

Charity Fraud Report 2023

Increasing pressure causing
a rise in charity fraud



Contents

Foreword	1
Key findings	2
Who did we survey?	3
The results	
Perception of fraud risk: what did charities tell us?	4
Reported fraud: what fraud have charities suffered?	6
Reported fraud: what was the impact of fraud on charities?	10
Reported fraud: what was the response of charities?	12
Fraud prevention: what are the barriers to fraud prevention?	14
Fraud prevention: what financial investment are charities making?	16
Fraud prevention: what measures do charities have in place?	18
Summary	20
Top tips for preventing fraud	20
Fraud response plan	22
About us	23



This year's Charity Fraud Report underlines the need for charities of all sizes to cooperate in the fight against the threats posed by fraud. The 2023 survey clearly identifies those threats and highlights the need for collaboration across the private, public, and third sectors, so that the strength and effectiveness of our counter-fraud defences are maximised.



Sir David Green CB KC
Chair, Fraud Advisory Panel

Foreword

Since the 2022 Charity Fraud Report, the sector has continued to battle against the ever-evolving nature of the ongoing threats posed by fraud and cybercrime.

The increasing cost-of-living has placed a great strain on households and businesses, yet charities have continued to work with and support those who need them.

Unfortunately, those additional pressures are considerable and with them comes the requirement to continually adapt and enhance awareness across the board to both prevent and detect fraud.

This report highlights how 67% of charities agree that the cost-of-living crisis has increased fraud risk. This demonstrates the necessity to not only continue our counter-fraud efforts, but to enhance them even further through collaboration and shared knowledge to stop fraudsters harming those who work to help and support others.

This is the third year BDO and the Fraud Advisory Panel have worked together to produce this report, and the results obtained from the survey are invaluable. There are trends that must be addressed across the types of fraud being faced, in particular the increase in total value of losses, demonstrating why the Charity Fraud survey and Charity Fraud Awareness Week remain so vitally important.

The Charity Fraud Conference, hosted by BDO, launched this report and Charity Fraud Awareness Week 2023. This annual campaign brings together subject matter experts and industry leaders to share insight around best practice, threats and mitigation, all designed to enhance fraud awareness amongst charities and to assist with the design and implementation of their own defences and response plans.

Charity Fraud Awareness Week is designed to support a sector that supports others and we extend our thanks to all for taking part in the survey that helped produce this report. The results serve as a reference point as we all look to the future and plan the next stages of our continued campaign against fraud and cybercrime.



The support of BDO and representatives from across the public and private sector is crucial to the success of this week and we extend our thanks to all those who contributed and promoted both the conference and the campaign itself.



Tracey Kenworthy
Counter Fraud Director, BDO

+44(0)79 7619 8653
tracey.kenworthy@bdo.co.uk



Matthew Field
Head of Fraud Advisory Panel

+44 (0)77 9502 6322
matthew.field@fraudadvisorypanel.org

Key findings

Since our last survey a year ago, the economic landscape of the UK has seen another significant shift. Despite a narrowly missed recession and slowly falling inflation rates, the cost-of-living crisis remains severe, and those in need are turning to charities more than ever, at a time when charities are also feeling the crunch.

However, those in need are not the only ones turning to charities; our survey results show that more and more fraudsters are targeting charities. The results show that the prevalence and total value of fraud losses suffered by charities has grown in the past 12 months.

Charities also recognised a more significant internal impact of fraud than in prior years, reporting a loss of staff or volunteer morale as the most common non-financial impact of fraud. This is a worrying finding when the very existence of a charity depends heavily on the commitment of its staff and volunteers.

In last year's survey, most charities predicted that fraud would increase in the next 12 months, which has proven true. This year, charities expect to see a further increase in fraud in their sector over the next 12 months. Although this is not good news, charities are recognising the potential threat from fraud which, hopefully, means that they are more likely to take steps to mitigate the risk.

Charities' increasing vigilance could also have led to the increase in fraud numbers since the last survey, as charities have started to detect more fraud which may have previously gone undetected. We see these as positive steps for charities dealing with a problem that is not going away – 'forewarned is forearmed', as they say.

