Fraud
Advisory
Panel

Fraud in the charitable sector

February 2009

Research conducted by

Carol Goldstone Associates

Acknowledgement

The Fraud Advisory Panel gratefully acknowledges the support of Chantrey Vellacott DFK LLP as sponsors of this research.

Chantrey Vellacott DFK LLP

Chantrey Vellacott DFK is a long established firm of Chartered Accountants, tracing its roots back over 200 years to 1788. The firm provides a broad range of professional services to an extensive client list covering the commercial, public and charity sectors.

Chantrey Vellacott DFK is a leading member of DFK International, a worldwide association of independent accounting firms and business advisors. This means the firm can readily provide clients with access to local expertise and information through the 300 DFK International offices worldwide.

Chantrey Vellacott DFK advises a substantial portfolio of over 300 clients in the not-for-profit sector and is ranked in the top 10 "Charity Finance" table of best auditors. With a strong Fraud & Forensic team the firm provides charities with counter fraud solutions in terms of prevention, detection, asset tracing and the recovery of funds.

www.cvdfk.com/fraud

About the Fraud Advisory Panel

The Fraud Advisory Panel is a registered charity which works to raise awareness of the immense human, social and economic damage caused by fraud and to help individuals and organisations develop effective strategies to prevent it.

The Panel works to:

- Advise Government, business and the general public on fraud prevention, detection and reporting;
- Assist in improving education and training in business, the professions, and general public; and
- Establish a more accurate picture of the extent, causes and nature of fraud.

The Panel has a truly multi-disciplinary perspective on fraud. Members of the Panel include representatives from the law and accountancy professions, industry associations, financial institutions, government agencies, law enforcement, regulatory authorities and academia.

www.fraudadvisorypanel.org

Contents

1. FOREWORD

The true nature and extent of fraud within and against charities in the United Kingdom is relatively unknown with current understanding based on anecdotal evidence and media accounts of high profile scams. There is a perception that charities are a 'soft target' due to their altruistic nature, perceived lack of professionalism, and reliance on the trust and goodwill of staff, volunteers and supporters.

Despite the fact that charities are voluntary organisations set up for charitable, social, philanthropic or other purposes, it should be remembered that these organisations are not immune from fraud and the consequences of this crime. The impact of fraud on individual charities and the sector as a whole can be devastating. As this research illustrates it can damage reputations, result in adverse media publicity, lead to the loss of employees, diminish financial reserves and limit charitable activities. It can also have a detrimental effect on the morale of staff, volunteers and, in some cases, beneficiaries.

This research attempts to improve our understanding of fraud in the charitable sector and to gauge what charities really think about fraud. Although the incidence of reported fraud is relatively low there are still a number of important issues which warrant further consideration and action by charities, their professional advisors, law enforcers and regulators.

Many charities (especially smaller organisations) do not appear to have appropriate anti-fraud measures or training programmes in place to protect against fraud. For many, fraud is not something that has been considered nor advice sought. Most are unaware of the information available through bodies such as the Charity Commission and fail to consider the ways to avoid fraud until they have actually become a victim.

It is therefore unsurprising that just over half of charities which reported being the victim of fraud thought, in retrospect, that they had in some way contributed to the fraud taking place by being too trusting or having inadequate internal controls.

However it is encouraging that many charities make improvements to internal processes and controls as a result of fraud. But these organisations could benefit from more advice about how to deal with the aftermath and the procedures that can be adopted to prevent a similar recurrence in future.

From our perspective the challenge for the charitable sector is to overcome the inertia created by the expectation that fraud happens to other organisations and to understand the lessons learnt in this survey and by other types of organisation, particularly in relation to preventative and detective controls and procedures. There is also a need for improved communication and collaboration between charities, representative bodies and regulators to prevent fraudsters from being displaced from one charity to another.

It is apparent that the current level of knowledge about fraud varies considerably across organisations and between individuals and this makes true measurement and detection difficult. It is likely that many charities could benefit greatly from more educational initiatives in this area.

The work undertaken by the Fraud Advisory Panel will assist in our fight against charity fraud. Even if your charity hasn't experienced a fraud, we hope this survey will help you become more aware of how fraud can affect your organisation. Crucially, we hope you will better understand how best to protect your charity and those who rely upon you.

The Fraud Advisory Panel would like to acknowledge the support of our sponsors, Chantrey Vellacott DFK LLP, and would like to thank all the charities which took the time to complete the survey and especially to those who participated in the case study interviews. Your contribution and honesty has been invaluable. We would also like to thank Carol Goldstone Associates, Mia Campbell and Martin Robinson for their input and support.

Rosalind Wright CB QC
Fraud Advisory Panel

Dr Stephen Hill
Chantrey Vellacott DFK LLP

February 2009

2. KEY FINDINGS

2.1 Profile of charities

- Charities participating in the survey were of all sizes of income and included local, national and international organisations.
- Nearly half of all charities were governed by a constitution.
- Donations were the most common source of income for charities followed by grants, investments and membership fees.
- 60% of charities had full and/or part time employees. This ranged from just under half of the smallest charities up to 94% of the very largest. The vast majority of charities used volunteers (88%).
- Nearly half of charities provided services and this increased with the size of the charity.
- Charities were equally split between those that had their accounts independently examined (generally smaller organisations) and those that were audited (larger charities).

2.2 Perceptions of fraud

- Half of all respondents agreed that fraud is a major risk to the charitable sector; this increased amongst victims.
- One quarter of charities agreed that fraud is a bigger risk to the charitable sector than to other sectors; again this was higher amongst victims.
- Respondents perceived charities as being vulnerable to fraud because they operate on a presumption of trust and goodwill which can be exploited by unethical people.
- One quarter of respondents thought that their charity was most vulnerable to fraud from staff or volunteers.

2.3 Fraud risk management

- Just over two thirds of charities (but almost 90% of very large ones) had designated one or more people responsible for fraud prevention in their organisation. This was most likely to be the chief executive, finance director or a nominated trustee.
- Only 40% of charities had any of the suggested anti-fraud policies and procedures in place.

- Charities were most likely to have a whistleblowing policy, fidelity or crime protection insurance and a risk register that included fraud.
- Half of charities which had experienced fraud had at least one anti-fraud measure in place. This was most likely to be a risk register or an anti-fraud policy.
- 11% of charities had an anti-fraud policy in place. This was most commonly communicated to staff, volunteers and trustees through departmental or team meetings or as part of the induction programme for new employees. However 14% did not communicate it at all.

2.4 Fraud in the charitable sector

- Overall, 7% of respondents reported that their organisation had been the victim of fraud in the last two years. Just over half of these charities had experienced one fraud in this period.
- The likelihood of fraud was higher in larger charities, those that employed staff, and had trading subsidiaries. There was no difference based on whether or not a charity used volunteers.
- Most frauds were of relatively low value. Half of those experiencing fraud estimated their total direct financial loss was less than £1,000.

2.5 Most recent experience of fraud

- Frauds were most likely to have taken place in the charity's head office or within the banking system and were most likely to involve the theft of cash or cheques. The value was typically less than £1,000.
- Almost half the charities knew who had committed the fraud.
- Most frauds were committed by someone involved in the charity, usually a paid employee. Very few had an accomplice (13%).
- Frauds were most often discovered through the charity's internal control or audit processes or through bank notification.
- 19% of respondents were unable to say where the fraud had taken place, and one quarter did not know how long the fraud had lasted.

2.6 The impact of fraud

- Just over one quarter of charities that had suffered fraud reported that it had an impact on their organisation. This was most likely to be reputational damage or an inability to fund specific projects.
- The majority of charities reported some direct financial loss as the result of the fraud. For some charities this had negative consequences for activities and income streams.
- In-depth interviews revealed that the impact on staff could be significant. In some cases staff suffered stress and illness, were made redundant or felt betrayed by the person who committed the fraud.

2.7 Post fraud behaviour

- The vast majority of charities reported their fraud to the board of trustees (83%).
- Three quarters of respondents also reported the fraud to at least one external body. This was most likely to be the police or their bank.
- Two thirds of charities took action against the person who committed the fraud if their identity was known, most commonly this was by referring the matter to the police or by dismissing the individual. Just less than one quarter took no action.
- Half of the organisations that were victims of fraud recovered some or all of the funds.
- Two thirds had made changes to procedures or had enhanced controls as a result of the fraud. Many charities took their responsibilities very seriously and were keen to have external scrutinisers examine their procedures and advise relevant changes.
- Half of the charities which had experienced fraud felt, in retrospect, that they had contributed in some way to the fraud taking place – generally by being too trusting or by failing to have adequate risk management systems in place.
- Interviewees found third parties (e.g. banks and funders) to be helpful in recovering from the fraud although specific examples were cited where particular organisations could have been more helpful.

