

## Step Out Drop In Ltd

Registered Charity No: 1070687

### Introduction

1. This report is the statement of the results of an inquiry conducted under section 8 of the Charities Act 1993.
2. Step Out Drop In (SODI) is a company governed by a Memorandum & Articles of Association and was registered as a charity on 24 July 1998.
3. The object of the charity is the relief of poverty and distress among young people resident in the area of benefit and in particular the provision of accommodation and a bond guarantee scheme for young people who are homeless or facing the threat of homelessness and the provision of education training and advice to young homeless people.
4. The charity operates in Redditch and the surrounding areas. In the year ending 31 March 2003 the charity's income was £264,440.

### Issues

5. The Commission's internal monitoring procedures identified that the charity had not submitted its accounts, annual return or trustee annual report for the financial year ending 31 March 2003.
6. An inquiry opened on 5 August 2004, to look into the above concerns.
7. During the course of the Inquiry the Commission received information in confidence which raised concerns about the absence of proper financial controls, the proper application of charitable funds and the management and control of the charity.

### Findings

8. During the course of the Inquiry the charity submitted their 2003 accounts. They had failed to be audited and were non-SORP compliant. The accounts contained misleading information stating that funds to the value of £134,000 were held in reserve where they had actually been expended towards purchasing and refurbishing a property.
9. In the course of undertaking its activities SODI had incurred substantial debts. The trustees had failed to identify how the operating deficit would be funded, either in the short term or in the future

10. A non charitable company [REDACTED] had been set up by the trustees and funds transferred from the charity to the [REDACTED] account. The trustees were unable to specifically identify how such transfers were in furtherance of the charity's objects. No remuneration had been received or paid. It was possible that [REDACTED] would be carrying out charitable activities, but the trustees had not properly identified how it would operate.

11. The trustees planned to convert [REDACTED] to a Community Interest Company and transfer the majority of SODI activities and staff to it. The directors of [REDACTED] were considering taking remuneration for their directorship of the company. The directors of [REDACTED] were [REDACTED] and [REDACTED]

12. The financial records and bank statements were maintained and kept by [REDACTED]. The trustees did not have in place any system of checks or controls. The Commission found that payments had been made in favour of [REDACTED]

13. The trustees had failed to adequately manage the charity's internal financial controls and were unable to explain some payments made. It was found that cheques were being signed solely by [REDACTED] for expenditure above £500. This was in breach of the bank mandate. [REDACTED] had also solely signed cheques where [REDACTED] was the recipient of the funds.

14. [REDACTED] explained that the payments were in lieu of outstanding salary and bonus awards owed and as such had authorised [REDACTED] own payments. The Commission found that the PAYE records were complete indicating that the correct salary payments had been made, although this was not the view taken by [REDACTED]

15. [REDACTED] benefited through the lease of two cars paid for by SODI. Although [REDACTED] had agreed to repay the cost of one car [REDACTED] to the charity each month, there was no evidence to identify any repayments.

16. The trustees failed to effectively monitor expenditure.

## Outcome of the Inquiry

17. In order to protect the assets of the charity, the Commission issued an Order under section 18 of the Charities Act 1993, to prevent any further payments or transactions between the charity and the non-charitable company, [REDACTED]

18. To ensure the proper administration of the charity, the Commission by Order under section 18 of the Charities Act 1993 appointed two additional trustees.

19. Following recommendations made by the Commission the trustees undertook a full management and services review. Following the review more stringent financial controls were

Introduced. A number of apparently unauthorised payments to [REDACTED] were identified by the trustees. Steps are being taken to recover these apparently unauthorised payments made.

20. Owing to the substantial debts incurred by the charity the trustee body sought the appropriate professional advice. In order to consider the current and future financial viability of the charity and in accordance with standard practices in the main funder's (Supporting People) procurement policies, the contract was not transferable without a proper tender process. Redditch Borough Council are in the process of identifying alternative housing for tenants at South Street, Redditch.

21. The trustees have applied for voluntary liquidation of the charity

22. The Inquiry closed on 2nd November 2005.

## Wider Lessons

24. Trustees are responsible for the overall management and administration of the charity. They should ensure that financial controls are not only adequate but provide sufficient information to satisfy the trustees that the controls are being observed. No employee should be put in a position where he is able to authorise expenditure for his own benefit.

25. Trustees of charities which experience change and growth should ensure that their governance frameworks and infrastructures remain appropriate for the efficient management of their charities' activities. The expertise of the trustee body should, as far as possible, reflect the nature of the charity's work as well as more general areas such as financial and administrative skills.

26. The trustees of some charities, because of the scale or nature of the work of the charity may, of necessity, have to delegate to employees decisions on day-to-day management matters. Part of the role of trustees is to provide objective scrutiny of [REDACTED]. In these circumstances the scope of the delegated authority must be clearly laid down in writing and instructions given for decisions on important matters to be reported to the trustees. However, the trustees remain legally responsible and must supervise and control the work of the employees.