The ever-growing prevalence and value of fraud suffered, and year-on-year perception that fraud risk will continue to increase, highlights the increasing importance of proactive fraud risk management. This includes a charity's fraud risk mindset and its stance on fraud prevention, investment in fraud risk tools and reporting fraudulent activities.

In the face of this challenging fraud risk landscape, charities must take action to protect themselves and their assets, and ultimately their beneficiaries, from the adverse impact of fraud. As is demonstrated by this year's survey results, the impact of fraud is not just financial. Fraud impacts all parts of an organisation – from staff turnover to negative press and impact on reputation, which can hit the bottom line when donors think the charity cannot be trusted with their hard-earned funds.

36%

said they had experienced more instances of fraud than last year.

50%

of detected frauds were perpetrated by staff members, volunteers, or trustees.

56%

experienced non-financial issues as a result of fraud.

64%

expected fraud risk to increase in the next 12 months.

45%

suffered a loss of morale amongst staff, volunteers or trustees.

67%

agree that the cost-of-living crisis has increased fraud risk.

43%

reported fraud or attempted fraud.

92%

experienced financial losses due to fraud.

Note on the data:

This data is a snapshot of the UK charity sector and is to be interpreted only as a general overview of the views and experiences of the sample base. This report is drawn from 121 respondents from UK-based charities, the breakdown of which can be seen on the next page. The survey included a mixture of quantitative and qualitative questions. Comparison data was derived from research conducted by BDO and the Fraud Advisory Panel in 2022 and 2021. This year's survey included some different questions to the 2022 and 2021 surveys and has a larger sample of respondents. Percentages included in the charts have been rounded, and therefore there may be small rounding errors.

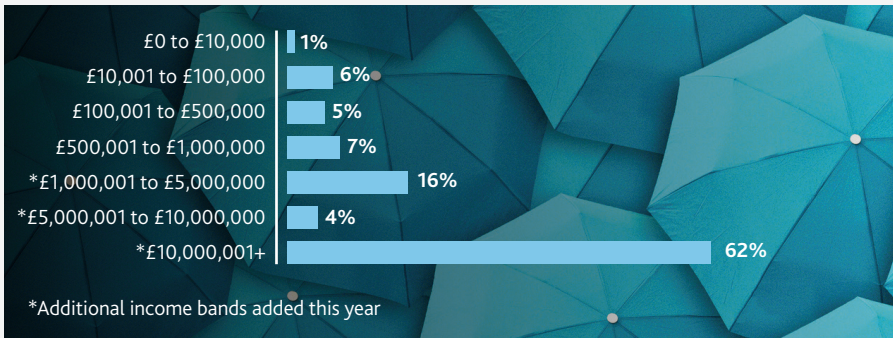
Who did we survey?

What type of charity are you?

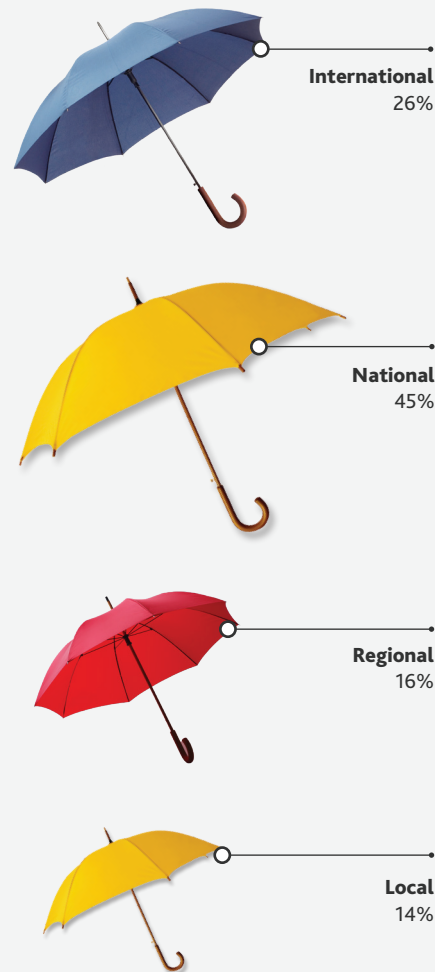
- Charitable company (limited by guarantee) 63%
- Charitable Incorporated Organisation (CIO) 13%
- Royal Charter 12%
- Trust 7%
- Unincorporated Association 5%



What is your charity's total annual income?