3. INTRODUCTION

3.1 Background

Fraud is not a word that is commonly associated with the charitable sector. But altruism, trust and goodwill are.

Our understanding of the extent to which the very characteristics which define the sector also make it susceptible to fraud and a potential target for the criminal is limited. Estimates of the prevalence of fraud for the charitable sector in the United Kingdom vary widely from 3% to 24% of charities[1] and are much lower than those reported for UK businesses as a whole (48%).[2]

The impact of becoming an unsuspecting victim of fraud can be particularly severe for charities damaging not only often limited financial reserves but also staff and volunteer morale and the delivery of services and facilities.

With almost 170,000 registered charities in England and Wales[3] – most of which are small – it is of fundamental importance that our knowledge of fraud in the sector is improved so that charities are able to undertake effective assessment of risks and dedicate appropriate and proportionate resources toward the fight against fraud and theft.

To this end the Fraud Advisory Panel commissioned Carol Goldstone Associates (CGA), a specialist research agency, to undertake preliminary research into the nature and extent of fraud in the charitable sector in England and Wales. The research was kindly sponsored by Chantrey Vellacott DFK LLP.

3.2 Aims of the research

The aim of the research was to examine the nature and extent of fraud on charities, in particular:

- To investigate attitudes to fraud amongst registered charities;
- To explore the anti-fraud strategies that charities have in place and whether these strategies are adequate to address relevant fraud risks;
- To measure the prevalence of fraud against charities and the size and nature of such incidents; and
- To explore differences across different types of charity.

This report outlines the findings of this research.

---

[1] Baker Tilly (2008) *Voluntary sector governance survey 2008*. Plaza Publishing Limited. Available from **www.bakertilly.co.uk**. PKF (UK) LLP and Charity Finance Directors' Group (2007) *Managing risk: protecting your assets*. Available from **www.pkf.co.uk**.

[2] PricewaterhouseCoopers (2007) *Economic crime: people, culture and controls (United Kingdom)*. Available from **www.pwc.co.uk**.

[3] Charity Commission (2009) *Facts and figures*. Available from **www.charitycommission.gov.uk**. [Accessed 22 January 2009.]

4. RESEARCH METHODOLOGY

The study was conducted between October and December 2008 and comprised two phases:

- A self-completion postal survey (quantitative phase), and
- Six in-depth interviews with charities that had reported to have suffered fraud (qualitative phase).

4.1 Quantitative phase

A questionnaire was sent to 5000 registered charities in England and Wales, thus making it one of the largest surveys to date to specifically examine the experiences of charities to fraud in England and Wales.[4]

A random sample was drawn from the Charity Commission's register of charities. Very small charities (defined for the purposes of this study as those with an income of £10,000 or under) and charities registered for less than two years were excluded from the study. All other registered charities were included for sampling purposes.

To enable comparison between the experiences of large and small charities the register was stratified by income band into four categories and a random sample (every *n*th organisation on the list) selected from each band. At the analysis stage, the data were weighted back to reflect the actual structure of the charitable sector.

Fieldwork was completed between 6th October and 12th November. One reminder letter was sent to non-respondents halfway through the fieldwork period.

A total of 1123 completed responses were received. This represents a response rate of 22% which is considered good for a survey of this type.

Response was highest amongst small charities.

Respondents were most commonly the treasurer (19%), chief executive (15%), chairman (13%), secretary or company secretary (10%), finance director (9%) or trustee (8%).

Not all results reported herein equal 100%; some questions allowed respondents to provide more than one answer.

---

[4] The PKF (UK) LLP and Charities Finance Directors' Group (2007) *Managing risk: protecting your assets* survey analysed responses from 402 charities. The Baker Tilly (2008) *Voluntary sector governance survey 2008* considered responses from over 550 charities.

Table 1: Mail out and response

BAND	SMALL	MEDIUM	LARGE	VERY LARGE	TOTAL
Income	£10,000 to £99,999	£100,000 to £249,999	£250,000 to £999,999	£1 million or over	
Mail out	1500	1500	1000	1000	5000
Response	393	319	216	195	1123
% response	26.2	21.3	21.6	19.5	22.5
Number registered	50399	11344	8470	5590	75803
Weighted response	747	168	125	83	1123

4.2 Qualitative phase

Six in-depth interviews were undertaken with charities that had reported to have suffered fraud in the last two years. These represented a cross-section of charities in terms of size, activity and the type of fraud suffered (see Table 2).

Interviews were conducted between 28th November and 4th December.

Table 2: Classification of charities interviewed at qualitative phase

CHARITY	INCOME[5]	ACTIVITY	LOCATION
1	£60,000	Day care centre for elderly	South West
2	£150,000	Mediation service	West Midlands
3	£400,000	Outreach work for disabled people	North West
4	£376,000	Distribution of emergency grants	London
5	£1,024,000	Grant making trust for young people's organisations	East Midlands
6	£1,026,000	Residential services for learning disabled adults	West Midlands

[5] The selection of charities was partly based on the income as derived from the Charity Commission register and this is shown on this table. In some cases, respondents reported a different income during the actual interview.

5. PROFILE OF CHARITIES

5.1 Type of governing document

The most common type of governing document amongst charities surveyed was a constitution (43%) followed by a trust deed (27%) and memorandum and articles of association (25%). Just over three quarters of the largest charities (77%) were governed through a memorandum and articles.

5.2 Income

Donations were the main source of income for just over half of all charities (52%). This was true for all sizes of organisation. Other common sources of income were grants (38%), investments (29%) and membership fees (29%).

Events (12%), rent and hire fees (9%), trading subsidiaries (9%), and fees for services (8%) were also identified by respondents as sources of income.

Smaller charities were more likely to receive income through investments than larger organisations but were less likely to receive grants.

5.3 Employees and volunteers

Overall, 60% of charities had full-time and/or part-time employees. This increased with the size of the charity.

Just over one third of charities (36%) had full-time employees.[6] The number of staff employed increased with the size of the charity.

Slightly more charities employed at least one member of staff part-time (54%).

Smaller charities were more likely to have part-time (41%) than full-time employees (16%). In comparison the largest charities were more likely to have a combination of both full-time (92%) and part-time (89%) employees.

The vast majority of charities (88%) had volunteers.[7]

[6] Full-time employees were defined as those working at least 35 hours per week for the charity; those working for fewer hours were defined as part-time.

[7] A volunteer was defined as a person who spends time doing something on the charity's behalf unpaid

Table 3: Numbers of employees and volunteers

	TOTAL	INCOME			
		SMALL	MEDIUM	LARGE	VERY LARGE
UNWEIGHTED BASE (ALL):	1123	393	319	216	195
WEIGHTED BASE (ALL):	1123	747	168	125	83
	%	%	%	%	%
Full time employees					
None	62	81	38	18	7
Any	36	16	60	82	92
1–9	26	15	59	57	13
10–19	6	1	1	23	43
50–249	3	*	*	2	31
250+	*	–	–	–	5
Don't know/not stated	3	3	2	*	1
Part time employees					
None	45	58	29	16	11
Any	54	41	70	83	89
1–9	45	39	61	63	38
10–19	7	2	8	18	35
50–249	2	*	1	2	14
250+	*	–	–	–	2
Don't know/not stated	1	1	1	1	–
Volunteers					
None	11	8	11	19	26
Any	88	92	88	80	73
1–9	38	42	38	25	24
10–19	38	42	34	33	20
50–249	9	7	13	14	17
250+	3	1	4	7	12
Don't know/not stated	1	*	1	1	2

