

Charity Fraud

A guide for the trustees and managers of charities

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A publication produced by 15 public, law enforcement and charity sector organisations:



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A publication produced by 15 public, law enforcement and charity sector organisations:



Introduction

Who is this guide for?

This guide is for the trustees and managers of charities. It is written to help charities prevent and detect fraud, and also provides information on what to do and where to report if fraud has occurred. This guide DOES NOT provide information for the public looking for guidance on making safer donations. To find information on donating securely, please see *Giving Safely: A guide to making sure your charitable donations really count*.

No sectors are immune to fraud and the charity sector is no exception. Charities that fall victim to fraud not only face monetary losses, but also have to consider the impact the fraud will have on their reputation and levels of public trust and confidence – and in turn the impact this may have on income and support for beneficiaries.

As a trustee you have overall responsibility for governance and for safeguarding charity assets. You should therefore be alert to fraud, understand what it is and how it may affect your organisation.

Taking a few simple steps can significantly reduce your chances of falling victim. Additionally having a clear plan of what to do if there is a suspected or actual fraud will ensure you are better equipped to deal with the incident and minimise any negative impact.

This guide provides an overview of the key aspects of charity fraud. There is a lot of guidance already available on fraud and navigating through various sources can be difficult. This guide pulls together guidance from the organisations named on the inside cover, including the Charity Commission, Fraud Advisory Panel and National Fraud Authority, for trustees and staff to use as a starting point.

This guide presents the need to know fraud issues, and signposts you to other sources for when further information is needed. These sources can be found in *italics*. If you are reading this guide online there will also be a link to the source. A full list of useful resources and contacts can also be found on page 33.

Most of the information in this guide is good practice advice, with the exception of text that has the **L** symbol next to it. In these cases, the use of letter **L** denotes legal or regulatory requirements which must be adhered to.

How much fraud is there in the charity sector?

Since 2010 the National Fraud Authority has published an *Annual Fraud Indicator* (AFI), which estimates the cost of fraud to the UK by sector. In 2012 the AFI estimated that fraud cost the UK £73 billion per year and of this, £1.1 billion was the estimated loss to the charity sector. While this is a sobering figure, the estimated percentage of charity turnover lost to fraud (1.7% of a £64.6 billion combined annual turnover) is broadly comparable to the private and public sectors.

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What is fraud?

Fraud can be broadly defined as any intentional false representation, failure to declare information or abuse of position, which is carried out to make gain, cause loss or expose another to the risk of loss.

1.1

What types of fraud are there?

A charity can fall victim to many different types of fraud, and methods are constantly evolving, supported by rapidly developing technology and increasing use of the internet. Fraud committed against charities can include:

Internal fraud, involving people within the charity – for example:

- Intercepted cash or cheque donations by an employee
- Misuse of charity credit cards
- Staff claiming false or inappropriate expenses

External fraud, where fraud is perpetrated outside of the charity, committed by people who are not directly involved. For example:

- False invoices to obtain money from the charity
- Identity fraud e.g. by hijacking a charity's bank account
- Phishing emails requesting confidential information from the charity which is then used by fraudsters to obtain funds illegally
- Unauthorised fundraising in a charity's name e.g. fraudulent disaster appeal websites

The *Charity Commission's Compliance Toolkit – Fraud and Financial Crime* has a comprehensive – although not exhaustive – list of the types of fraud a charity could fall victim to, as well as tips on how to prevent these types of fraud.

1.2

Why might charities be attractive to fraudsters?

Fraud occurs across all sectors of society, however charities can be attractive to fraudsters and viewed as an 'easier target.'

Some possible reasons for this are that charities:

- **Have high levels of public trust and confidence.** Fraudsters know that working or appearing to be associated with a charity can give credence and respectability to them or their activities.
- **Rely on the goodwill and support of employees and volunteers.** There might be the assumption that 'no-one would abuse a charity' and so warning signs are ignored or no strong financial controls implemented.
- **Lack the scrutiny and division of duties.** Some organisations tend to rely on a small number of employees, or on volunteers, to supervise the funds and assets of the charity. These arrangements may lack the internal controls and monitoring possible where duties are shared by a larger group of people.
- **Have high levels of cash income and also fluctuating income.** This may mean that suspicious transactions and financial trends are harder to identify.
- **Have arrangements where administrative and control functions are carried out by volunteers,** who can sometimes be less easy to hold to high standards of performance than paid staff.

1

What is fraud?

The legal framework – what is required of trustees by law?

2.1

What is required of trustees by law?

Charity trustees have ultimate responsibility for directing the affairs of a charity, and ensuring that it is solvent, well-run, and delivering the charitable outcomes for the benefit of the public for which it has been set up.

Trustees also have a legal duty to safeguard their charity's money and assets and to act prudently. This means that as a trustee, you have a number of responsibilities when it comes to your charity and fraud.

You must, therefore:

- Ensure there are appropriate internal and financial controls in place to make sure all funds are accounted for and spent in line with the charity's aims.
- Keep proper and adequate financial records for both the receipt and use of all funds together with audit trails of decisions made.
- Take any actions necessary to protect charity funds.
- Act responsibly and within the interests of the charity if fraud occurs. This includes reporting to the relevant authorities promptly where appropriate and ensuring the charity's funds are secure.

2.2

Are the steps I've taken enough?

As a trustee, you must be able to demonstrate that you have acted in the best interests of your charity and have taken appropriate steps to protect against fraud. However, what constitutes appropriate action depends on individual circumstances – the key point is that actions taken should be proportionate and reasonable to ensure that your duties as a trustee have been met.

