

West Riding Masonic Charities Limited

Registered Charity.No. 212073

Introduction

1. This is a statement of the results of an inquiry under section 8 of the Charities Act 1993.
2. West Riding Masonic Charities Limited ("the Charity") is constituted as a company and governed by a memorandum and articles of association. It was incorporated in 1945 and registered as a charity in 1963. The Charity's object, in summary, is to collect donations and to apply them for charitable purposes either directly or through other charities, including other Masonic charities. The directors are the Charity's trustees, and are responsible for its proper management and administration.
3. The Charity's income in the financial year ending 30 September 2004 was just over £900,000.

Issues

4. In June 2002 the Commission received a complaint alleging that there had been financial mismanagement within the Charity and misappropriation of its charitable funds. A meeting was held at which the complainant produced documents which, in [REDACTED] view, substantiated the allegations. In particular, it was alleged that the Charity's funds had been used to subsidise the administrative expenses of the Masonic Province of Yorkshire, West Riding ("the Province").
5. The Commission also received complaints, together with documents, from two other sources. The allegations were similar in nature to those from the first complainant. In October 2002, after careful evaluation, the Commission decided to open a formal inquiry in order to examine:
 - the relationship between the Charity and the Province; and
 - the way in which administrative expenses, including staff costs, were allocated between the two organisations.
6. The inquiry established that the Charity and the Province operate from the same premises and have for many years shared administration costs. In 1998 a formal agreement was reached under which the Province would pay all of the administration costs and recharge a fixed annual fee to the Charity, reviewable every three years. The amount recharged was calculated by the Province and was the Province's assessment of the costs attributable to the Charity.

7. The complainants contended that the amounts charged by the Province to the Charity were disproportionately high, and that the apportionment of staff costs in particular was unfair to the Charity.

Findings

8. The inquiry found that in 1999 the trustee responsible for preparing the Charity's annual accounts had expressed concern about the level of recharged expenses. As a result, the Charity's trustees decided to introduce a series of cost-saving measures.

9. In early 2002, the United Grand Lodge of England (the governing body for Masonic Provinces in England) commissioned a review of the accounts of the Province and the Charity in order to determine the basis upon which the recharges had been calculated. The review was conducted by a Mason from another province who was a chartered accountant.

10. The review concluded that the method of calculating the recharge had not resulted in any overcharge by the Province to the Charity, and that the apportionment of costs had been made on as accurate a basis as possible.

11. During the course of the inquiry, the Commission inspected the Charity's financial records and interviewed members of staff. The inspection and interviews revealed:

- inaccuracies in the number of staff recorded as employed by the Charity, as opposed to the Province;
- inconsistencies in the way in which expenses such as rent were recorded;
- a lack of clarity in the separation of administrative functions between the Charity and the Province; and
- uncertainty amongst employees about who was responsible for certain administrative tasks and how their time was to be allocated between the Charity and the Province.

12. The inspection also revealed that prior to the introduction of the formal recharge agreement in 1998 the payment of expenses was on a purely ad hoc basis and their allocation did not appear to have been subject to any independent checks.

13. The Commission's inquiry team noted that prior to the recharge agreement the Charity had paid a significantly higher proportion of shared costs than the Province. Since the agreement, however, the Charity's share is much less than that of the Province.

14. The inquiry also found that the Charity's auditors had not expressed any view as to whether the amount recharged by the Province was reasonable; nor did they check its calculation. They considered this to be the responsibility of the Charity's trustees and the Province's auditors.

15. The inquiry found no evidence that charitable funds had been misappropriated. However, the system for allocating administration expenses between the Charity and the Province was inadequate prior to 1999, and this may have resulted in the Charity paying more than its fair share at times.

Outcome of the Inquiry

16. Although the trustees do not accept that the Charity has paid more than it ought to have, the management Board of the Province decided to make an ex gratia payment of £50,000 to the Charity, and to pay the legal and accountancy costs incurred by the Charity during the course of the Commission's inquiry.

17. It is acknowledged that there remains a risk of unfairness to the Charity in relation to the fixed annual fee because although the amount is agreed between the Charity and the Province it is based on the Province's calculations. Furthermore, there is a clear possibility of conflict in that some trustees of the Charity also sit on the management Board of the Province.

18. In order to address these concerns, the Charity and the Province have agreed that the apportionment of expenses under the recharge agreement will be reviewed annually by the Charity's auditors and reported in the Charity's published accounts. The Charity's trustees will examine the auditors' report critically in order to satisfy themselves that the level of the recharge represents good value for money.

19. The Charity's auditors have also recommended that the trustees should look into the feasibility of establishing independent administrative arrangements for the Charity, not involving the Province.

20. The Commission regards the steps taken as a satisfactory conclusion to the issues of past expenses and the calculation and apportionment of future expenses. It acknowledges that the trustees of the Charity have already put into place rules and procedures to manage potential conflicts of interest, and was also pleased to learn from the trustees that the United Grand Lodge of England has set up a committee to examine the findings of the inquiry and consider how best to promulgate the lessons learned. This would include the provision of guidance for provinces and their associated charities on the management of such conflicts.

21. The Commission's inquiry was closed in December 2004.

Wider lessons

22. Trustees are responsible for the proper control and management of their charity, including expenditure of charity funds. They should take steps to ensure that administration expenses are reasonable and, where there is a shared expenses arrangement with another organisation (whether or not it is a charity), that the amount paid is a fair proportion. The charity's

accounting system should be capable of demonstrating that the level of expenses is appropriate.

23. Trustees should bear in mind that when they are dealing with the business of the charity their overriding duty is to act in its best interests. There may be situations in which a trustee's loyalty to the charity conflicts with his loyalty to another body of which he is a member and with which the charity has a relationship. Such conflicts of loyalty will not necessarily prevent somebody from being a charity trustee, but they can result in conflicts of interest, and these have to be managed. Any trustee in such a position should read the Commission's leaflet 'A Guide To Conflicts of Interest For Charity Trustees', available on the Commission's website www.charitycommission.gsi.gov.uk