

# GETTING TO KNOW YOUR GRANT HOLDERS

Every charity needs proper safeguards to protect its grant-funding resources from misuse in financial crime, money laundering, funding terrorism or other criminality. Due diligence performed on beneficiaries and recipients is an important part of understanding where your money goes and how it's spent.

## Introduction

Many charities pursue their core objectives by awarding grants. But those grants can be misused in a variety of ways - from professional fraudsters deliberately stealing them, to an intended recipient overstating expenses, failing to declare overpayments or concealing a change of circumstances.

## What is grant fraud?

This is the misappropriation and/or misuse of grant money for purposes other than those for which it was awarded. It's usually committed by the recipient of the grant.

### Common examples include:

- an applicant organisation is created for the sole purpose of stealing funding (there was never any intention of delivering a project);
- the contact named in the paperwork is unaware that an application has been made (this is a growing threat for many charities); and
- documents supplied to help the funder monitor the use of the grant (often invoices and bank statements) are fake or doctored.

When grants are acquired and used fraudulently the money is typically moved on within days. That's why it's essential to fraud-proof grant schemes from the start by creating controls to assess and monitor applications, projects and payments.

It's easier to stop a payment before it's made than to recover the money afterwards! Robust vetting of applicants can identify the first two types of grant fraud, while effective and continuous monitoring of the programmes themselves can help prevent the third.

## What is due diligence?

Due diligence is a set of practical checks to confirm the identity, credentials and good standing of the individuals and organisations who have applied for a grant. Get this right and you can significantly reduce the risk of grant money being spent in the wrong way, while also safeguarding your charity's reputation.

## IT'S NOT ALWAYS THE BIGGEST GRANTS

that carry the biggest risks. Small ones - often designed as quick and easy funding sources - are also vulnerable.

# HELPSHEET

## Basic questions

### Pre-award

- Who is this applicant and what is known about them?
- Do they have a track record in the sector?
- Have you met the named individuals and visited their premises to check the organisation exists?
- Is the applicant based outside the UK? If so, is it an area/country that poses its own particular risks?
- Have you checked the information provided on the application form and supporting documentation? (Use public sources as well as your own internal records.)

### Project monitoring

- Has the project really been completed?
- How does actual performance/delivery correspond with the agreed milestones/targets?
- Can the recipient account for all of the money spent and is there sufficient proof of the expenditure?
- Does the recipient have sufficient financial controls in place?
- Have there been any significant changes in personnel or payment-related matters (such as a change of bank account)?

## IN MORE DETAIL ...

### Verification

This is a multi-stage process. First, establish whether the organisation and/or individual is genuine. Then, look in more detail at their background: track record in the sector, adverse publicity, financial health. Good due diligence should be proportionate, with more detailed checks for higher risk areas or unfamiliar applicants.

### Monitoring

Fraud risk management does not end when the grant is awarded. It should be monitored throughout its lifetime to control the continuing fraud risks of misuse or theft. A formal agreement should clearly set out what is expected of the grant-holder/beneficiary, as well as the conditions under which payment(s) can commence/continue. This will help all parties to understand what's expected of them. Monitoring (done properly) is then vital to make sure that opportunities for fraud are reduced and the funds are spent correctly.

### Warning signs

Certain kinds of behaviour can be red flags. For example:

- unexpected changes to recipient details (such as a sudden change of bank account or contact person);

- attempts to vary the agreed conditions or payment schedule (perhaps asking for up-front payments when the agreement specifies payments in arrears);
- a grant-holder or beneficiary who suddenly stops replying to correspondence;
- a significant increase in costs or amounts being claimed against the grant; or
- an attempt to trigger a staged payment by submitting incomplete or inadequate documentation.

None of these are clear-cut evidence of fraud, but might point to the need for further investigation.

### Taking action

If you suspect that a grant has been obtained or spent illegally you should act promptly.

- Inform your senior leadership and take steps to ensure that no more money is paid out until an investigation has been completed.
- Report your concerns to Action Fraud (for England, Wales and Northern Ireland) or Police Scotland (Scotland only).
- Report matters immediately to your charity regulator. (For reports to the Charity Commission for England and Wales treat it as a serious incident. Use [RSI@charitycommission.gov.uk](mailto:RSI@charitycommission.gov.uk) to make your report, stating what happened and how you're dealing with it.)

## OTHER RESOURCES

The Charity Commission for England and Wales has produced a range of resources covering this area as part of its compliance toolkit. See chapter two, '**Due diligence, monitoring and verifying the end use of charitable funds**'.

## CHECKLIST

### BUILDING YOUR CHARITY'S DEFENCES

#### ASK YOURSELF:

- Do we encourage grant holders to be open and honest by making clear what we expect of them?
- Do we take the time to get to know and understand applicant organisations, their people and projects?
- Do we verify the identities of all individuals named in the application?
- Are we using public sources (such as the charity regulators and UK Companies House), as well as our own records, to check the information provided on application forms and supporting documentation?
- Do we monitor project progress and how grant funds are spent?
- Are we able to identify (and act on) bogus monitoring information?
- Do we share with, and learn from, fellow funders? Is it standard practice to share concerns and pool intelligence/insights about particular sectors or organisations?
- Should we consider regular, full audits of a representative sample of grant recipients (including scrutiny of invoices, receipts and bank statements)?
- Do formal payment controls make sure our grants are paid into the correct bank account and the account belongs to the correct organisation?
- Do we keep records of all project monitoring activities, including site visits and their outcomes?