In what area does your charity carry out its activities?



What role do you hold within the charity?



Perception of fraud risk

What did charities tell us?

Is the risk of charity fraud increasing?

We asked charities whether they had experienced more instances of fraud or attempted fraud in the last 12 months compared to the previous 12 months; responses were relatively evenly split.

36% agreed or strongly agreed that they had experienced more instances of fraud, whilst 26% disagreed.

This response suggests a disconnect with the actual experience of fraud, set out later in this report, which shows that instances of fraud, both in terms of volume and value, have increased. It may be that respondents have a perception of their fraud exposure that is more favourable than reality. This finding is of concern, as it may lead to an unmerited complacency in the approach to fraud prevention.

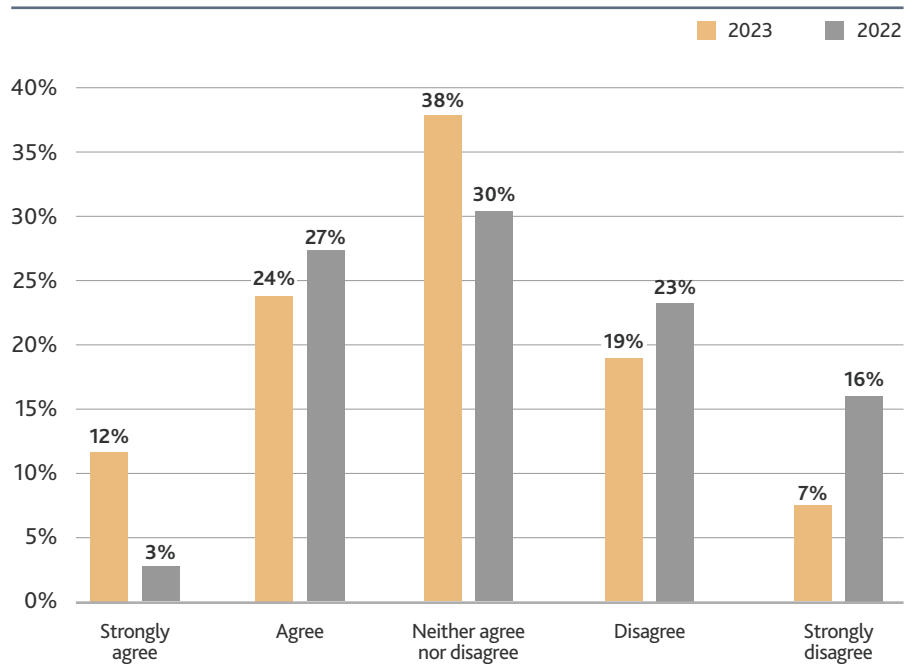
Interestingly, when respondents were asked whether they thought the risk of fraud would increase over the next 12 months, the simple answer was yes; 64% thought the risk would increase. Only 4% thought it would decrease.

In 2022, the majority of respondents also thought that fraud would increase, and this year's survey suggests that it has. This finding is interesting as there appears to be a compounding effect whereby fraud risk increases on itself year-on-year. This consistent rise in wariness of fraud should undoubtedly warrant increased resources being afforded to fraud prevention, particularly when the survey respondents' experience of fraud has also increased. However, as you will find later in this report, this is not necessarily the case.

36% agreed or strongly agreed that they had experienced more instances of fraud.

64% think the risk of fraud will increase.

My charity has experienced more instances of fraud or attempted fraud in the last 12 months compared to the prior 12 months...



Has hybrid working increased fraud risk?

Surprisingly, the proportion of charities who disagreed or strongly disagreed that hybrid working increased their fraud risk has risen from 23% in 2022 to 32% in 2023. This finding could arise from charities having had sufficient time to adequately implement the appropriate controls to address 'working from home' fraud risks, thus feeling more protected. This could also be a reflection of the normalisation of the hybrid nature of today's working environment.