Whatever your charity's size and circumstances, you will need to be able to explain what you did (or did not do) and show that this was reasonable and in the best interests of the charity should fraud occur.

What practical steps can be taken to help prevent fraud?

3

3.1

Introduction

Many effective measures to help prevent fraud can be implemented easily and with little or no cost by trustees, employees and volunteers.

As well as reducing the likelihood of fraud happening, robust anti-fraud measures – like the ones listed here – send out a strong message and can act as a deterrent to would-be fraudsters.

This chapter sets out a number of anti-fraud measures. Not all of these measures will be necessary or relevant to every charity. As a trustee you will need to use your judgement and knowledge of the charity to decide which ones are appropriate and proportionate.

Any anti-fraud measures adopted should be flexible enough to cope with change and regularly reviewed to ensure that they remain fit for purpose.



Checklist:

To help prevent fraud and make your charity more alert to the risks:

- **Instil a culture of ethical behaviour** throughout your charity.
- **Develop an anti-fraud policy.** This is a formal written document to plan out actions and responsibilities.
- **Understand your risks.** Take regular assessments of the risks your charity might be exposed to.
- **Implement robust financial controls** and reinforce the importance of these. Use the Charity Commission's CC8 guidance and checklist for reference.
- **Ensure there are robust recruitment procedures.** Draw up a self-declaration form for staff and check references for new starters.
- **Encourage awareness throughout the charity** by communicating anti-fraud measures and training staff. Ensure specified staff have responsibility for fraud prevention policies.
- **Develop a whistleblowing policy.** It is important that staff know how to report concerns about fraud and to whom – and that this is encouraged.
- **Keep records of suspected and confirmed fraud.** The Charity Commission has a template recording tool to help you do so.

3.2

Instil a culture of ethical behaviour

Setting good standards of behaviour can help prevent fraud. The *Fraud Advisory Panel* has published a number of steps you can take to become a more ethical organisation, including:

- **Define honest behaviour** – set out and communicate clear lines of right and wrong
- **No blame policies** – A 'no blame' culture allows staff and volunteers to voice concerns
- **Promote fairness** – the positive effect of being treated fairly cannot be underestimated
- **Protect whistleblowers** – encourage staff and volunteers to voice their concerns without fear of reprisal

3.3

Develop an anti-fraud policy

An anti-fraud policy sets out the charity's position on fraud. It is good practice for every charity to document its stance on fraud risk management so that everyone is clear from the outset, even if it is just recorded in board minutes. It should also be communicated throughout your charity – an anti-fraud policy is no good if no-one is aware of it.

At the very least an anti-fraud policy should include:

- A statement setting out what fraud means within the context of your charity
- How your charity will respond to fraud
- Key responsibilities of senior staff and trustees in preventing and detecting fraud and in co-operating with any investigations
- How individuals can report concerns and suspicions of fraud

The Fraud Advisory Panel has produced guidance on preparing an *anti-fraud policy statement* and also a *template anti-fraud policy* which can be adapted to fit your charity. Also see the *Charity Commission's Compliance Toolkit – Fraud and Financial Crime*.

3.4

Assess your risks

The *Fraud Advisory Panel* recommends that you treat fraud as a business risk and undertake regular assessments of the types of fraud to which your charity is most exposed.

This does not have to be a complicated exercise – for smaller charities this can just mean spending time brainstorming with other trustees and staff. Consider the risks associated with, for example, your charity's activities, use of volunteers, banking procedures and methods of fundraising.

Once you have done a risk assessment for your charity, make sure you use the information you have gathered – introduce appropriate controls to address any weaknesses you have identified. These should be reviewed periodically. Changes to charity activity or staffing, for example, and new or emerging types of fraud can mean you are exposed to different risks.

The Charity Commission's *CC26 Charities and Risk Management: A Guide for Trustees* outlines the basic principles and strategies that can be applied to help charities manage their risk, as well as guidance on identifying risks. It also contains a useful risk register template.

3.5

Implement financial controls

Financial controls are one of the most important ways you can help protect your charity against fraud. They help you as a trustee meet your legal duties to safeguard the charity's assets, manage risk and ensure the quality of financial reporting.

The Charity Commission's guidance *CC8: Internal Financial Controls for Charities* contains advice covering internal financial controls over a wide range of financial activities. It is recommended that you use the accompanying *Internal Financial Controls for Charities Checklist* to implement and evaluate financial controls.

It is particularly important that there are robust controls in place where cash is being handled, for example during certain fundraising activities. A key resource for staff or volunteers who handle cash is the Institute of Fundraising's *Handling of Cash and Other Financial Donations* code of practice. The *Charity Commission's Compliance Toolkit – Holding, Moving and Receiving Funds Safely in the UK and Internationally* also has a section on managing cash.

Trustees should also ensure that, as a minimum:

- There is a **segregation of duties** for financial processes. While this can prove difficult for smaller charities, no individual should have sole responsibility for any single transaction – either making or accepting payments.
- **Basic records of all income and expenditure are kept**, as well as receipts, invoices and supporting documents.
- **Financial controls are not being overridden**, by-passed or ignored, whether by trustees, employees or volunteers – for example, by pre-signing blank cheques.
- **Bank statements and other accounts are regularly reconciled**, with spot checks carried out on books and records.
- **You lead by example**, by adhering to the charity's financial controls. The 'tone at the top' makes a difference and it is important that a culture of control is embedded in the charity's operations.
- A **review of financial controls** is carried out annually.



Basic financial controls

These are only a few of those listed in CC8 – does your charity...?