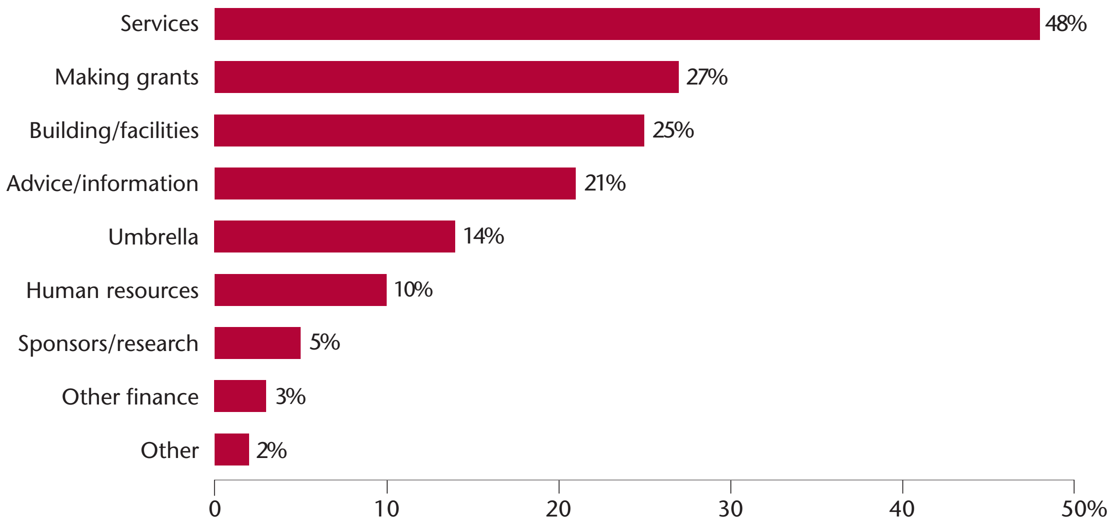
* means <0.5%

5.4 Activities

Nearly half of all charities (48%) provided services. This proportion increased with the size of the organisation and almost two thirds of the largest charities (65%) offered services.

Other common activities included making grants to individuals or organisations (27%), providing buildings, facilities or open spaces (25%) and providing advocacy, advice or information (21%). Provision of advice was more frequently mentioned by larger charities but other activities were fairly evenly spread across all sizes of organisation.

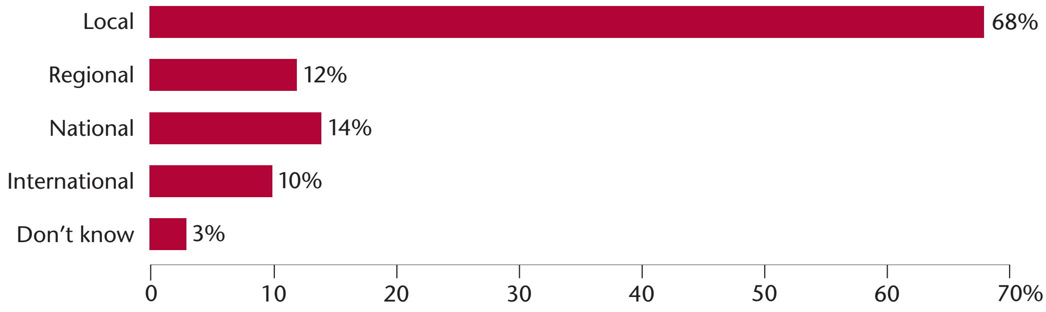
Table 4: Types of activity



5.5 Area of operation

Most charities operated locally (68%). The remainder were almost equally divided between those operating regionally (12%), nationally (14%) or internationally (10%). As may be expected, the larger the charity, the more likely it was to have a wider geographic area of operation.

Table 5: Area of operation



5.6 Annual accounts

Most charities had their annual accounts externally scrutinised (95%), through either independent examination or external audit.[8]

As one would expect, independent examination was more common for smaller charities while nearly all larger ones underwent an external audit.

A small number of charities reported no external scrutiny of their annual accounts (2%) or did not know the method used (3%).

[8] Generally, registered charities with a gross income of more than £10,000 are required to have their accounts externally scrutinised by either independent examination or audit depending upon the income and assets of the organisation. See Charity Commission (April 2008) *Charity Reporting and Accounting: The essentials* for further information. Available from **www.charitycommission.gov.uk**.

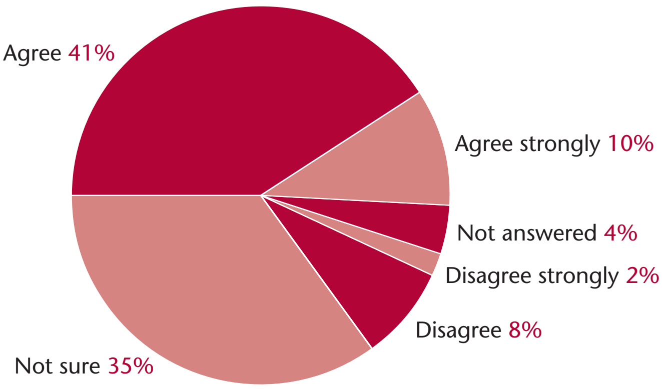
6. PERCEPTIONS OF FRAUD

6.1 Fraud in the charitable sector

All respondents were asked to indicate how strongly they agreed or disagreed with two statements about fraud in the charitable sector. In each case, responses were measured using a five point scale ranging from strongly agree to strongly disagree.

Overall, half of respondents agreed that *"fraud is a major risk to the charity sector"* (41% agreed, 10% strongly agreed). Ten percent disagreed with the statement. As one would expect there were significant differences between charities that had experienced fraud (64% agreed or strongly agreed) compared with those that had not (51%).

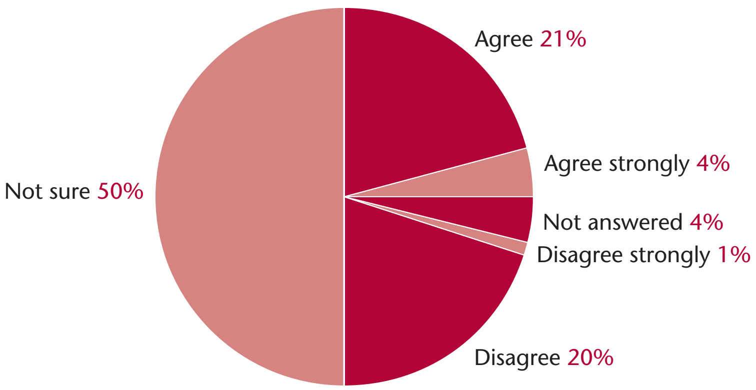
Table 6: Fraud is a major risk to the charity sector



Respondents were less likely to agree that *"fraud is a bigger risk to the charity sector than to other sectors"*. Only one quarter agreed with the statement (21% agreed, 4% strongly agreed). Again, charities that had experienced fraud were more likely to agree (41% agreed or strongly agreed) compared to charities that had not (24%).

Overall, 21% of respondents disagreed with the statement and this proportion increased with the size of the charity – only 18% of the smallest organisations disagreed compared with 33% of the large and very large charities.

Table 7: Fraud is a bigger risk to the charity sector than to other sectors



It is worth noting that for both statements there were no significant differences between respondents whose charity had relevant anti-fraud policies and procedures in place and those which did not.

6.2 Why charities are vulnerable to fraud

All respondents were asked to complete the sentence *"charities are vulnerable to fraud because…"*. A very broad range of answers were provided. Principal amongst these was a reliance on goodwill and trust which can allow unethical people to take advantage of charities.

Other reasons provided included:

- many charities operate on an amateur basis without the level of management expertise or financial controls found in the commercial sector. This may be due to a lack of personnel available to undertake the relevant roles, particularly within smaller charities.
- staff training is less frequent or vigorous than in other sectors.
- people can raise funds (ostensibly) for a particular charity without that organisation being aware of what is being done in its name.
- many charities deal in cash donations or collections where there may be no receipt and no way of ensuring that all funds are handed over.
- charities may be seen as being a "soft touch" compared with organisations operating in other sectors.

