



Charity Fraud Survey

Fraud has become a key threat to the UK economy and is growing at an alarming rate, not only in terms of its impact on our financial and corporate institutions but also its effect upon smaller companies and the charity sector.



Dr Stephen Hill
Head of the Fraud
& Forensics Group
T: 0207 509 9320
E: shill@cvsdfk.com

Despite media accounts of high profile scams the true nature and extent of fraud within and against charities in the UK is relatively unknown. There is a perception that charities are a 'soft target' owing to their altruistic nature and reliance on the trust and goodwill of supporters, staff and volunteers.

In 2008 the Fraud Advisory Panel (FAP) and Chantrey Vellacott DFK LLP commissioned research into the nature and extent of fraud in this sector. Using self-completion questionnaires, followed up with a series of in-depth interviews, this survey set out to:

- investigate charities' attitudes to fraud
- explore anti-fraud strategies and whether these are a match for the threats
- measure the incidence, size and nature of the frauds committed
- explore whether charities of different types and sizes also experience fraud and its consequences in different ways

Dr Stephen Hill, Head of the Fraud & Forensics Group at Chantrey Vellacott DFK and a director and trustee of FAP, presented the findings at Chartered Accountants Hall on the 24 February 2009. The key highlights and findings from this survey are as follows:

Perceptions of vulnerability

- Half of all respondents think fraud a major risk to the charity sector.
- One quarter think it a bigger risk to the charity sector than to other sectors.



- Charities believe themselves to be vulnerable because unethical people exploit the sector's presumption of trust and goodwill.
- One quarter think their charity is most vulnerable to fraud by staff or volunteers.

Risk management

- Two thirds of respondents (but almost 90% of very large charities) have designated one or more people to be responsible for fraud prevention. Typically this is the chief executive, finance director or a trustee.
- But 60% of respondents have no anti-fraud policies and procedures in place at all.
- The other 40% are most likely to have a whistle blowing policy (18%), fidelity or crime protection insurance (16%) and/or a risk register that includes fraud (14%).
- Only 11% have an anti-fraud policy, and 14% of those do not systematically communicate it to staff.

Scale and incidence

- Overall, 7% of respondents have been the victims of fraud within the last two years.
- Half of them estimate their total direct financial loss at less than £1000; just 2% report losses of more than £100,000.
- Fraud is significantly more common among the largest charities (20%), those that employ full-time staff (15%) and those with trading subsidiaries (20%). The presence of volunteer workers makes no difference to the incidence of fraud.

How it happens

- Most frauds take place at head office (18%) or within the banking system (17%) and involve the theft of cash (28%) or cheques (23%).
- Almost half of all victims knew who committed their fraud. Typically it was a paid employee acting alone.
- But one fifth don't know where the fraud took place and a quarter don't know for how long it had been going on.
- Frauds are most often discovered by internal controls or audits (46%) or by the bank (18%).

Impact

- One quarter of victims report some negative impact on their organisation, mostly reputational damage or an inability to fund specific projects.
- The in-depth interviews reveal significant damage to staff morale and well-being, with some staff suffering stress, feelings of betrayal, illness and redundancy.

Response

- The vast majority (83%) of victims reported their fraud to their board of trustees. Three-quarters also reported it externally, typically to the police or the bank, but not to the Charity Commission (just 10%).
- Where the identity of the fraudster was known, two thirds of victims took action against the individual – mostly by involving the police (33%) or by dismissal (22%). About a quarter took no action at all.
- Half recovered some or all of their money.
- Half felt that, in retrospect, they had contributed in some way to the fraud taking place, generally by being too trusting or by operating inadequate risk management systems.



The challenge for the charity sector is to understand the lessons learnt in this survey and by other types of organisation, particularly in relation to preventative controls and procedures as well as improved communication and collaboration between charities, representative bodies and regulators. To assist in this area we can offer all our clients a Healthcheck to determine if fraud is or could potentially become a problem in your organisation. More information on this service can be obtained from our website (www.cvdfk.com/charities).

We believe that the work undertaken by the Fraud Advisory Panel and Chantrey Vellacott DFK LLP will help in our fight against charity fraud and challenge us all in our roles to communicate more cohesively and adopt best practice. Even if you haven't experienced a fraud, we hope the findings from this survey will help charities become more aware of how fraud can affect their organisation. Crucially we hope charities will better understand how best to protect themselves and those who rely upon them.

To download the full survey report visit the Fraud Advisory Panel website (www.fraudadvisorypanel.org).

Who to Contact

For further information or advice, please contact the author, your usual Chantrey Vellacott DFK partner or one of the following:

Brighton & Hove

Ken Touhey
01273 421200
ktouhey@cvdfk.com

Leicester

Elliot Harris
01604 639257
eharris@cvdfk.com

Reading

Ian B Johnson
0118 952 4770
ibjohnson@cvdfk.com

Colchester

Dawn Lay-Flurrie
01206 549303
dlay-flurrie@cvdfk.com

London

Sally Jayne Bonner
020 7509 9322
sbonner@cvdfk.com

Stevenage

Graham Cartwright
01438 741147
gcartwright@cvdfk.com

Croydon

Mike Gillett
020 8686 3915
mgillett@cvdfk.com

Northampton

Chris Hindle
01604 639257
chindle@cvdfk.com

Watford

Sharon Kilbane
01923 235111
skilbane@cvdfk.com

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