- Record all incoming cheques and cash immediately?
- Make regular checks to ensure income records agree with the bank paying-in books and statements?
- Ensure there is a practice of not signing blank cheques?
- Require at least two signatories on outgoing cheques?
- Enter details of all cash payments in a petty cash book, and ensure it is banked as soon as possible?

Take immediate action if the answer to any of these is 'no'.

3

What practical steps can be taken to help prevent fraud?

3.5

Implement financial controls (continued)

Trustees, as a body, are ultimately responsible for implementing and monitoring financial controls but can delegate some aspects of financial management to one or more trustees or employees. It is important to ensure that as trustees your decisions about financial controls and delegation are fully recorded.



Banking controls

Every charity should ensure it has robust banking controls in place. A good source of information is individual banks' websites – most have pages dedicated to hints and tips to help minimise your exposure to fraud. Basic banking controls include:

- Check statements carefully. In particular check all amounts you expect to see banked are indeed banked.
- Store statements and other financial documents safely and securely. For any documents that do not need keeping ensure you destroy them, preferably using a shredder.

- Sign any credit or debit cards as soon as they arrive.
- Ensure you know exactly which staff have access to charity accounts and that there are mechanisms in place for others to independently verify transactions.

Action Fraud has produced a *short leaflet on bank card and cheque fraud*, which includes information on the types of bank card and cheque fraud, how to report this type of fraud and how you can protect yourself against it.

3.6

Ensure robust recruitment procedures

For charities with employees or volunteers, it is essential that there are robust HR policies and procedures. The following measures may be helpful:

- A self-declaration form for staff to confirm that they do not have an unspent conviction for fraud, theft or other relevant offence.
- Consider performing a credit check (a check on an individual's financial background to see if there are any unfavourable circumstances e.g. bankruptcy) on employees or volunteers handling cash.
- Check all references for new staff.
- Set out anti-fraud policies and procedures in a staff handbook.
- Carry out a *pre-employment screening* for new staff. The Fraud Advisory Panel's fact sheet on pre-employment screening provides a comprehensive run down of what you need to check and how.
- Ensure certain standards are met when using volunteers, particularly in fundraising or other activities which entail using charity funds. See the Institute of Fundraising's *Volunteer Fundraising* code of practice for guidance.

3.6

Ensure robust recruitment procedures (continued)

'Fit and proper persons' test

You need to take particular care with people appointed as trustees, directors or other positions with financial control in the charity. This is not only because they have greater opportunity to commit fraud if they were so minded but also because they can impact on whether or not your charity is entitled to various tax reliefs such as Gift Aid. You should look at the HM Revenue & Customs *Guidance on the 'Fit and Proper Persons' Test*.

For more information on HR procedures, see the *Charity Commission's Compliance Toolkit – Fraud and Financial Crime*.



Preventing identity fraud

Charities need to be particularly aware of the risks of identity fraud. Most people are aware of the risks of having their own identity hijacked but the risks for charities can be greater.

- Check your bank accounts regularly – charity bank accounts often have frequent withdrawals and sums paid in by different people which can mean a fraudster who hijacks a charity's bank account can easily go unnoticed for some time.
- Ensure donor data such as names, addresses and bank details are stored securely and in accordance with data protection requirements – this information is valuable to fraudsters.

Some fraudsters obtain money by setting up a sham charity and fundraising (false disaster appeals for example), or collecting donations in an existing charity's name without their permission. Both crimes deceive the public and divert money away from genuine causes and charities.

- Be vigilant – look out for any unauthorised use of your charity's name or logo.
- Encourage donor awareness – signpost to the *Safer Giving Guidance* and ask regular supporters to look out for and report any fundraisers, fundraising literature or emails that appear suspicious.
- In some cases you can seek an injunction to prevent someone fundraising in your charity's name. For more information, see the Charity Commissions *CC20 Charities and Fundraising*.

3

What practical steps can be taken to help prevent fraud?

3.7

Encourage awareness throughout the charity

It is important that trustees, staff and volunteers are alert to fraud and understand their role in preventing it. This will help ensure that anti-fraud measures, such as financial controls, are adhered to and also make it more likely that any instances of fraud will be spotted and reported internally.

- Clearly **communicate fraud policies** and procedures to all staff, volunteers and trustees in meetings and perhaps as part of an induction programme for new staff.
- Appoint or designate staff to have **special responsibility for fraud prevention policies**. Ensure someone is accountable for keeping anti-fraud policies up to date and regularly assessing risks.
- Provide **appropriate training to employees and volunteers** to ensure they are familiar with the charity's financial controls, and know what to do if they suspect fraud has taken place.
- Ensure trustees, employees and volunteers are also **aware of any best practice guidelines and legal obligations relevant to their role** e.g. around handling donations or clothing collections. Adherence will help with fraud prevention and detection.
- Make risk assessment a **regular fixture on the trustee board meeting agenda**. This means that fraud will always be considered and ensure people always have an opportunity to raise a concern.

Ensure someone is accountable for keeping anti-fraud policies up to date

3.8

Develop a whistleblowing policy

It is important that all staff and volunteers know what to do if they have concerns about fraud. Let staff know that speaking up if they suspect anything is encouraged.

The Public Interest Disclosure Act 1998 protects those who make certain disclosures in the public interest; however it does not cover everybody – check the *Charity Commission guidance* for further information. It may be worth contacting or flagging to others the contact details for Public Concern at Work (for further details see page 33), which provides free advice to people who want to report wrongdoing in the workplace.