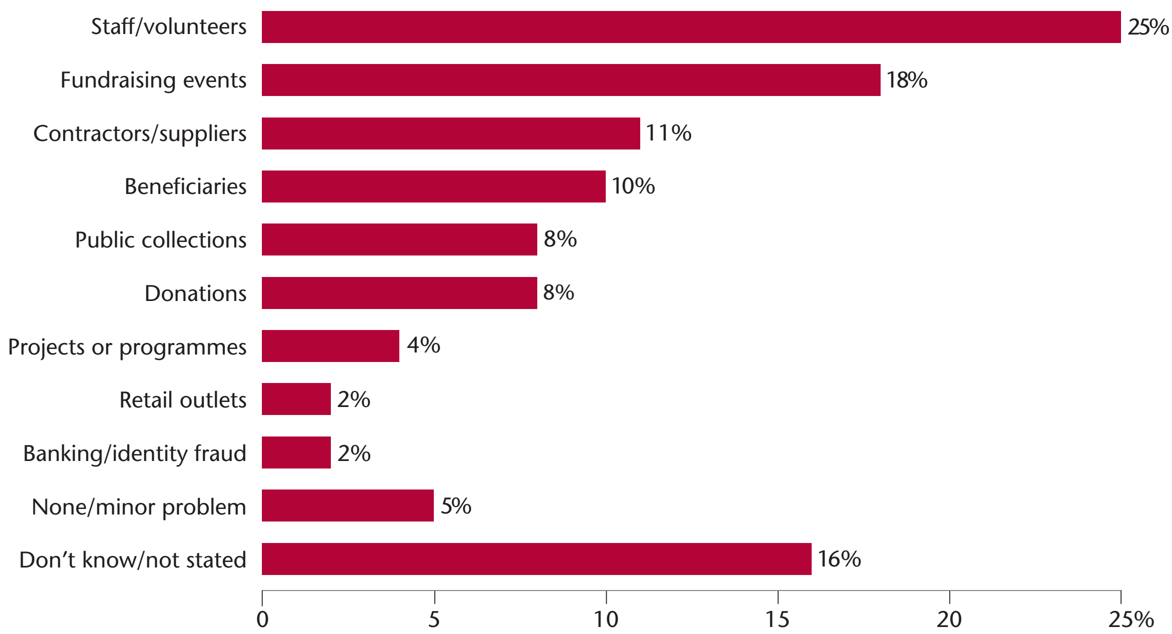
These findings were reinforced during the qualitative interviews. When respondents were asked why their organisation may have been the victim of fraud, a common response was that staff were considered to be far too trusting of their colleagues and volunteers and that there were insufficient checks and division of financial responsibilities. For example, in one case a charity failed to insist that it's Treasurer provide up-to-date accounts, in another it was felt that Trustees should have examined the accounts at every meeting rather than on an annual basis.

6.3 Areas most vulnerable to fraud

Respondents were asked to identify the area most vulnerable to fraud within their organisation. Staff and volunteers (25%) were most frequently cited followed by fundraising events (18%), contractors and suppliers (11%), beneficiaries (10%), public collections (8%), and donations (8%). A further 16% did not say. A small proportion (5%) indicated that fraud was not a problem for their charity.

Large organisations were more likely to mention staff and suppliers and less likely to consider fundraising events to be their most vulnerable area compared to small charities.

Table 8: Area most vulnerable to fraud



7. FRAUD RISK MANAGEMENT

7.1 Main responsibility for fraud

Just over two thirds of charities (68%) reported that one or more people were responsible for fraud prevention in their organisation. This increased markedly with the size of charity; 62% of the smallest but 88% of the very large charities had a nominated individual. Organisations that had suffered fraud were more likely to have someone responsible for fraud prevention (78%) than those who had not (67%). It is likely that some of these posts had been created after the fraud (see 11.5).

Senior management were most likely to be responsible for fraud prevention. This was most commonly the chief executive (21%), finance director (18%) or a nominated trustee (19%). Mention of the chief executive and finance director increased very significantly with the size of the charity.

7.2 Anti-fraud policies and procedures

Respondents were asked to indicate which anti-fraud policies and practical measures they had in place from a pre-determined list.[9]

Only 40% of charities had one or more of the tested measures in place. These were most likely to be a whistleblowing policy (18%), fidelity or crime protection insurance (16%), a risk register that included fraud (14%), and/or an anti-fraud policy (11%). Fewer charities reported having an anti-money laundering policy (8%) or fraud response plan (4%).

Organisations that had previously experienced fraud were more likely to have at least one measure in place (50% compared with 39% of those who had not experienced fraud), particularly a risk register and an anti-fraud policy.

There were very significant differences according to the size of the charity. Almost three quarters of the smallest charities (73%) had no tested measures in place compared to 14% of the very largest charities.

[9] Anti-fraud policy, anti-money laundering policy, whistleblowing policy, fidelity or crime protection insurance, fraud awareness training programme, fraud response plan, and a risk register that includes fraud.

Table 9: Anti-fraud policies and procedures in place

	TOTAL	INCOME			
		SMALL	MEDIUM	LARGE	VERY LARGE
UNWEIGHTED BASE (ALL):	1123	393	319	216	195
WEIGHTED BASE (ALL):	1123	747	168	125	83
	%	%	%	%	%
Any	*40*	*27*	*53*	*66*	*86*
Whistleblowing policy	18	9	27	34	61
Fidelity or crime protection insurance	16	12	17	24	40
Risk register (including fraud)	14	5	18	34	64
Anti-fraud policy	11	8	14	18	31
Anti money laundering policy	8	6	8	11	27
Fraud response plan	4	3	5	5	12
Fraud awareness training programme	4	2	5	6	9
None of these	*60*	*73*	*47*	*34*	*14*

* Note some multiple responses so columns may add to >100%.

7.3 Educating staff, volunteers and trustees

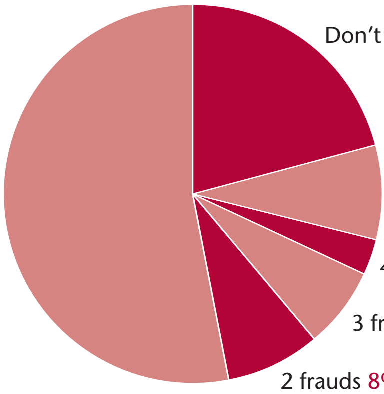
Organisations with a written anti-fraud policy were asked to indicate how it was communicated to staff, volunteers and trustees. The most common method of communication was through departmental or team meetings (40%) or as part of the induction programme for new employees (30%). Some charities also made their anti-fraud policies available on the intranet or included them as part of an ongoing training scheme (14% each). Of those charities that had an anti-fraud policy, 14% (primarily smaller charities) did not communicate it to staff, volunteers and trustees.

8. FRAUD IN THE CHARITABLE SECTOR

8.1 Incidence and cost of fraud in last two years

The survey examined the experiences of those charities that had been the victim of fraud. Overall, 7% of respondents reported that their organisation had been the victim of fraud in the last two years.[10] Just over half of these charities had experienced one fraud in this period (53%); one quarter (26%) had been a victim on multiple occasions. A further one fifth (21%) were unable to say.

Table 10: Number of frauds suffered in last 2 years



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

"…up to now I'd never have put the day care centre and fraud in the same box."
Case 1

The likelihood of fraud increased with the following factors:

- Size of charity: Larger charities were more likely to have experienced fraud. 20% of the largest charities had experienced fraud compared to 6% of the smallest.
- Paid employees: Fraud was more common in charities with employees (10% with employees compared to 4% without), particularly full-time employees (15% compared to 3%). There was no difference based on whether or not a charity used volunteers.
- Type of activity: Charities which provided advocacy, advice and information (13%), sponsored or undertook research (15%) or provided other finance (13%) were more likely to report fraud. Fraud was slightly less common amongst charities which made grants (5%), provided buildings, facilities or open spaces (8%) or human resources (8%).

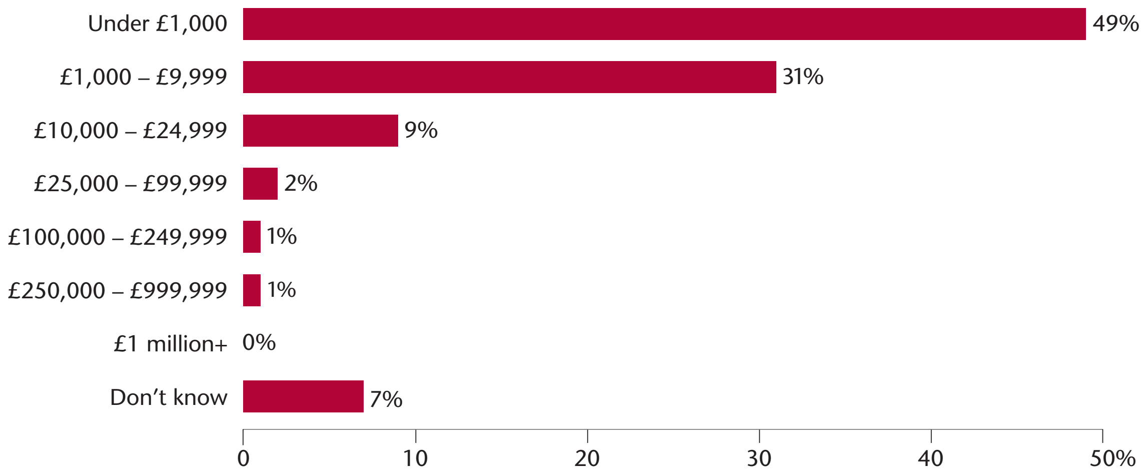
[10] For the purposes of the study, fraud was broadly defined as "behaviour that has deprived your charity of something by deceit. This might either be theft, misuse of funds or other resources or more complicated crimes like false accounting and the supply of false information". Please note that charities could place their own interpretation on what constituted fraud. This means that some charities may have reported fraud where no legal misdemeanour had occurred.

