

Madni Trust

Registered Charity No. 1022471

Introduction

1. This is a statement of the results of an inquiry under section 8 of the Charities Act 1993.
2. Madni Trust (the charity) was registered on 9 June 1993. Its objects are:
 - to advance education by establishing educational institutes and by providing funding for impoverished students to attend these or other educational institutes;
 - to relieve persons who are dependent on or affected by addiction to drugs or suffering from drugs related illness;
 - to advance education concerning the use misuse and effects of drugs; and
 - to advance education concerning ecology natural resources and other environmental issues.
3. The charity, which is based in Nottingham, is governed by a trust deed. Its income for the financial year ending 31 August 2004 was £1,661,235.

Background and Issues

4. Trustees of every registered charity with an annual income or expenditure of more than £10,000 are required by law to complete an annual return and submit it to the Commission, together with the charity's accounts, within ten months of the financial year end. Despite reminders, the trustees had failed to comply with this requirement.
5. The Commission carried out a Review Visit to the Charity in 2003, and had advised the trustees to address a number of concerns identified. One of the concerns was in relation to a residential property owned by the Charity but occupied by [REDACTED] [REDACTED] was paying rent to the Charity, but no professional advice had been taken as to what was an appropriate level of rent, and there was no formal tenancy agreement in place between [REDACTED] and the Charity.
6. In 2004, the Commission asked the trustees to provide information about the progress they were making to address the concerns identified during the Review Visit. However, despite a number of reminders the trustees failed to respond. The Commission therefore decided to open a formal inquiry, on 25 August 2004, to look into the matter more closely.

Conduct of the Inquiry

7. The majority of the charity's activities are concentrated on providing education, which it achieves by operating a girls' Islamic school in Nottingham and a boys' Islamic school in Sheffield. The school at Sheffield was purchased in 2001 and was, at that time, in a poor state of repair. Substantial improvement works were carried out, after which educational courses began in September 2002. The girls' school has been operating for approximately five years. The charity also supports a school in Kashmir, where it is hoping to help fund a new college.

8. At the beginning of the inquiry, the inquiry officer carried out an inspection of the charity's financial books and records. This raised a number of concerns, one of which was the large volume of cash payments. It was therefore decided that the scope of the inquiry should be widened in order to examine the general operation of the charity, the reasons for the cash payments and the internal financial controls.

9. In January 2005 the inquiry officer attended a meeting with the trustees at which they were invited to respond to the Commission's concerns. The trustees were asked why the charity made so many payments in cash rather than by cheque or electronic transfer. The trustees explained that they relied heavily on volunteers to run their home learning courses, and that they paid volunteers' fixed expenses by cash. They also stated that volunteers frequently use their own money to buy groceries and other small purchases, and then apply, at irregular intervals, for reimbursement by means of a single cash payment. The trustees said that they had receipts covering all expenses and would be happy to provide them to the Commission for inspection.

10. The inquiry officer asked why reimbursement of expenses was made in cash rather than by cheque. The trustees explained that they did not consider it fair for employees or volunteers to have to wait for cheques to be cleared, and in any case many of the staff and volunteers did not have bank accounts. The trustees also explained that within their organisation and community people predominately prefer to deal in cash. Whilst noting the trustees' response, the inquiry officer stressed the need to maintain a clear financial audit trail and pointed out some of the risks inherent in handling large numbers of cash transactions.

11. The trustees were asked to explain why volunteer expenses had increased from some £23,000 in 2002 to more than £82,000 in 2003. The trustees explained that the number of home study courses being undertaken had risen considerably since 2003, and that the charity relied heavily on volunteers to run them. The trustees were also asked why they paid a set amount of £1250 per year for expenses (equivalent to £125 per month over a ten month period), rather than paying against receipts for expenditure. They explained that due to the high number of volunteers it would be administratively difficult to introduce such a system, and they consider the existing arrangements to be fair. The trustees stated that the charity's auditors had indicated that they were happy with the arrangement.

12. With regard to the late submission of accounts, the trustees explained that the charity was involved in a dispute with an educational institution over outstanding funding, and this has proved very demanding on their time and the charity's resources. It had also affected their ability to ensure that the accounts were submitted on time. The trustees at this point did advise that they intend to change the charity's financial year end to 31 August so as to bring it into line with the educational year end.

13. At the conclusion of the meeting, the inquiry officer again stressed the need to reduce greatly the volume of cash payments made. The trustees accepted this and confirmed that the auditor had also given the same advice, especially in light of the anti-money laundering legislation under the Proceeds of Crime Act 2002 .

14. During the course of the inquiry, the inquiry officer visited both the Sheffield and Nottingham schools. It was noted that substantial refurbishment had taken place at Sheffield, and further significant work is still required.

15. At Nottingham, the inquiry officer was given the opportunity to inspect the charity's books and records and assess changes that had been introduced since the previous inspection. A Commission accountant accompanied the inquiry officer and provided detailed advice on the changes that should be introduced in order to improve the internal financial controls.

16. The inquiry officer, again accompanied by a Commission accountant, held a meeting with the charity's auditor. The auditor advised that there had been a large reduction in the volume of cash payments made in the previous six months, and that the trustees had arranged wherever possible for wages to be paid by electronic means or by cheque. The auditor also confirmed that volunteer expenses had reduced in 2004 to under £4,000, and that he had advised the trustees that they should review the 'fixed amount' arrangements for the payment of expenses.

17. The trustees provided copies of school inspection reports from other government bodies, details of arrangements for putting work out to tender and lists of contractors that the charity has used in recent years.

Findings and Outcome

18. The outstanding accounts have now been submitted and the Commission has been assured by the trustees that this will in future be treated as a priority.

19. The charity has reduced the use of cash payments to acceptable levels, as evidenced by bank statements.

20. The Commission is satisfied that the trustees have strengthened their internal financial controls and implemented the advice they have received from their auditors and from the Commission.

21. The charity's practice of paying volunteers a fixed amount has been replaced by a system under which payments are made only on production of receipts.

22. The number of payments to volunteers has dramatically reduced because they no longer carry out home learning courses.

23. With regard to the matter of [REDACTED] living in the charity's property, the trustees have agreed to take professional advice on drawing up a proper agreement. They have also agreed to seek formal authority from the Commission; this is necessary because the arrangement constitutes a disposal of charity land to a connected person. Before giving approval, the Commission will consider whether the arrangement is in the interests of the charity.

24. The trustees were informed that the Commission will contact them to review their progress in adopting the various improvements in the administration of the charity.

25. The inquiry was closed on the 3 November 2005.

Wider Lessons

26. Charity trustees are jointly responsible for submitting their charity's accounts, reports and returns on time. They must also ensure that the charity's internal accounting systems and administrative procedures are adequate and remain fit for purpose.

27. It is the duty of all charity trustees to protect the property of their charity, and to secure its application for the charity's objects. In order to discharge this duty it is essential there are proper controls over the charity's assets and their use.