A whistleblowing policy covers issues that are broader than fraud related incidents – it should set out the procedures for when there are concerns about any type of crime. The *Charity Commission's Compliance Toolkit – Fraud and Financial Crime* recommends that it includes:

- Confirmation that the charity actively encourages its staff and volunteers to report concerns and suspicions about fraud, and that it will take them seriously.
- A statement on confidentiality/anonymity and support.
- Details of how to report concerns and advice for staff and volunteers on when to speak to a line manager or other senior staff.

3.9

Keep records of suspected and confirmed fraud

It is recommended that all instances of suspected and confirmed fraud are recorded. This will help your charity spot emerging patterns, identify areas of risk, measure losses and build an evidence base if fraud is confirmed as having occurred.

The Charity Commission has produced a *Fraud Recording Tool* – a template for recording and measuring suspected or confirmed instances of fraud. The Excel template is easy to populate and includes notes on how to use.

3

What practical steps can be taken to help prevent fraud?



Identifying fraud – what are the warning signs?

4

4.1

Introduction

The very nature of fraud means that it can be difficult to spot – methods vary widely and new technology is making fraud increasingly hard to detect.

In addition to keeping records of all suspected occurrences of fraud, discuss any concerns this identifies with other trustees or staff. Always encourage open discussion and questioning of such occurrences – if something doesn't look or seem right to the trustees then it should be investigated.

While there is no definitive list of things to look out for, the *Charity Commission's Compliance Toolkit – Fraud and Financial Crime* has a number of questions you might want to consider, a few of which are below. The Fraud Advisory Panel has also published a factsheet, *An Introduction to Fraud Indicators*, which outlines a number of 'red flag' indicators of internal fraud.

However – do remember that these are only warning signs. While you should not ignore warning signs they do not necessarily mean that fraud is occurring. It is up to you and the other trustees to decide how, and to what extent, you want to investigate, whilst being mindful of trustees' overall responsibility to safeguard charitable assets.

4.2

In accounting and transactions

Most fraud can be caught by a charity's internal controls or audit processes so make regular checks on accounts and records and look for the warning signs:

- Are there unusual discrepancies in accounting records and unexplained items on reconciliations?
- Have any documents or account books gone missing?
- Are there high numbers of cancelled cheques?
- Are common names unexpectedly appearing as payees?
- Are there any duplicated payments or cheques?
- Do transactions take place at unusual times with irregular frequency, unusual or 'round' amounts or to unknown recipients?
- Are suppliers regularly submitting electronic invoices in non-PDF format that can be altered?
- Are payments made to individuals or companies with family or business connections to a trustee, and perhaps authorised by that trustee? This might indicate collusion.
- Missing stock may indicate theft rather than fraud but should also be guarded against.

4.3

Behaviour of trustees, staff or volunteers

People commit fraud for a range of reasons – debt or greed, boredom, as a search for status or simply just through opportunism.

Be aware that any marked difference in someone's behaviour may be a factor to take into consideration when looking at other indicators that fraud has occurred.

- Are vague responses being given to reasonable and legitimate queries and/or are these queries being left unexplained, or taking a long time to resolve?
- Is there any reluctance to accept assistance with finances?
- Does anyone have control of a financial process from start to finish with no segregation of duties?
- Has the format of financial information presented to the trustee board suddenly changed or become more complicated and difficult to understand?
- Is anyone trying to delay work reviews or audits?

What should you do following an instance of fraud?

5

5.1

Introduction

How you respond to an actual or suspected fraud and follow it up is extremely important. Clear and positive action can help to minimise any negative impact – internally, on the charity's reputation and on beneficiaries.

This is a summary of the main steps to take. You may also want to review the *Charity Commission's Compliance Toolkit – Fraud and Financial Crime* which has a comprehensive list of actions to consider after a suspected or actual crime has taken place.

You may find it helpful to use this list of actions to develop a fraud response plan. This should outline how investigations will be conducted and by whom, the people and organisations that need to be notified, and the process for handling internal and external communications. Having clear pre-agreed guidelines for handling fraud will make things much easier for your charity. The Fraud Advisory Panel has produced guidance on preparing a *fraud response plan*.

How you respond to fraud is extremely important – clear and positive action can really help to minimise any impact. Below is a brief summary of what action you should consider.

Immediately	As soon as possible	Follow up
<p>Report the fraud</p> <ul style="list-style-type: none"> • Report immediately to Action Fraud • Consider whether necessary to report to the police, Charity Commission, HMRC or other appropriate body <p>Review security:</p> <ul style="list-style-type: none"> • Block access to office systems – e.g. change passwords • Recover charity property • Review financial and security controls 	<p>Develop a communications strategy</p> <ul style="list-style-type: none"> • Set out lines of communication; hold an emergency board meeting if necessary • Designate responsibility for communications – a single point of contact is good • Consider putting out a general statement to stakeholders • Seek legal advice if necessary 	<p>Assess the impact</p> <ul style="list-style-type: none"> • Depending on the scale of loss, carry out a financial impact assessment • Assess whether additional funds are needed to cover losses <p>Evaluate and act on lessons learned</p> <ul style="list-style-type: none"> • Review all anti-fraud, financial and HR controls to ensure they are robust
<p>Ongoing Keep trustees and staff informed</p>		

5

What should you do following an instance of fraud?

5.2

Immediate action

Report the fraud

Report to Action Fraud and consider whether you have a legal or regulatory obligation to report the fraud to an official agency – such as the Charity Commission, HM Revenue & Customs, the police or others (see chapter 6). Once you have reported a fraud, Action Fraud (or any other reporting agency) will be able to advise you on what steps your charity needs to take.