- Trading subsidiaries: There was a higher incidence of fraud amongst charities with trading subsidiaries (20%).
- Submission of annual report: There was no significant difference between those who submitted their annual returns on time (8%) and those who did not 6%).

Most frauds were of relatively low value. Half of those experiencing fraud (49%) estimated that their total direct financial loss was less than £1,000. A small minority (2%) reported losses in excess of £100,000.

91% of charities reported that they had not suffered any fraud in the last two years and a small number (1%) were unable to say.

Table 11: Amount lost in last two years



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

Table 12: Incidence of fraud

(Table shows % in each group who have experienced fraud.)

	UNWTD BASE	WTD BASE	%
TOTAL	1123	1123	7
Income			
Small (under £100k)	393	747	6
Medium (£100k – £249k)	319	168	7
Large (£250k – £999k)	216	125	11
Very large (£1 million+)	195	83	20
Employees(any)			
Yes	812	669	10
No	311	454	4
Employees (full time)			
Yes	610	399	15
No	490	694	3
Volunteers			
Yes	954	992	7
No	158	124	8
Income sources			
Donations	570	580	8
Grants	495	424	9
Investments	331	321	8
Membership fees	276	330	8
Trading subsidiaries	142	104	20
Activities			
Resource body	164	159	11
Make grants	281	300	5
Provide advice/information	300	238	13
Provide buildings/facilities	271	279	8
Provide human resources	113	109	8
Services	589	535	10
Sponsor research	81	57	15
Areas covered			
Local	691	761	6
Regional	161	132	14
National	190	152	13
International	119	116	7
External security			
Independent examination	439	565	5
Audit	685	559	10
Fraud prevention policies/programmes			
None	537	677	6
Any	586	446	9
– anti fraud	174	129	16
– anti money laundering	125	95	12
– insurance	230	180	7
– training	57	40	18
– response plan	60	45	23
– risk register	272	159	15
– whistleblowing	313	205	11

9. MOST RECENT EXPERIENCE OF FRAUD

Respondents were asked to consider in more detail the most recent experience of fraud that their charity had suffered.

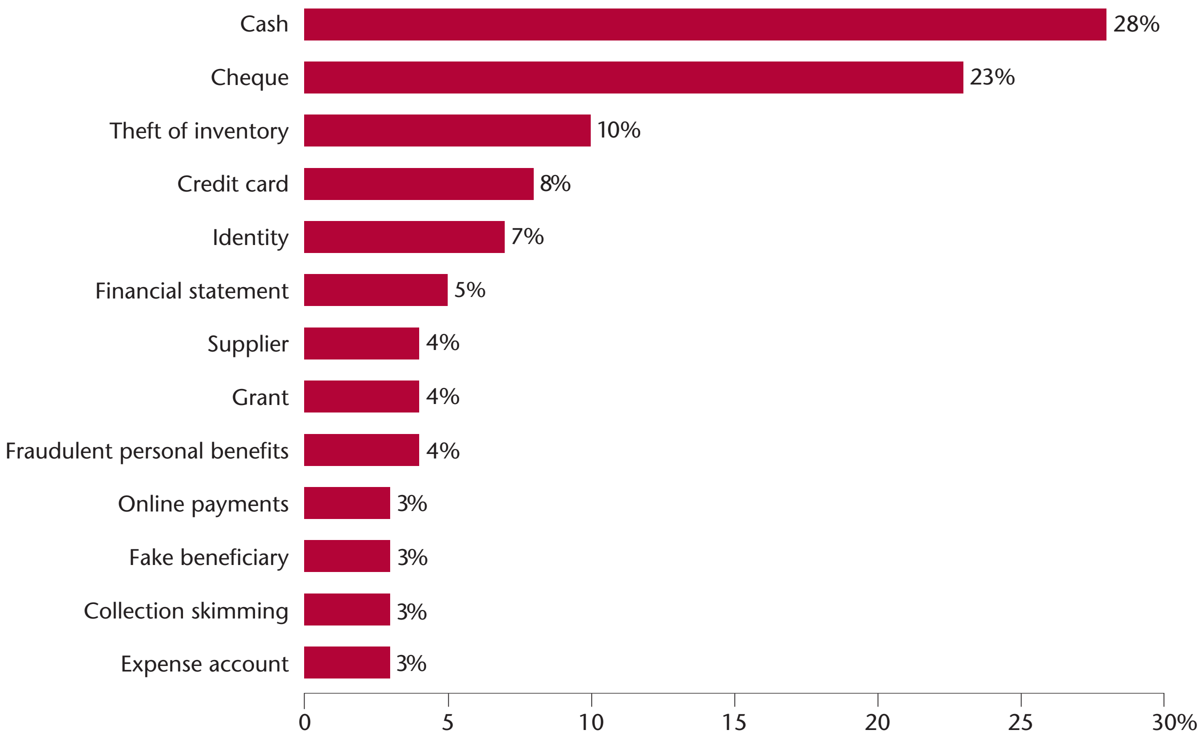
"On a day-to-day basis we're dealing with really quite a lot of cash and there is always the possibility of – I wouldn't call it fraud – pilfering"
Case 1

9.1 Type of fraud

Theft of cash (28%) or cheques (23%) were the most common types of fraud committed against the charities in this study. These were followed by theft of inventory (10%), credit card fraud (8%) and identity fraud (7%) but at much lower levels.

Cash theft was more common amongst charities with employees (34% compared to 4% without).

Table 13: Type of fraud



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

9.2 Financial loss suffered

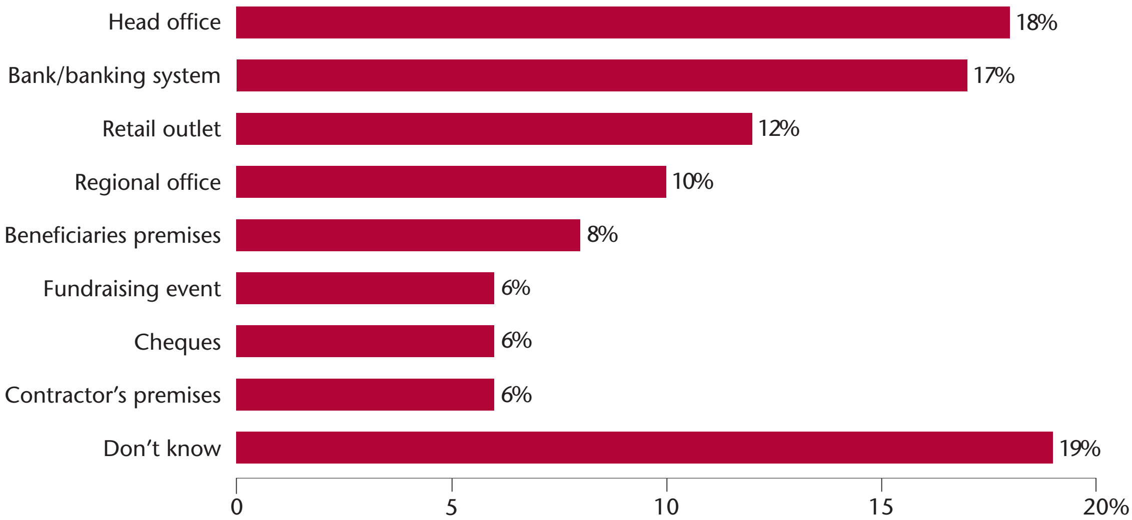
The total estimated financial loss in the most recent fraud was very similar to that noted for the total loss over the last two years. Over half (56%) had lost less than £1,000 and relatively few (2%) had lost over £100,000.