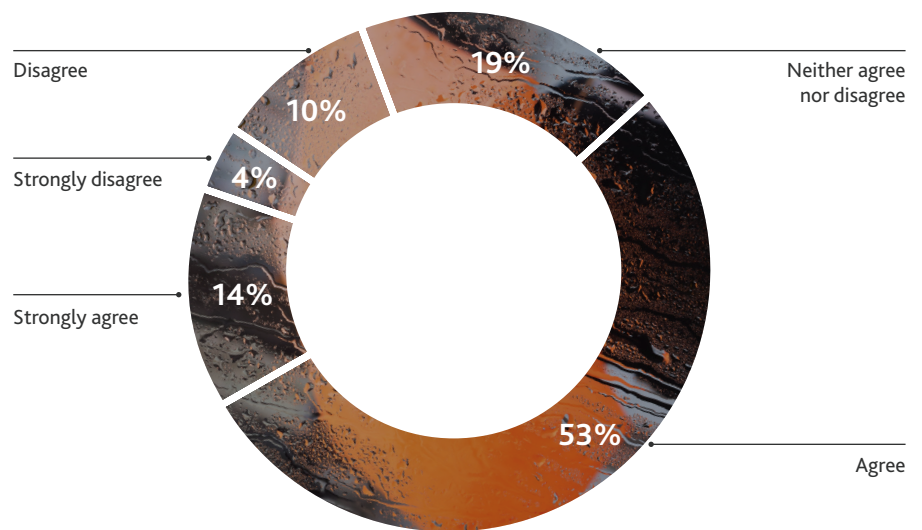


Has the cost-of-living crisis increased fraud risk?

67% of charities continue to identify the economic downturn and cost-of-living crisis as potential catalysts for an increased risk of fraud, as demand for their services spikes and more individuals and organisations come under financial pressure. As we discuss later in this report, the cost-of-living crisis has far-reaching consequences, not only increasing fraud risk, but also, potentially, our ability to prevent and detect fraud.

67% of charities continue to identify the economic downturn and cost-of-living crisis as potential catalysts for an increased risk of fraud.

The cost-of-living crisis has increased the risk of fraud to my charity...



What will be the biggest fraud risk in the next 12 months?

To try and gauge what lies ahead, we asked charities what their most significant fraud risk was likely to be over the next 12 months.

Respondents cited cyber-related fraud (including phishing) and cybersecurity most often, consistent with 2022 results, suggesting a continued concern about the threat of digital attacks. This is undoubtedly linked to charities' increasing use of online platforms to complete their work.

Grant fraud also remained in the top six most prevalent threats, while fake beneficiary fraud and misappropriation of cash or assets moved up in the rankings.

On page 7, we analyse the most common types of frauds perpetrated against charities in the last 12 months; what is interesting is that the types of perceived fraud risk does not correlate with the types of fraud experienced. For instance, as we have noted, the majority of charities perceive cyber-related fraud to be the biggest risk over the next 12 months, despite being only the third most common overall fraud.

Conversely, only 7% of charities considered misappropriation of assets or cash to be a significant risk in the future, yet this is by far the most common type of fraud in the past year.

It is possible that a charity's perception might be influenced by media reporting of topical cyber-related perils, which makes it appear more daunting and prevalent than more traditional frauds. Whilst the cyber threat is a prevalent one, and should not be ignored, the traditional human-centric frauds remain the most common, therefore, a balanced approach to combatting both current and emerging threats is required.

Reported fraud

What fraud have charities suffered?

We asked charities whether they had suffered fraud or attempted fraud in the last 12 months. **43% of charities reported a fraud or an attempted fraud, increasing from 36% last year.** This demonstrates that charities have been successful in spotting fraud which is hugely challenging, particularly when so many charities have limited and stretched resources. The experience of fraud, including charities sharing their experiences of fraud in surveys such as this, means that more charities can gain valuable knowledge and bolster their fraud defences appropriately.

Of those charities who suffered a fraud or an attempted fraud, the majority experienced between one and five frauds. However, 17% suffered more than ten, which is a marked increase on 2022 where only 9% experienced more than ten frauds.

