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BRIEFING PAPER

CHARITIES AND FRAUD

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Charities & Fraud

FRAUD: This is something we tend to avoid thinking about, as it never happens to us. Statistics alone tell us that a good half dozen of our clients and a couple of hundred readers of this bulletin are being defrauded one way or another.

If you have slack systems or if you are too trusting there could be a heavy price to pay:

- Suspicion could fall on innocent people
- The charity's beneficiaries will lose out
- A member of staff with financial problems could be put under undue temptation and fall.

The treasurer of a charity I was involved in was siphoning funds off to a separate business he was running in a number of creative ways. The more we started looking at odd situations, the more he cried out that we should trust one another. Another treasurer insisted we sign the annual accounts off late at night when we were tired and they were needed for a funding application, deadline the next day! The accounts concealed fraud of over £25,000.

EXTERNAL THREATS: The external threat is always serious, but this can generally be contained by maintaining firewalls, anti-spyware, and general vigilance against spamming.

INTERNAL THREATS: The much greater threat is from within. Trustees have a duty of care to ensure that reasonable steps are in place to protect the society's assets. Here are some practical steps:

- My number one tip is that you review all systems where funds can be transferred on one signature alone. This is more common than you might think with telephone and internet banking becoming commonplace. This is a major weakness.
- Never forget that even where 2 signatures are required on cheques, banks will generally pay a cheque signed by one person. No use saying, well it will be the bank's responsibility in that case! They might take responsibility, but if they feel that your systems are slack they might not. Can your charity cope with a protracted battle to resolve such a situation?
- Take up references for all new staff and volunteers. Don't rely on outward appearances, or a glowing CV.
- Make sure all staff and volunteers have regular time off and holidays. The one who never leaves their post may be devoted to the cause, but there could be other reasons.
- Make sure too much power is not concentrated into one person's hands. Are they ordering materials and supplies, receiving them, and paying the invoice.
- Beware the treasurer who needs a couple of unsigned cheques (which he will show you documentation for later; he never does, and you will forget). Beware too if he wants bills paid and papers

signed late in the evening when you are tired and want to get off home.

- Keep cash holding to a minimum, and make sure it is secure, with regular balancing procedures.
- Make sure you have adequate stock control. How easy is it to siphon off donated goods or other stock?
- Make sure all computer records are regularly backed up and the back up kept off site.
- Make sure all your team are protected as far as possible from temptation. Remember that even the CEO needs protection.

WHAT IF I SUSPECT FRAUD?

- Don't ignore any warning signs, go to your accountant, who will be able to make some discreet checks and advise you.
- If there is fraud, do you report it to the police? I am not going to answer this, because every situation is different, and there are likely to be serious implications whatever you decide to do. The important thing is to be well advised. I have seen situations where keeping the lid on a situation has led to a much more serious situation a few years later with an arrest being made. If it relates to terrorism or money laundering (very wide definition of this!), it's a crime not to report it.

FINALLY: Always remember that a culture that encourages transparency and openness and accepts criticism is a much safer and healthier place to be. A culture of blame and secrecy, and keeping one's head down provides the kind of atmosphere that will protect a fraudster.

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This guide is intended only to give very general advice in relation to the topics covered. These guidelines should not be relied upon as a substitute for obtaining specific and more detailed advice in relation to a particular matter. This material may be drawn from a variety of sources and we give credit where we can. If we have failed to do this on any occasion please let us know so we can put it right.

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