"It didn't occur to us at the beginning that this could possibly be criminal activity within our own ranks."
Case 6

9.3 Location and duration of the fraud

The most common location for the fraud to occur was in the charity's own head office (18%) or within the banking system (17%). Retail outlets (12%) and regional offices (10%) were also mentioned with some regularity. Almost one fifth of respondents did not know where the fraud had taken place (19%).

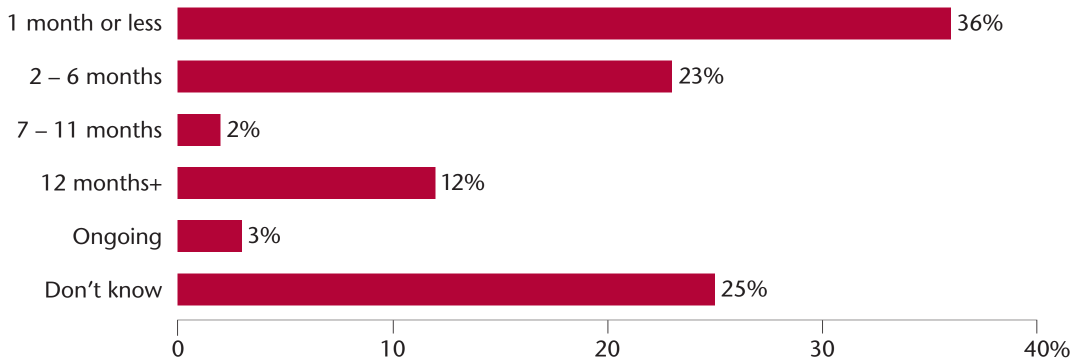
Table 14: Where fraud occurred



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

Frauds tended to be of very short duration – 36% had lasted for no more than one month. One quarter of respondents (25%) did not know how long the fraud had lasted.

Table 15: Duration of the fraud



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

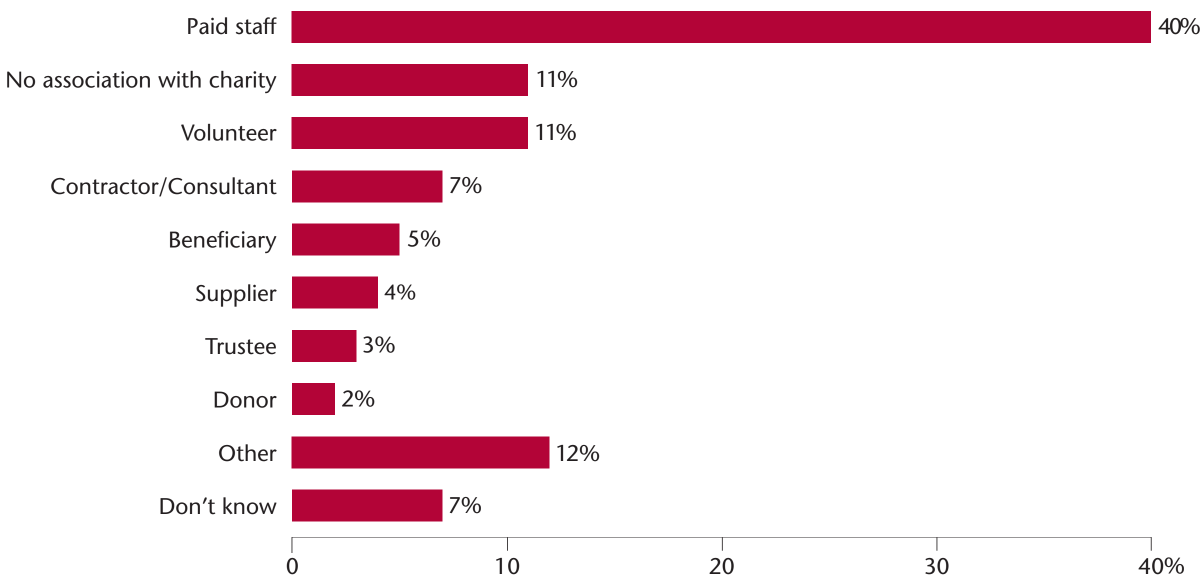
9.4 About the fraudster

Almost half of respondents (49%) knew who had committed the fraud. Where the identity of the fraudster was known the following characteristics were reported:

- Gender: The proportion of men (44%) and women (49%) fraudsters was almost the same.
- Age: Almost one third of fraudsters (31%) were estimated to be aged between 20 – 29 years. Only one fraudster was thought to be 60 years or over and two 18 years or younger. The remainder were aged between 30 – 59 years (39%).
- Relationship to the charity: In the majority of cases the fraudster had some relationship to the charity, most commonly as a paid employee (40%). At a significantly lower level volunteers (11%) and contractors (7%) were also mentioned. Other relationships, such as beneficiaries, suppliers, trustees and donors were identified by very small numbers of respondents. Only 11% of frauds were committed by an individual with no relationship to the organisation at all.
- Accomplices: Most fraudsters acted alone (78%); only a minority (13%) were known to have an accomplice and this person was equally likely to be involved or not involved in the charity.

"…they found he had all sorts of debts – not just this – and he'd been obviously using this [the fraud] to try and pacify other people that were chasing him for money."
Case 3

Table 16: Relationship of fraudster to charity

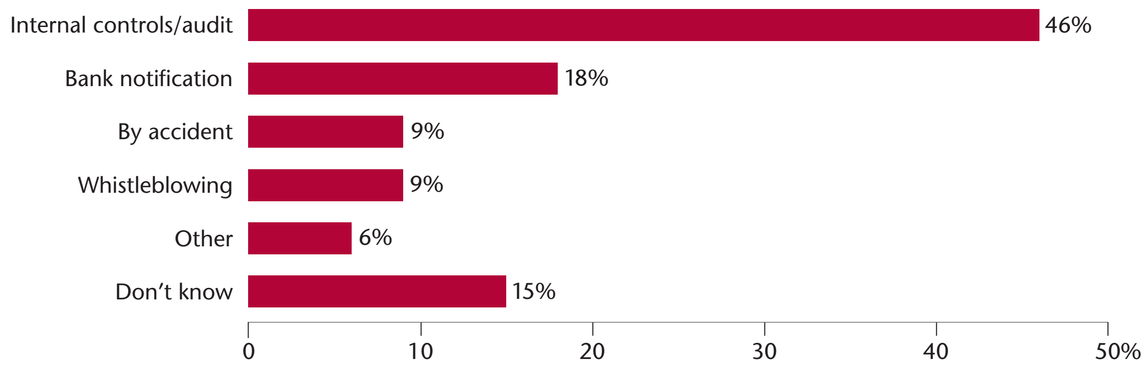


> *"…there's an opportunity cost to everybody else who would have been helped instead."*
> Case 4

9.5 Discovering the fraud

Fraud was most commonly discovered through the charity's internal controls or audit processes (46%). Other common means of discovery were bank notification (18%), by accident (9%) and through whistleblowing mechanisms (9%). These means of discovery were illustrated in the qualitative phase; one charity reported that it was notified by its bank that an account had unexpectedly gone overdrawn while another charity had discovered a fraud committed by an employee by chance while the individual was on annual holiday.

Table 17: How the fraud was discovered



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

> *"…the person concerned used to come in on her days off. We have certainly one diary entry… which shows her coming in on a particular day, taking a particular resident into town and money came out of that resident's account on that day. And everybody thought what a nice person she was."*
> Case 6

10. THE IMPACT OF FRAUD

"…we were two weeks away from going down [financially] basically – that's how close it was."
Case 3