It may be that you will need to provide additional information to the police or other agency to support their investigations.

You should keep the rest of the trustee board informed about the investigations and also notify staff appropriately. You may not be able to tell staff the full details but they may have some awareness of the incident and therefore will want to know what is happening.

Review your security

- If investigations have resulted in the suspension or departure of a trustee or staff member, make sure they can no longer access office systems as a protective measure to safeguard the charity's assets – for example by changing passwords and cancelling any credit cards.
- Recover any charity property on loan to them (for example cars or computers) as soon as possible.
- Review financial and security controls to determine whether or not changes are needed to prevent further loss.

5.3

To do as soon as possible

Develop a communications strategy

- Set out lines of communication with other trustees and convene an emergency board meeting if necessary, ensuring that a record of decision making is kept.
- Set out a strategy for communicating information and agree who is responsible for doing so. Ensure that this complies with the law (for example, in relation to data protection) and protects the charity's reputation.
- Consider nominating one person as a single point of contact for the press and any enquiries. Ensure individual staff or trustees don't speak publicly about the fraud, or only do so within an agreed brief.
- Consider putting out a general statement to donors, funders and patrons – although do take legal advice before doing so.

5.4

Ongoing action

Keep trustees and staff informed

- Always keep the whole trustee board informed of developments and debrief staff appropriately.

5.5

Follow up

Assess the impact

- Depending on the scale of loss, consider carrying out a financial impact assessment to determine whether the charity is solvent and is able to meet its service delivery commitments.
- Decide how any financial losses will be accounted for in the annual accounts in consultation with your auditor or independent examiner.
- Assess the impact of the fraud on your charity's finances and decide if additional or alternative funding arrangements need to be made to address any shortfall.

Evaluate and act on the lessons learned

- Carry out a comprehensive review of fraud and financial controls to identify gaps or weaknesses, taking immediate action to correct these if necessary.
- Review and update HR procedures if appropriate.
- Put in place mechanisms to ensure there are periodic reviews of financial and security controls and HR procedures if they do not already exist.
- Consider if disciplinary action is appropriate for any remaining staff that may have breached controls.

5.6

Recovering losses – how do you get your money back?

Trustees have a duty to account for all charitable funds, which will mean giving consideration to recovering charity funds that have been misappropriated. However this does not mean every charity must take legal action to recover stolen funds. Sometimes the criminal case will include steps to seek to recover the proceeds of crime.

If the fraud relates to the use of bank accounts you might be able to recover the funds through your bank. Your bank will be able to provide more information on the likelihood of getting funds back and steps needed to do so.

In other cases, taking civil or other action is something for you and the other trustees to be aware of and consider. However cost will be an important factor when making any decisions – pursuing an action through the civil courts can be expensive and may not be cost effective.

Trustees should be aware that in some instances the Charity Commission's consent may be required in order for a charity to pursue litigation.

The Fraud Advisory Panel has produced a fact sheet, *An Introduction to Civil Asset Recovery*, for those wanting to know more about bringing formal proceedings against a fraudster.

5

What should you do following an instance of fraud?

Reporting fraud – where should you go?



6

6.1

Introduction

There is often a lot of confusion about where an actual or suspected fraud needs to be reported, or if in fact it needs to be reported at all.

Reporting fraud to the appropriate agencies is extremely important. Appropriate reporting helps to show you have fulfilled your duties as trustee and also helps to improve responses to fraud, by building intelligence.

This section will briefly outline the main agencies fraud can be reported to, and what you can expect to happen once you do. You may also want to consider whether you have an obligation to report to other regulators or membership bodies.

The chart on page 29 will help signpost you to the appropriate agency to report a fraud.

6.2

Action Fraud

It is recommended that you report incidents of fraud to Action Fraud, the UK's national fraud reporting centre and central point of contact for information about fraud.

- **Reporting fraud online.** You can report fraud safely by completing the online reporting tool available at www.actionfraud.police.uk.
- **Over the phone.** You can report fraud by speaking directly to specialist fraud advisors, by calling 0300 123 2040. They will also be able to give you help and advice about fraud.

When you report to Action Fraud, you will be provided with a crime reference number and a Crime Report will be submitted to the National Fraud Intelligence Bureau (NFIB) and may be forwarded to local law enforcement for follow-up.

Where a suspected fraud is reported, an Information Report will be submitted to NFIB. If you have submitted an Information Report and later find yourself to be a victim of fraud contact Action Fraud again to complete a Crime Report. They will then be able to cross reference this with information provided previously.

Unfortunately the police cannot investigate every Crime Report received from Action Fraud; it is however important that they are informed as the information you provide is vital in helping to fight fraud and gain an understanding of the true nature and scale of the threat. Police enforcement, prevention and disruption is based on reported crime and intelligence. Often the information given by individual victims of crime does not provide the whole picture but when added to other information they hold it might provide the breakthrough needed.

When reporting a fraud to Action Fraud, you can also choose to have your details passed to Victim Support, the national charity that helps those affected by crime.

6.3

Police

It is recommended that all fraud from the charity sector is reported to Action Fraud – if you are in doubt contact them for assistance. However if your report is urgent and involves a risk of immediate loss or harm then you should consider reporting it to your local police. If you require immediate police assistance you should always dial 999. All other matters such as theft should be reported to your local police.

To find the contact details and location of your nearest police station, see www.police.uk.

6.4

Your charity's bank

If the fraud relates to online banking, cheques or the charity's debit or credit card, or you suspect fraudulent activity on the charity's account, you should contact your bank or credit card company immediately.

Every bank's website will have a contact number for reporting fraud as well as a 24-hour emergency number (which can also be found on account statements).