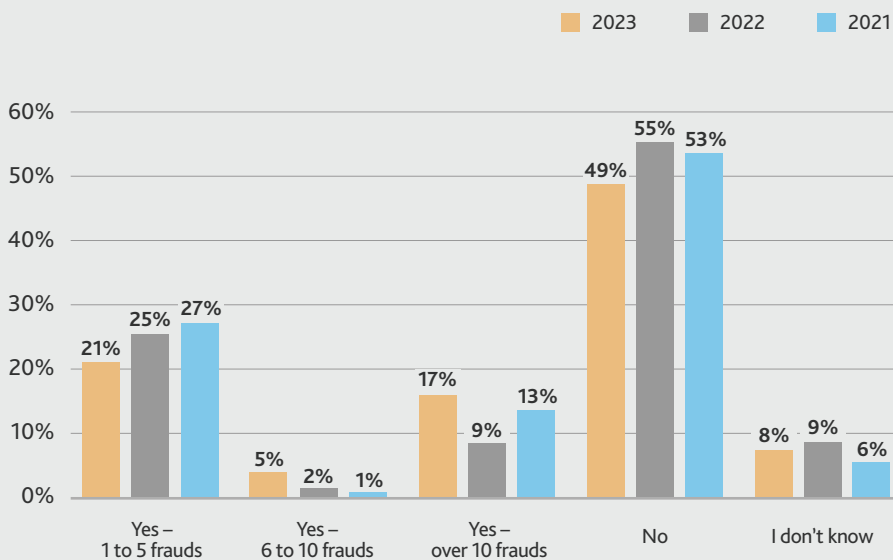
We, and the respondents to this survey, are well aware of the devastating effects that just one experience of fraud can have on a charity. For so many charities to be experiencing a fraud every other month, if not every month (or more), this will be highly disruptive and time-consuming to manage, with far-reaching consequences, both internally and externally. Even if these frauds are low in value, the consequential impacts can far outweigh the value of the actual financial losses. However, as we discuss later on page 10, the total value of fraud losses has also increased, which is a double-blow for charities.

Perhaps owing to the demographic of our respondents, most charities that experienced fraud or attempted fraud in the last 12 months were charities with income over £10 million.

Although a single fraud could potentially destroy a smaller charity, the consequences for larger charities can still have a significant impact and disrupt valuable services.

Although almost half of the respondents (49%) said that they did not suffer a fraud or an attempted fraud in the last 12 months, this is lower than last year (55%). However, it is important to recognise that some charities might not yet be aware of fraud perpetrated against them. We know from experience that many frauds can go undetected for several years depending on both the level of sophistication of the fraud and the charity's internal control procedures and fraud response plan.

Has your charity suffered fraud(s) in the last 12 months?