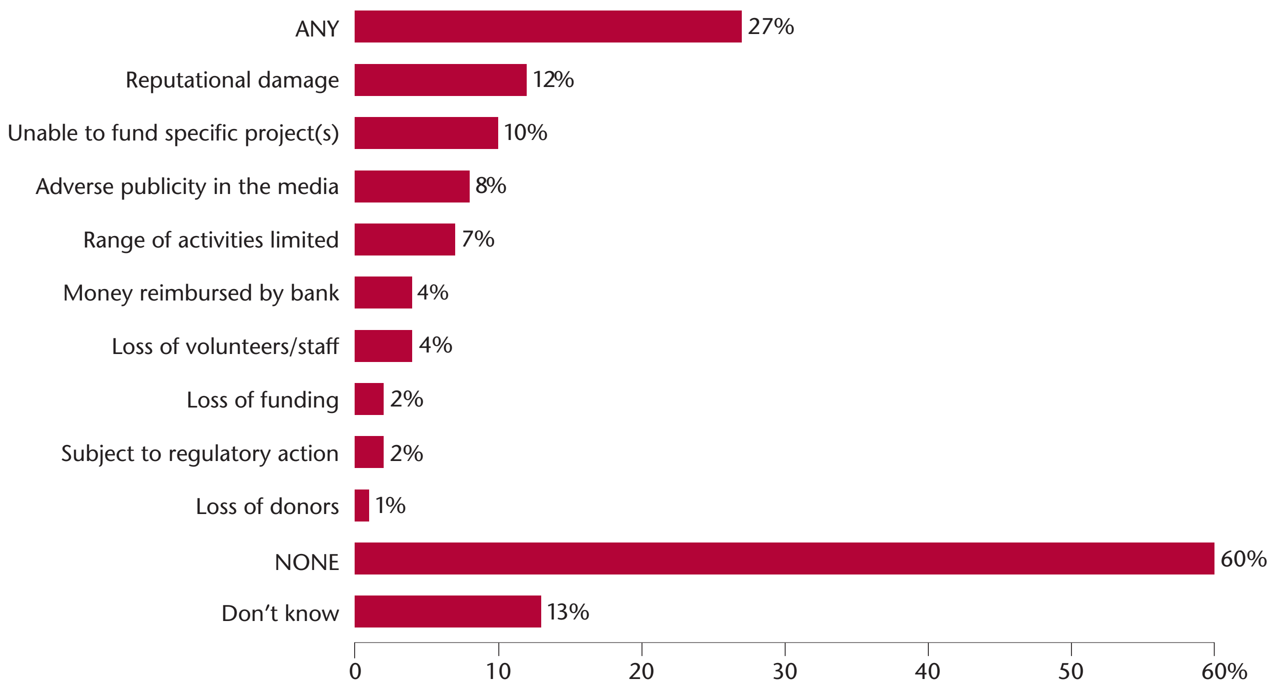
10.1 Effect of fraud on the charity

Overall, one quarter (27%) of charities that had suffered fraud reported that it had an impact on their organisation. 60% reported no impact.

Reputational damage (12%) and an inability to fund specific projects (10%) were most commonly reported amongst those charities which reported some impact. Adverse media publicity (8%) and limitation of the charity's range of activities (7%) were also mentioned by a small number of respondents.

Smaller charities were more likely to report that they were unable to fund specific projects as a result of the fraud (18% of the smallest compared to none of the largest) while larger charities more commonly reported the loss of volunteers and/or staff (10% of the largest charities compared to none of the smallest).

Table 18: Impact of fraud on charity



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

"As time goes by, staff turn over, memories fade, and [the impact] may lapse. But the people who stay longer will always remember this incident. This is going to be part of the folklore of this company as long as this company exists."
Case 6

10.2 Funders, donors and beneficiaries

As previously reported the majority of charities reported some direct financial loss as a result of the fraud (86%). For some charities this had a negative impact on activities (10% were unable to fund specific projects; 7% had to limit the range of activities undertaken) and/or sources of income (3% reported a loss of funding and/or donors).

"One of our residents was extremely distressed about it [the fraud]…the impact on him has been absolutely awful."
Case 6

10.3 Staff and others

The in-depth interviews illustrated that the impact on staff could be significant:

- One organisation had lost contracts as a result of the fraud and had to make staff redundant. Remaining employees suffered high levels of stress and several had become ill.
- Colleagues in another charity were appalled by a fraud that had been perpetrated by a volunteer who sat as a trustee on the board. It was hard to accept that their colleague and friend had let them and the charity down.
- In another charity staff became aware that money had been taken from the accounts of some learning-disabled residents. Although senior management were already suspicious of a specific member of staff, there was general concern and all felt under suspicion. Once the employees were informed who had been responsible for the fraud, there was an overall feeling of betrayal and disbelief that a valued colleague could have behaved in such a manner.

Those working in the charitable sector had particularly high expectations of their colleagues. More than one interviewee commented that people work within the sector out of commitment rather than for financial reward. They expected their colleagues to maintain the same high standards that they expected of themselves and were bitterly upset when their expectations were proved to be unrealistic.

"The effect on staff was devastating."
Case 6

"He'd been a fellow trustee; he'd been a fellow young person; he'd been involved for over two years. And they [the trustees] were absolutely gutted… they were totally shocked, appalled, gutted by it. They couldn't believe that they'd been let down. That was the main thing, the feeling of being let down."
Case 5

"…he's got himself a criminal background for relatively small amounts of money really."
Case 5

In every case where the fraudster was known to the charity, one of the reasons for the strong feelings of disappointment and shock was that the person committing the fraud had been someone who was perceived as being helpful, enthusiastic and hard working. With hindsight, this was sometimes seen as being one of the ways in which the criminal had attempted to fool his or her colleagues.

Sometimes the fraudster and his/her family could also be affected by the fraud. In one particular case the fraudster attempted suicide when his actions were discovered. The charity agreed not to report the matter to the police and in return the fraudster's wife paid back the money taken.

11. POST FRAUD BEHAVIOUR

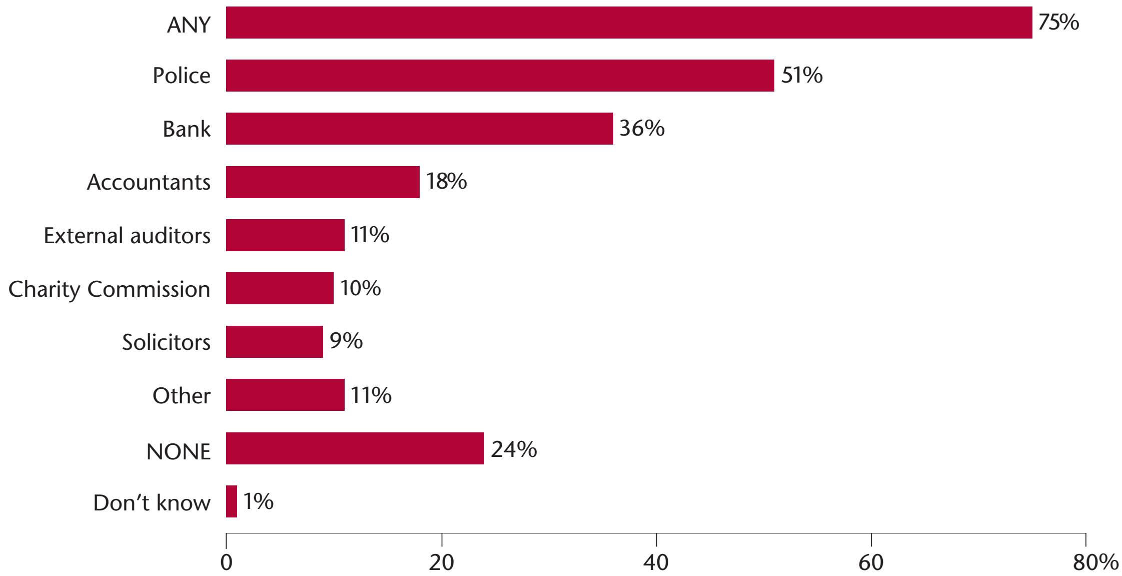
"…we told the people we thought needed to know."
Case 3

11.1 Reporting fraud

The majority of charities which had experienced fraud reported the matter to the board of trustees (83%).

In addition, three quarters of charities (75%) also reported the fraud to at least one external body, most frequently to the police (51%) or their bank (36%). Fewer charities reported the fraud to the Charity Commission (10%).

Table 19: Whether fraud reported externally



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

Almost one quarter of respondents (24%) who had suffered fraud did not report the matter to any external organisations. Some of the reasons for non-reporting were:

- Arrangements were made with the fraudster or his representatives to pay the money back.
- Enquiries to funders, the police and the Charity Commission suggested that nothing could be done.

Where organisations had not contacted the Charity Commission, this was sometimes because the respondent had considered it unnecessary or had not thought to do so. One respondent had not reported the fraud to the Charity Commission but, in discussing it with the moderator, reflected that he should do so to prevent the fraudster having the opportunity to commit fraud elsewhere.