The bank will cancel the affected cards, if applicable, and may freeze the account while they investigate. Depending on the circumstances the bank may reimburse your charity's lost money.

Remember to keep a record of all communication with the bank.

6.5

Charity Commission for England and Wales

Trustees need to report any actual or suspected serious incidents of fraud to the Charity Commission under the Reporting Serious Incidents process. The *Reporting Serious Incidents – Guidance for Trustees* states that:

- There is no minimum level that should or must be reported – you need to decide whether the incident is serious or significant enough to be reported, taking into account the actual harm and potential risk.
- Low value incidents may not seem important but can pose serious risks and have a cumulative effect. Therefore it is recommended that repeated or frequent low value instances of fraud are reported.
- If you decide the fraud is too minor to report keep records and document your decision – you still need to demonstrate you acted appropriately if the Charity Commission is notified about the incident and decides to check this.
- It is worth remembering that reporting an incident is one way to demonstrate that you as trustees are dealing with it appropriately.

The Charity Commission always expects instances of high value fraud or theft, and/or where there is public or media interest, to be reported to them immediately. Other factors that are likely to indicate seriousness include:

- if the person accused of taking the funds/assets is involved in the charity;
- if the person accused of taking the funds/assets is in a senior position (for example the chief executive) or holds a position of special responsibility for safeguarding the finances (for example a treasurer, or employee working in the finance team);
- numerous incidents have taken place that are connected;
- the charity has been subject to a number of separate incidents over a period of time;
- the funds are from a public appeal or collection or from grant funding;
- there are signs of public interest, for example media reporting;
- if the charity has had to take serious action against an individual, for example disciplinary procedures or suspension.

I If your charity has an income over £25,000 then you are required by law, as part of the annual return, to sign a declaration that there are no serious incidents or any other matters relating to your charity over the previous financial year that should have been raised with the Charity Commission but have not.

The Charity Commission assesses all serious incident reports objectively to decide the most proportionate and effective response. This depends on the particular circumstances, the seriousness and scale of the problem, the degree of risk it poses to the charity and the available evidence. Where it is clear that trustees are handling serious incidents appropriately and the risks are being managed by them, the Charity Commission is unlikely to take further action. If it is not clear that the incident and risks arising from it are being dealt with and the trustees are acting responsibly, the Charity Commission will need to engage further with the trustees.

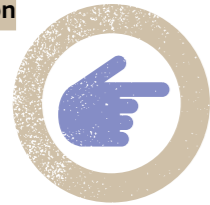
The Charity Commission may look to obtain further information, investigate any allegations or contact other regulators if necessary.

For comprehensive information on reporting to the Charity Commission, see *Reporting Serious Incidents – Guidance for Trustees*.



6.5

Charity Commission
(continued)



Guidance for charities in Scotland and Northern Ireland

For charities in Scotland: The Office of the Scottish Charity Regulator (OSCR) has a specific statutory function to identify and investigate apparent misconduct or mismanagement in the administration of charities and to take remedial or protective action in relation to such misconduct. As this does not include the investigation or prosecution of crime there is no specific requirement for charity trustees to report an instance of fraud to OSCR.

Nevertheless charities are encouraged to report fraud as it indicates that trustees are taking their responsibilities seriously, as well as providing valuable intelligence allowing OSCR to provide advice and guidance. Where OSCR has evidence of any criminal conduct, including fraud, it will report the matter directly to the Crown Office. Irrespective of whether any criminal action is contemplated it is also open to OSCR to act to protect charity assets. For more information for charities registered in Scotland, see the *OSCR Anti-Fraud Strategy*.

For charities in Northern Ireland: There is no formal requirement for charities to report suspected or actual fraud to the Charity Commission for Northern Ireland. However, if fraud is suspected or has been proven, it is good practice to raise a concern with the Commission. This can be done using the 'concerns form' on the Charity Commission website. The matter can then be investigated further to ensure that the charity assets and reputation are protected.

Once the registration of Northern Ireland charities has been commenced, trustees will be required to report any serious incidents (e.g. suspected or actual fraud within the charity) as part of their annual return.

There is currently no requirement to file an annual return as the relevant legislation is yet to come into effect.

Charities or other interested parties should refer to the website for further information on the Charity Commission for Northern Ireland. www.charitycommissionni.org.uk

