HELPSHEET

AN INTRODUCTION TO FINANCIAL CRIME RISKS

Charities working internationally can face financial crime risks due to the environments they operate in. It is essential these risks are assessed and controlled.

Introduction

All charities rely on public trust and confidence and have a duty to uphold it, making sure that charitable funds reach their intended destination and are used for their intended purposes. However, charities working internationally often face challenges which make them vulnerable to financial crimes such as:

- fraud, theft and looting;
- money laundering; and
- terrorist financing.

Common risks

- Working in conflict areas or unstable environments where there is little infrastructure and greater security risks.
- Delivering activities across different cultures and customs, where illegal activities such as bribery may be seen as the norm.
- Having more complex financial operations which may include multiple donors and currencies, often receiving and using cash or undertaking informal money transfers.
- Using intermediary partner organisations to deliver services and/or working overseas directly themselves.

By following five simple steps you can reduce the risk of falling victim to financial crime while working abroad.

Five steps to reduce the risks

1. **Assess your risks:** The risks you face will depend on the size, nature and complexity of your activities. Risk assessments are a fundamental part of how charities plan, manage and respond to risk and should be conducted regularly when working in changeable environments.
2. **Have internal financial controls:** Proper internal financial controls play an important part in managing these risks and should be followed. When reviewing controls, you should take into account changes in the charity's structure, activities and area of operation that could affect the risks to the charity.
3. **Conduct due diligence on your donors, beneficiaries and partners:** Charities need to know where their funds come from, how they are applied and who is involved in delivering their activities. Performing due diligence will help you to ensure that individuals and organisations are appropriate for the charity to be involved with and manage any associated risks.
4. **Monitor the end use of funds:** By keeping audit trails and proper records evidencing the movement of funds, you can help your charity account for its income and expenditure. Proactive monitoring – such as offsite monitoring (including reports from partners and inspection of financial records), onsite monitoring and feedback from beneficiaries and other stakeholders – can help satisfy you that charitable funds are being used as intended.
5. **Train staff and volunteers:** Adequate training should be provided to ensure staff and volunteers are familiar with your financial controls and know what actions to take if they suspect financial crime. Partners, staff or volunteers working internationally should also receive specific training on managing the risks they may face in these territories.

Taking action

If you suspect a fraud or other financial crime has occurred abroad, act promptly.

- Follow procedure (wherever you can). Ideally have a response plan so that everyone knows what to do and when.
- Take reasonable steps to preserve evidence, as it may be needed for investigative or legal proceedings. Consider whether it is appropriate to seek professional legal advice.
- Report the incident to your relevant national law enforcement agency and any local law enforcement agency.
- In the UK it may need to be reported to Action Fraud (England, Wales and Northern Ireland), Police Scotland (Scotland) and/or the National Crime Agency depending on the incident. Suspicion or belief of a terrorist financing offence should be reported to the police immediately.[1]
- Report matters promptly to your charity regulator. For reports to the Charity Commission for England and Wales treat it as a serious incident. Use the **online form** to make your report, stating what happened and how you're dealing with it.

IN MORE DETAIL …

Fraud, theft and looting
Some charities working internationally face an increased risk of fraud, theft and looting because of the complexity of working across borders, where there may be fewer controls or where local conditions make it more challenging to apply controls.

Moving funds overseas can often increase these risks because of conversion to other currencies, conversion of cash into goods and back again and, in some areas, the absence of formal banking systems and unregulated local customs and practices.

Money laundering
This usually involves the receipt of illicit funds which are then paid out into the legitimate economy, perhaps in different amounts, to different people and in different forms and currencies.

For example, in order to transfer illicit funds overseas and disguise their origin, donors may make donations to charities and apply specific restrictions regarding which partner or project is to be funded. Charities can accept donations with conditions attached, but only if those conditions are compatible with the charity's purposes, priorities and activities and, of course, are not illegal.

Terrorist financing
Charities working internationally may be operating in unstable or challenging territories, where the risks of abuse for terrorist purposes are higher. For example, proscribed groups may be active in the area or there may be financial sanctions in place.

Though proven instances of terrorist involvement in the charitable sector are low, they are completely unacceptable. Charities need to understand their duties under relevant counter-terrorism legislation – which in the UK includes the Terrorism Act 2000 – and manage the risks accordingly.[2] This includes duties to report any suspicions or beliefs regarding terrorist financing offences.

CHECKLIST

BUILDING YOUR CHARITY'S DEFENCES

ASK YOURSELF:

- ☐ Do we understand how the social, political and economic conditions of the countries we work in might affect our exposure to financial crime risks?
- ☐ Do we have robust financial controls and governance in place or are additional safeguards required?
- ☐ Is due diligence performed on donors, beneficiaries, partners and staff and is it proportionate to the risks involved?
- ☐ Do we monitor how our funds are spent and keep records of all monitoring activities, including site visits and their outcomes?
- ☐ Are staff made aware of financial crime risks and how to spot and report them?

OTHER RESOURCES

The Charity Commission for England and Wales has produced a range of resources covering this area. See **'Protecting charities from harm: compliance toolkit'**.

Charity Fraud Awareness Week 2019. **'Common risks and challenges for charities working internationally'** (e-learning resource).

Charity Fraud Awareness Week 2019. **'Getting the job done cleanly: practical tips for reducing bribery and corruption in the field'** (e-learning resource).

Charity Fraud Awareness Week 2019. **'Stand and deliver: managing an international supply chain'** (e-learning resource).

Charity Fraud Awareness Week 2018. **'An introduction to moving money safely'** (helpsheet).

1. See the Charity Commission's guidance, **Terrorism Act 2000 alert**, for more information.
2. See ss15–19 of the UK Terrorism Act 2000 for more information.

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