

CHARITY BULLETIN: BEING FRAUD AWARE

Following a report into fraud across a number of sectors, the Charity Commission is advising third sector organisations to become more alert to the possibility of scams and fraudulent practices.

While fraud levels remain relatively low in the sector, the 1,000 charities that took part in the National Fraud Authority's report lost, on average, 2.5% of their turnover in this way.

Indeed, fraud is a criminal offence which must be reported to the Charity Commission as well as the police. In 2010, the Commission received details of fraud and theft worth £21 million compared with a total income of £1.74 billion for those charities.

It is not just charities' funds which are at risk though. Fraud can also damage public trust and confidence, resulting in lower donations in the future.

To help trustees protect their charities from fraud, the charities team at Milsted Langdon considers some of the measures that should be put in place.

Internal financial controls

While implementing internal financial controls cannot guarantee that a charity will never lose money, they do help minimise the risk of fraud and theft occurring, as well as protecting against human error, bad decisions and breaches or overrides of controls.

Additionally, it is easier for charities to pinpoint fraud earlier, enabling them to take appropriate action and minimise their losses. Such controls will also ensure that the charity's financial reporting is robust and that regulations are fully complied with.

Of course, these controls will vary depending on the size and complexity of the charity.

The controls put in place will need to be implemented and understood by all members of staff and volunteers, not just trustees and senior management. The latter should, however, lead by example and ensure that the controls are an intrinsic part of how the organisation operates.

It is important to ensure that no one individual is completely responsible for any transaction from start to finish by dividing the duties responsibly – although this can prove difficult for smaller charities with less staff. In these circumstances, trustees or managers can review the transactions taking place to ensure nothing untoward is going on.



Monitoring financial activities

Some of the important items to monitor in terms of financial activity include how the charity is performing compared to the budget set for the year, whether the reporting requirements are being met and whether the actual income matches the expected level.

Such procedures should highlight any discrepancies in expected income and expenditure, and assist in identifying and investigating, at an early stage, the reasons for the change so that action can be taken, if appropriate. These procedures should also allow for the sharing of financial data with budget holders, trustees and operational managers on a regular basis.

For larger charities, some of this work may be completed by an internal or external auditor, or an audit committee.

In addition to monitoring financial activities by trustees and managers on a regular basis, it is vital that the financial controls in place are fully reviewed at least once a year to determine if they are still relevant and appropriate for the charity's needs.

Areas that should be taken into account during reviews include changes in the charity's structure, activities and area of operation, as well as in the types of fraud that the charity could be vulnerable to.

Responding to financial crime

Should financial crime unfortunately occur, charities should have measures in place for reporting actual or suspected crime, together with a procedure for how this will then be investigated. Employees and volunteers will need to receive training on what these measures entail, so that they can take immediate and appropriate action.

Any actual or suspected crime should be reported to both the police and the Charity Commission, using its Serious Incident Reporting regime.

Protecting electronic data

A charity's computer system often contains personal financial information for supporters, employees, beneficiaries and suppliers. The loss of such vital data could leave not only the charity, but also the individuals concerned, at risk of fraud and identity theft.

Consequently, it is imperative that charities develop procedures for the access, usage and storage of information on their computer systems. These will need to ensure the information is stored in accordance with the Data Protection Act, and should cover computers, hard drives, USBs and data storage devices.

Charities should also consider protecting such electronic information through the use of firewalls, anti-spyware and anti-virus software.



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