6.6

HM Revenue & Customs

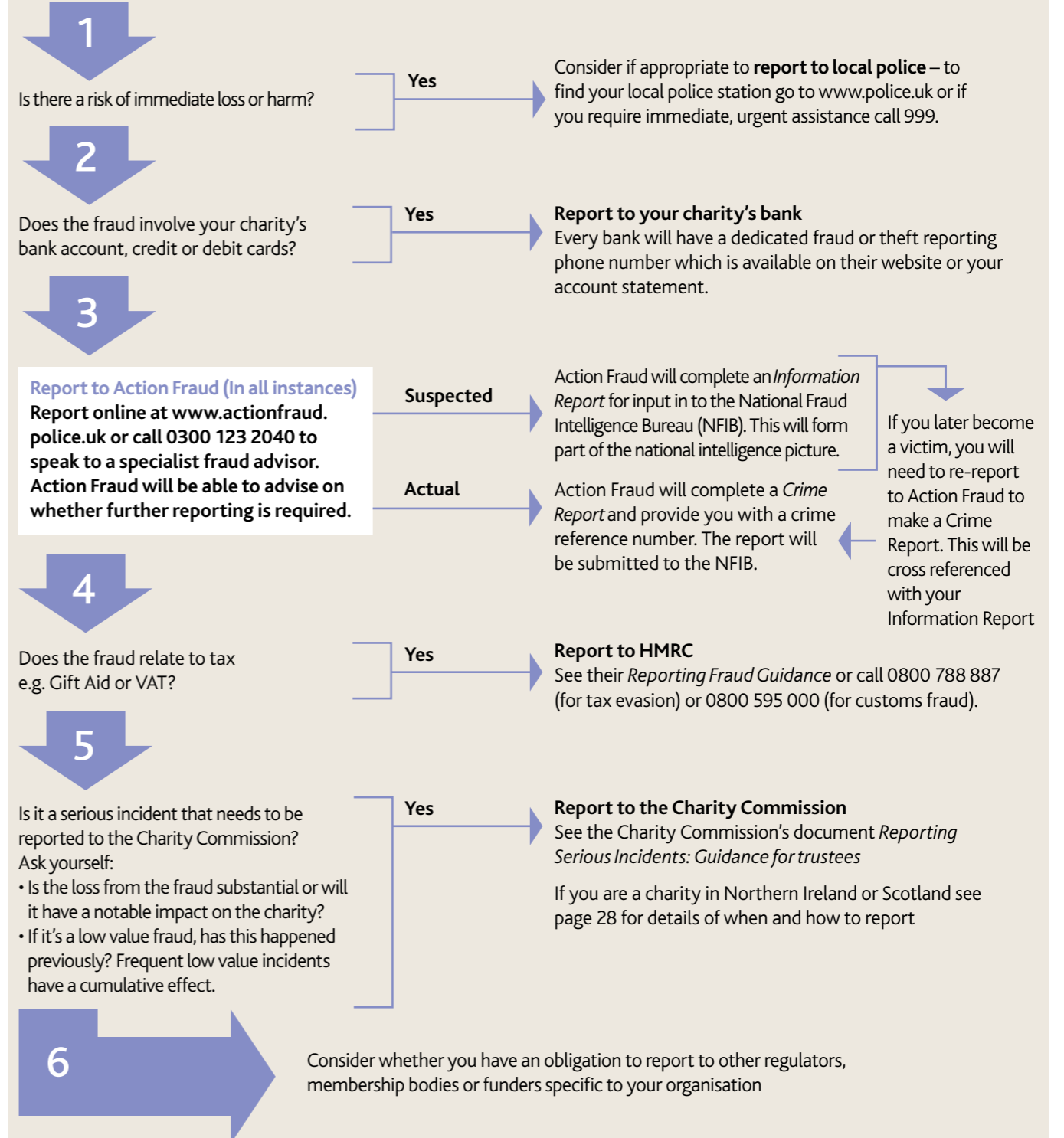
If the fraud relates to tax issues, such as Gift Aid or VAT, you should notify HM Revenue & Customs as quickly as possible. You can do this confidentially either online or over the telephone.

Please see the *Reporting Fraud guidance* or telephone 0800 788 887 (for tax evasion – e.g. Gift Aid, Corporation Tax, VAT) or 0800 595 000 (for customs fraud – e.g. alcohol or tobacco duties, suspicious transactions).

6.7

Flowchart – where to report

START: I believe my charity has been the victim of fraud



6

Reporting fraud – where should you go?

Dealing with reputational damage



7.1

Dealing with reputational damage

Charities rely on public confidence and trust and there is often the fear that donors and other funders will be deterred if there is or has been fraud within a charity: that no-one would want to give money if they believe funds will be diverted to fraudsters rather than charitable causes.

However, how you communicate the fraud is absolutely key – by being open, transparent and accountable, and showing that robust action has been taken, any negative impact on the charity's reputation may be significantly reduced.

- As outlined in chapter 5, it is recommended that you set out a **clear communications plan** and designate individuals to take responsibility for speaking to stakeholders and if necessary the press.
- When devising a plan, **consider any negative angles that could be taken** and possible questions you could be asked – prepare responses that are honest but appropriate.
- **Consider the legal implications** and seek legal advice if necessary. If a police investigation is underway, for example, you may not be able to share details of the fraud to anyone outside of the trustee board.
- At an appropriate time after the incident has settled (for example, once investigations are over), consider whether it is worth **putting out a statement**, perhaps in the charity's accounts.

Rather than generating negative publicity, carefully considered communication with key people involved with the charity – and even the public – can result in more support for your charity.

Whilst it may be necessary to withhold certain information, it is important that you are not ever dishonest about the incident. The risk of trying to hide any occurrence of fraud or falsely playing down its impact is that if it later reaches the public domain it is likely to attract adverse publicity.

By being open, transparent and accountable, and showing that robust action has been taken, any negative impact on the charity's reputation may be significantly reduced

Useful contacts and resources

The information provided in this guide is intended to be a starting point. If you require further information about any of the content of this guide, a number of useful links, resources and contacts are listed in this section.



8.1

Contacts

Action Fraud

Action Fraud is the UK's national reporting centre. The website has a range of resources and information about fraud. www.actionfraud.police.uk

To report a fraud, call 0300 123 2040 or report online at www.actionfraud.police.uk

Association of Charitable Foundations

ACF is the membership association for foundations and grant-making trusts in the UK. It has published *Tackling External Grant Fraud: A Guide to Help Charitable Trusts and Foundations Deter and Detect Fraud*, which is available in hard copy for charitable funders only from acf@acf.org.uk

Fraud Advisory Panel

The Fraud Advisory Panel is a registered charity and membership organisation which acts as an independent voice and leader of the counter fraud community in the UK. It works to raise awareness of fraud and financial crime and to help individuals and businesses develop effective fraud prevention strategies. www.fraudadvisorypanel.org

Charity Commission for England and Wales

The Charity Commission is the independent regulator of charities in England and Wales. Since the Charities Act 2006, the Charity Commission has specific statutory functions which include identifying and/or investigating apparent misconduct or mismanagement in the administration of charities. www.charitycommission.gov.uk
Reporting serious incidents: email RSI@charitycommission.gsi.gov.uk.

