them back, as these practices confuse the distinction between the Charity's finances and the personal finances of the trustees.
34. The Inquiry was kept open and it monitored compliance with advice given to the Charity. The Charity's bank statements for the period February 2013 - December 2013 found that the Charity continued to regularly use credit cards and transfers made both to and from the private bank account of the Two Trustees, contrary to the commission's regulatory advice.

Conclusions

35. The initial concerns that a property was gifted to the Charity and subsequently sold to a trustee in a breach of charity law requirements was not substantiated. The Charity was not a party of the transaction. The commission advised the trustees to consider obtaining independent professional advice as to whether gift aid was properly claimed by the Charity on a donation made to the charity by the purchasers of the property, which they did. The Trustees have stated that they "are willing to repay the gift aid, on condition it is found out to be the legal requirement. However, the Trustees remain to be convinced of this, as the [individual] concerned in this private arrangement agreed for the gift aid to be paid to the Charity".
36. Two Trustees did receive unauthorised benefits. The Inquiry was not satisfied that evidence had been provided that payments were properly made nor authorised. As a result of the commission's regulatory intervention the funds amounting to £100,000 were repaid in full to the Charity.
37. The trustees did not understand, identify or properly manage the conflicts of interest, although the trustees disagree with this. The Charity was operating beyond its means relying on credit and loans to continue to operate and did not have proper or adequate financial controls in place. Charity funds were being banked in personal accounts, instead of directly in the Charity's account. The trustees failed to take action to remedy the regulatory concerns, as a result of which the commission exercised its powers to direct the trustees to take action.
38. The commission acknowledges that during the Inquiry the trustees cooperated with the Inquiry team and sought independent professional advice to assist them in addressing the regulatory concerns identified.

Regulatory action taken

39. After the opening of the Inquiry and a period of engagement with the trustees obtaining further information and clarification, the commission conducted a meeting with the trustees on 10 December 2012 and a records inspection took place on 11 December 2012.
40. On 24 April 2014 the Inquiry issued an order under section 47(2)(a) and (b) of the Charities Act 2011 directing the charity to provide certain information relating to the diversion of funds from the charity's bank account to a private company.
41. On 24 April 2014 the Inquiry issued an order under section 84 of the Charities Act 2011 directing four actions by the trustees expedient in the interests of the Charity, to:
 - 1) seek repayment of the Charity's funds held in any bank accounts not in the name of or belonging to the Charity
 - 2) review the financial controls in place at the Charity and any ensure they are fit for purpose
 - 3) review any loans currently outstanding and ensure they are suitably documented
 - 4) review all credit arrangements the Charity has in place
42. The Inquiry continued to engage with the trustees over the subsequent months and on 11 June 2014 the Inquiry held a further meeting with the trustees to ensure they fully understood the order and directions issued by the Inquiry and to ensure and assess the progress made by the trustees.
43. The Inquiry is satisfied that action 1 of the section 84 order has been complied with and charitable funds are now held within bank accounts under the Charity's control.
44. With regards to actions 2-4 on 26 May 2014 the Inquiry received new draft financial procedures from the trustees. Although further detail needs to be added to these policies the Inquiry is satisfied that steps are being taken to strengthen the administration, governance and management of the Charity, including the management of conflicts of interest.
45. During 11 June 2014 a meeting, held with the trustees² to ensure they fully understood the terms of the order and ensure and to assess their progress, the trustees confirmed that the Charity has no credit card debt, no outstanding trustee loans or any other creditors. This was verified by the Inquiry and the trustees were advised once again that if the Charity does not have the income to sustain its activities then the trustees should review the activities it is undertaking and scale back accordingly. This was acknowledged and understood by the trustees present at the meeting.
46. The Charity will now be placed in monitoring to continue to check progress and compliance by the trustees. The commission may consider visiting the Charity again in 9-12 months' time to assess the progress it has made in implementing the new policies.

² The commission notes that during the course of the Inquiry the makeup of the trustee body has changed. 3 trustees resigned and 6 new trustees have been appointed bringing the total number of trustees to 9.

Issues for the wider sector

47. Trustees must act only in the best interests of the charity; and actively manage any conflicts of interest. They should step back from or avoid any situation where a conflict exists or is likely to arise if it is clear the conflict cannot be adequately managed, even if this means, for example, that additional disinterested trustees are appointed or that the affected trustees resign. Conflicts of interest are more likely when there are only a small number of trustees on the board, when trustees are closely related or when the charity has dealings with businesses in which the trustees have interests. It is vital that trustees avoid becoming involved in situations in which their personal interests may be seen to conflict with their duties as trustees. The trustees should put in place policies and procedures to identify and manage such conflict.

48. Further information on **Conflicts of interest** is available on GOV.UK.

Trustees must ensure that their charity has adequate financial and administrative controls in place, and that they comply with their statutory obligations to maintain the accounts and records of their charity. Trustees should not only ensure that financial controls are put in place but also that sufficient information is reported back at trustee meetings to satisfy them that the controls are being properly observed.

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.