"What I am interested in is protecting other vulnerable people, because she's out there and could get jobs working with vulnerable people. That's got to be [the] number one priority.
Case 6

> ***"…they [the charity] suddenly realised how vulnerable they were to fraud and how little money was left in the bank. And from that everybody seemed to pull together."***
> Case 3

11.2 Receiving support and assistance

Discussion with the charities also indicated the importance of third parties, both in helping to stop the fraud and in dealing with the aftermath. Most interviewees were satisfied with the response received from the bodies approached – primarily their funders, the police and the Charity Commission. One charity had particularly welcome help from a voluntary body which acted as a support service within the local council.

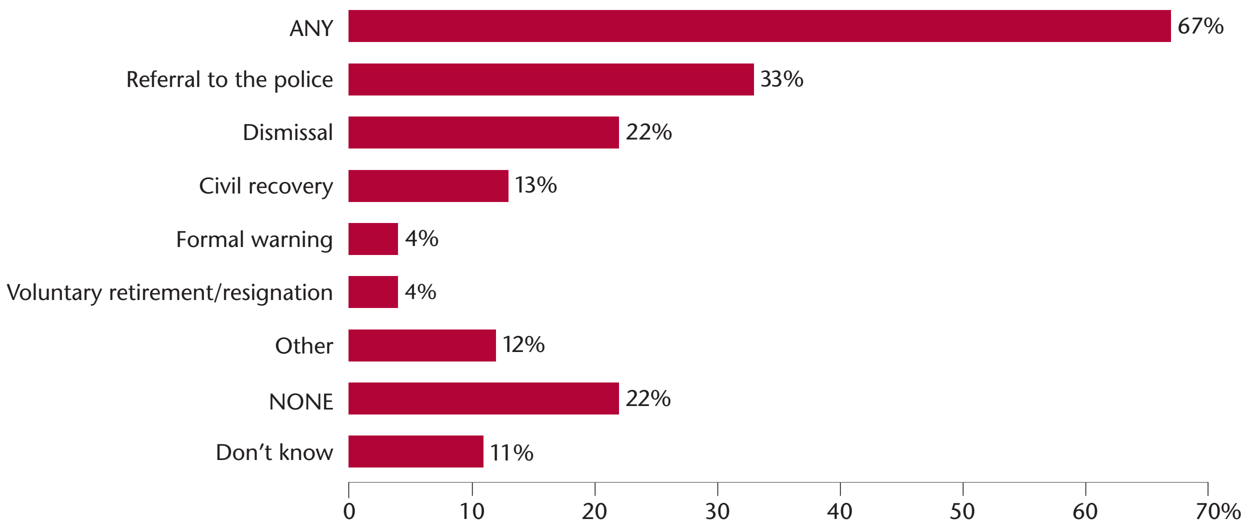
Where criticism was voiced this tended to be because respondents felt they were passed between organisations or the level of assistance offered was more limited than anticipated. For example, one charity which was the victim of an online fraud felt they were passed between the police and the bank; another respondent was disappointed with the level of help received from the local authority which funded the project.

> ***"They've [the staff] said to me, we need closure, and the only closure we can have is the court case."***
> Case 6

11.3 Taking action against the fraudster

Two thirds of charities that were the victims of fraud had taken action against the person who committed the fraud (67%). Most often this action consisted of referring the matter to the police (33%), dismissal (22%) and civil recovery proceedings (13%). Just under one quarter (22%) took no action against the fraudster. A further 11% did not know whether or not any action had been taken.

Table 20: Action taken against person committing fraud



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

"…she actually lied her way into two other jobs after she finished here…she hadn't told them the truth."
Case 6

Half of the organisations suffering fraud (51%) reported that they had recovered some or all of the funds. 40% had not recovered any of the funds.

Some charities felt disempowered because they were unable to take action against the fraudster themselves. This was the case for one organisation which had suffered at the hands of a supplier (an employee of the local council). Others were frustrated by the fact that cases took so long to get to court – if they got to court at all.

11.4 Alerting others

Some charities believed that it was important to prevent the fraudster from being employed elsewhere in the sector and to protect other vulnerable people from possible victimisation. In fact two interviewees had gone so far as to notify other charities in which the fraudster was involved of the fraud.

"…we will be judged not so much by the fact that it happened in the first place but by what we did about it afterwards."
Case 6

11.5 Changes to procedures

Two thirds of charities (66%) had made changes to procedures or enhanced controls as a result of the fraud. Most of the remainder (28%) had made no changes and a further 7% were not sure whether or not changes had been or would be made.

The most commonly cited changes were to banking procedures (28%) or a tightening of certain rules or procedures (22%). For example, several of the charities interviewed had asked their audit committee or an external adviser to examine the procedures that had been in place to see what changes, if any, should be made following the fraud. At the time of interview, one organisation was waiting for a report from an independent adviser and was already aware that recommendations were to be made in relation to how the charity dealt with cheques for beneficiaries. Another respondent who was the secretary to the board of trustees had spent a great deal of time with his audit committee examining every aspect of their procedures to try to understand how they could improve their processes and make a similar situation much less likely.

Respondents perceived the enhancement of controls as being of the utmost importance in order to demonstrate their adherence to good practice.

"With the day it dawned on us the shutters came down very dramatically."
Case 6

Those changing their procedures after the fraud were aware that they should have taken similar action before – several described this as "locking the stable door after the horse had bolted". Following the experience, several charities had been made aware of the advice on the Charity Commission website in relation to fraud and risk management.

> *"…one thing we could, we will do, is to make sure that everyone knows that its all tightly run and therefore they may be less tempted to look for loopholes."*
> Case 6

11.6 Role of the charity in the fraud

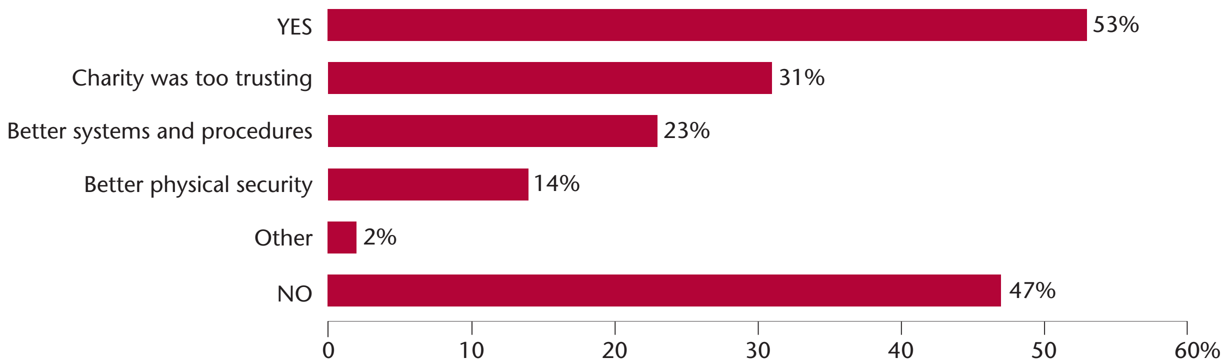
Overall, just over half of charities thought, in retrospect, that they had in some way contributed to the fraud taking place (53%). These charities were most likely to think that they had been too trusting (31%) or that they could have had better risk management systems and procedures in place (23%). A smaller proportion thought that the fraud might have been prevented if there had been better physical security in place (14%).

Some interviewees suggested that existing procedures were not rigorously enforced or were leniently administered. For example, although one charity had procedures in place to take money from residents' accounts, these were considered rather bureaucratic and inconvenient but might have prevented the fraud if they had been strictly enforced. In two other cases individuals were able to write cheques to themselves or to friends and family. In each case, procedures had been tightened up to prevent further similar occurrences in the future.

> *"…just be alive to the possibility…because nobody's got a cast iron system."*
> Case 4

Forty seven percent of charities thought that they had taken all reasonable precautions to protect themselves (47%).

Table 21: Whether charity contributed in any way to fraud taking place



UNWEIGHTED BASE (All experiencing fraud): 107
WEIGHTED BASE (All experiencing fraud): 84

> *"The main thing is internal control; that's what was totally lacking…they [the charity] put their trust in one person [the Treasurer] and nobody ever checked on what he was doing or how he was doing it… A lot of charities are in the same boat; it's all a question of trust."*
> Case 3

For more information on the Fraud Advisory Panel please contact:

Fraud Advisory Panel

Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ

Tel: 020 7920 8721

Fax: 020 7920 8545

Email: info@fraudadvisorypanel.org

Or visit:

www.fraudadvisorypanel.org

Registered Charity No. 1108863

February 2009

OTHEMA8120 02/09