Charity Commission for Northern Ireland

Call 028 3832 0220 (textphone 028 3834 7639).
www.charitycommissionni.org.uk

Office of the Scottish Charity Regulator

Call 01385 220 446
www.oscr.org.uk

HM Revenue & Customs

HM Revenue & Customs (HMRC) needs information to help fight customs and excise fraud and tax evasion. You can report fraud to HMRC confidentially either online at www.hmrc.gov.uk/reportingfraud/ or by calling 0800 788 887 (for tax evasion – e.g. Gift Aid, Corporation Tax, VAT) or 0800 595 000 (for customs fraud – e.g. alcohol or tobacco duties, suspicious transaction).

Public Concern at Work

Public Concern at Work is a registered charity which offers a free, confidential whistleblowing advice line for individuals concerned about crime, danger or wrongdoing at work. www.pcaw.org.uk

Telephone advice (020 3117 2520 or 020 7404 6609) is available 9am to 6pm, Monday to Friday. Or email: helpline@pcaw.co.uk

Resources

Action Fraud – <i>Banking Card and Cheque Fraud</i>	Fraud Advisory Panel – <i>Breach of Trust Report</i>
Action Fraud – <i>Resources</i>	Fraud Advisory Panel – <i>Giving Safely: A Guide to Making Sure your Charitable Donations Really Count</i>
Charity Commission – <i>Compliance Toolkit – Chapter 3: Fraud and Financial Crime</i>	Fraud Advisory Panel – <i>Pre-Employment Screening</i>
Charity Commission – <i>Compliance Toolkit – Chapter 4: Holding, Moving and Receiving Funds Safely in the UK and Internationally</i>	HM Revenue & Customs – <i>Fit and Proper Persons Guidance</i>
Charity Commission – <i>CC26 Charities and Risk Management: A Guide for Trustees</i>	HM Revenue & Customs – <i>Reporting Fraud</i>
Charity Commission – <i>CC8 Internal Financial Controls for Charities</i>	ICAEW – <i>Instilling Integrity in Organisations</i>
Charity Commission – <i>CC20 Charities and Fundraising</i>	ICAEW – <i>Reporting With Integrity</i>
Charity Commission – <i>Fraud Recording Tool</i>	Institute of Fundraising – <i>Codes of Practice Directory</i>
Charity Commission – <i>Reporting Serious Incidents – Guidance for Trustees</i>	Institute of Fundraising – <i>Handling of Cash and Other Financial Donations Code of Practice</i>
Charity Commission – <i>The Public Interest Disclosure Act 1998</i>	Institute of Fundraising – <i>Volunteer Fundraising Code of Practice</i>
Direct Gov – <i>Basic Information on Fraud</i>	Legislation.gov.uk – <i>The Public Interest Disclosure Act 1998</i>
Fraud Advisory Panel – <i>An Introduction to Civil Asset Recovery</i>	National Fraud Authority – <i>Annual Fraud Indicator</i>
Fraud Advisory Panel – <i>An Introduction to Fraud Indicators</i>	National Fraud Authority – <i>Fighting Fraud Together</i>
Fraud Advisory Panel – <i>An Introduction to Fraud Response Plans</i>	Office of the Scottish Charity Regulator – <i>Anti-Fraud Strategy</i>
Fraud Advisory Panel – <i>Anti-Fraud Policy Statements</i>	

Fighting Fraud Together & the Charity Fraud Project

Fighting Fraud Together (FFT) is a partnership between the public, government, law enforcement, the wider public sector, private sector organisations and the voluntary sector.

FFT recognise the benefits of working together to tackle a crime that affects us all and collectively costs us £73bn per annum. The criminals who attack us do not operate in silos and neither should we. Under the remit of FFT the National Fraud Authority (NFA) and Charity Commission have instigated a charity fraud project. This publication is one of the outputs of that project and was co-ordinated by *Charity Finance Group*.

This publication has been produced by 15 public, law enforcement and charity sector organisations. These are: ACEVO, ACF, ACRE, Charity Commission, Charity Finance Group, City of London Police, Community Matters, Fraud Advisory Panel, HMRC, ICAEW, Institute of Fundraising, National Fraud Authority, NCVO, Small Charities Coalition and Charity Trustee Networks and SOCA.

Charity Fraud

A guide for the trustees and managers of charities

Charity Fraud: A guide for the trustees and managers of charities is written to help charities prevent and detect fraud, and also provides information on what to do and where to report if fraud has occurred.

There is a lot of guidance already available on fraud and navigating through various sources can be difficult. This guide pulls together guidance from a range of organisations, including the Charity Commission, Fraud Advisory Panel and National Fraud Authority, to provide an easy-to-use overview of the key aspects of charity fraud.

This publication has been produced by 15 public, law enforcement and charity sector organisations as part of the Charity Fraud Project. These are: ACEVO, ACF, ACRE, Charity Commission, Charity Finance Group, City of London Police, Community Matters, Fraud Advisory Panel, HMRC, ICAEW, Institute of Fundraising, National Fraud Authority, NCVO, Small Charities Coalition and Charity Trustee Networks and SOCA.

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