AN INTRODUCTION TO BOARD SUPPORT FOR COUNTER FRAUD

Gaining board-level support for counter fraud initiatives is a critical first step towards establishing effective fraud defences.

HELPSHEET

Introduction

Trustees and senior managers of charities need to develop an effective and proportionate response to fraud. This involves building an ethical culture which makes it clear what is and is not acceptable behaviour, and encourages people to voice their concerns.

Why is board-level support important?

Fraud is often well hidden and persistent – it will not simply go away. This means charities must look for fraud proactively in order to find it. And this requires board-level support. If trustees and senior managers don't care about fraud then no one else will care about it.

Charities that invest in counter fraud activity often see a noticeable increase in fraud reports. Many of these activities have been going on, undiscovered, for some time. While this may come as a shock, the fact that the frauds have now been reported should be seen in a positive light. After all, once you know about the problems you can do something about them.

> **An effective response to fraud should be appropriate and proportionate to the size and activities of the charity.**

The benefits

Investing in counter fraud activity should be seen as an enabler for charities – not as a barrier. Inevitably, there will be a cost involved in the creation, adoption and maintenance of counter fraud capabilities, but the benefits will often far outweigh the consequences of inaction.

- **Cost savings**: It is often cheaper to prevent fraud than to deal with the aftermath. Charities may lose 5% or more of their revenue to fraud. Managing fraud effectively can result in significant returns on investment.
- **Ethical tone**: Promoting a culture of openness, transparency, dialogue and engagement shows that the charity cares about its staff, beneficiaries, donors and partners and wants to protect them from the harm that fraud can cause.
- **Reputation**: It takes years to build a good reputation, but it can be lost in moments. Because charities are sometimes viewed as soft targets it is important to show that fraud is taken seriously. This will improve trust and confidence in the eyes of stakeholders, especially donors.
- **Positive effect on staff**: Fraud can damage staff morale, cause stress and illness, and lead to redundancy and feelings of betrayal (especially when a colleague is involved). Creating a culture that does not tolerate fraud can boost morale and improve staff retention.
- **Deterrent**: Good fraud defences can deter would-be fraudsters.

Gaining board support

In order to make fraud 'real' for trustees and senior managers, there often needs to be a compelling case. This will be based on published reports about actual frauds in the sector, statistics showing the true scale of losses, case studies (including your own incidents) and a properly considered proposition.

Sometimes a deep cultural fear of publicity will prevent organisations from mounting an effective response to fraud. Here the appointment of a counter fraud champion can pay off. Equipped with the right knowledge and information, they can argue strongly for swift action and complete openness at every level.

CHARITY FRAUD AWARE

Five steps to get started

1. **Understand and assess the risk**: Talk to your colleagues and contacts within other charities to identify potential risks. Think about what could happen, what the consequences could be, and how often it is likely to occur.

2. **Estimate the cost of fraud**: Look at published research (both sector-specific and general) to gain an understanding of the potential cost of fraud your charity. The full cost of fraud is usually much greater than the financial loss itself once other costs (such as management time, productivity, reputation and investigations) are taken into account.

3. **Use real case studies**: If you have any. These will show how the charity has been impacted by fraud. An internet search is also a good way to find examples of how other charities have been affected by fraud.

4. **Promote good governance**: Remind trustees of their duty to protect the funds and property of the charity. Effective fraud prevention begins with good governance, good organisational culture and sound financial management. It also helps compliance with relevant regulation and legislation.

5. **Start with some simple, low-cost solutions**: For example, a simple fraud policy and response plan or a short fraud awareness presentation to staff can be useful starting points. So too can talking to the board and staff about how to raise concerns in confidence and without fear. None of these things will cost anything other than a little bit of time to bring it all together. Once the benefits are shown it will be much easier to justify further investment if needed.

CHECKLIST

BUILDING YOUR CHARITY'S DEFENCES

ASK YOURSELF:

☐ Have we started a regular and open dialogue with trustees and senior managers about fraud?

☐ Have we aligned our counter fraud strategy with our charity's vision, mission and values?

☐ Do we provide updates on our fraud cases to trustees and senior managers so that they understand the levels and types of fraud which have occurred?

☐ Do we measure the success of our counter fraud strategy to show return on investment?

☐ Do we attempt to benchmark our counter fraud performance against that of similar charities?

☐ Have we considered publishing anonymised summaries of our fraud cases on our website for transparency and deterrence?

☐ Have we introduced some simple awareness training to give staff the basic knowledge they need to prevent fraud?

OTHER RESOURCES

Charity Fraud Awareness Week 2019. '**The impact of culture in fighting fraud**' (e-learning resource).

Charity Fraud Awareness Week 2019. '**An introduction to counter fraud communications**' (helpsheet).

Charity Fraud Awareness Week 2018. '**An introduction to whistleblowing**' (helpsheet).