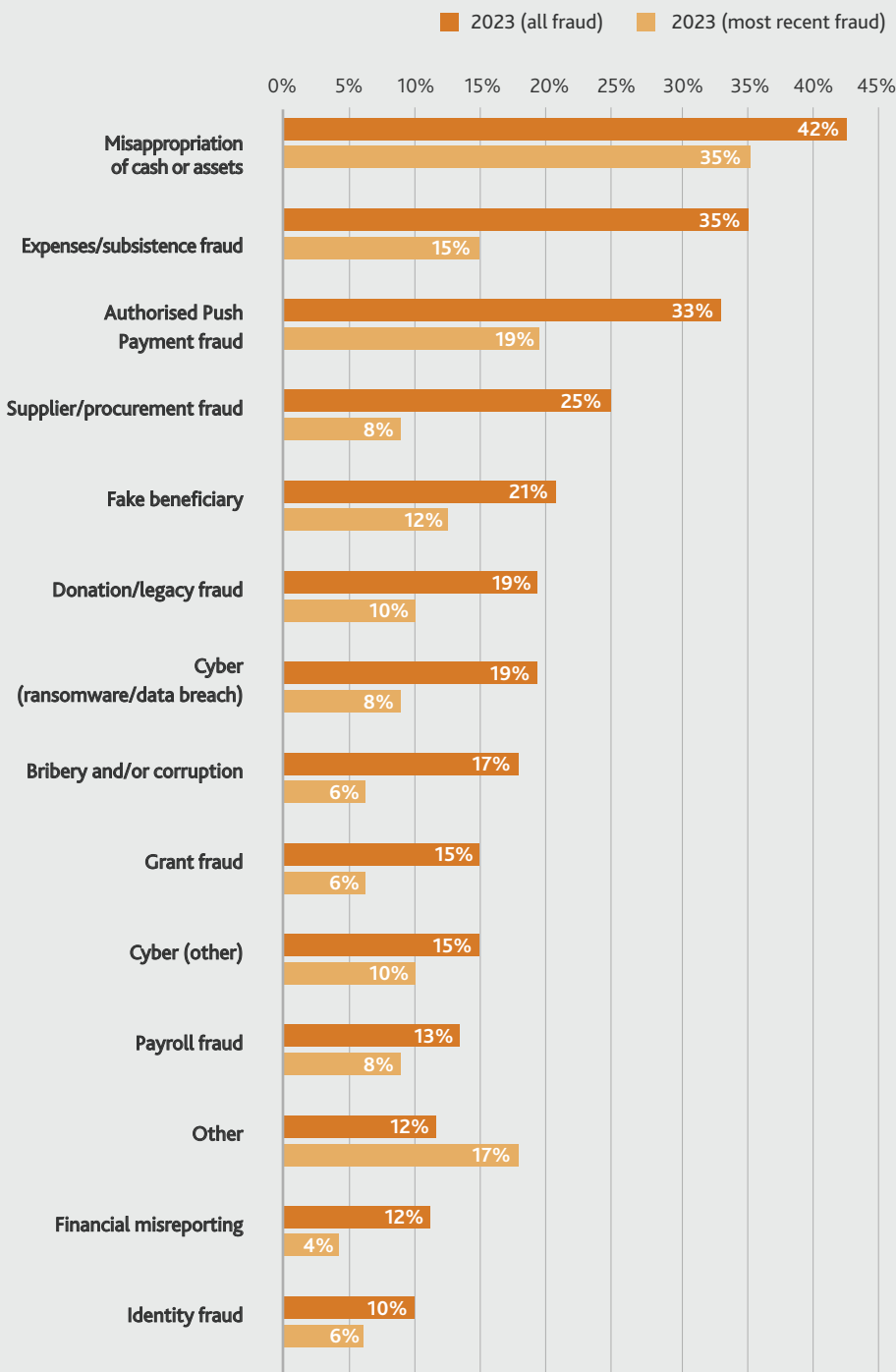


43% of charities reported a fraud or an attempted fraud.

17% suffered more than ten individual frauds or attempted frauds.



What types of fraud did your charity suffer in the last 12 months?



In last year's report, we highlighted that the internal threat of misappropriation of cash or assets was the most common type of fraud most recently experienced by respondents (43%), followed by staff expenses fraud (26%). This year, the findings suggest a continued focus on the insider threat, both in terms of the most recent fraud and all fraud over the year, at least from the perspective of frauds detected by the respondents.

This year, 42% of respondents reported misappropriation of cash or assets as the most common type of fraud experienced over the year, followed by staff expenses fraud, with 35% of respondents. The insider threat remaining prominent might be directly linked to the effects of the current climate of economic hardship, and the desperation of staff and volunteers.

However, levels of payment diversion fraud, also known as Authorised Push Payment fraud, was also high this year, with 33% of respondents targeted over the year. Payment diversion fraud happens when a fraudster impersonates a supplier by creating or amending what appear to be genuine invoices or other payment requests to divert funds to bank accounts under their control.

This type of fraud largely relies on fraudsters being able to pose as someone they are not, in order to illicit payments from an organisation. Fraudsters can obtain information through social engineering, manipulating someone into performing certain actions or providing relevant information that gives the fraudster an opportunity for a payment diversion attack. This is a very common fraud and one that can have devastating impacts on a charity, including its relationships with key suppliers.

Procurement fraud remains consistently high, with 25% of respondents experiencing this type of fraud. However, whilst it was the fourth most common fraud overall, it drops down the tables when considering a charity's most recent experience of fraud.

Reported fraud

What fraud have charities suffered?

Continued...

Other types of fraud included donation, legacy, payroll, fake beneficiaries, financial misreporting and bribery and corruption. When we asked charities about their experience of all fraud over the last 12 months, we invited them to indicate all the different types of fraud that they experienced. It is interesting that, **on average, each charity experienced three different types of fraud.**

This highlights the importance of fraud defences being broad enough to manage the wide-ranging fraud risks; this is one of the most challenging aspects of managing fraud risk. It also brings into focus the weight that should be given to regular fraud risk assessments to ensure that limited resources are being deployed in the most vulnerable areas which, should there be a breach,

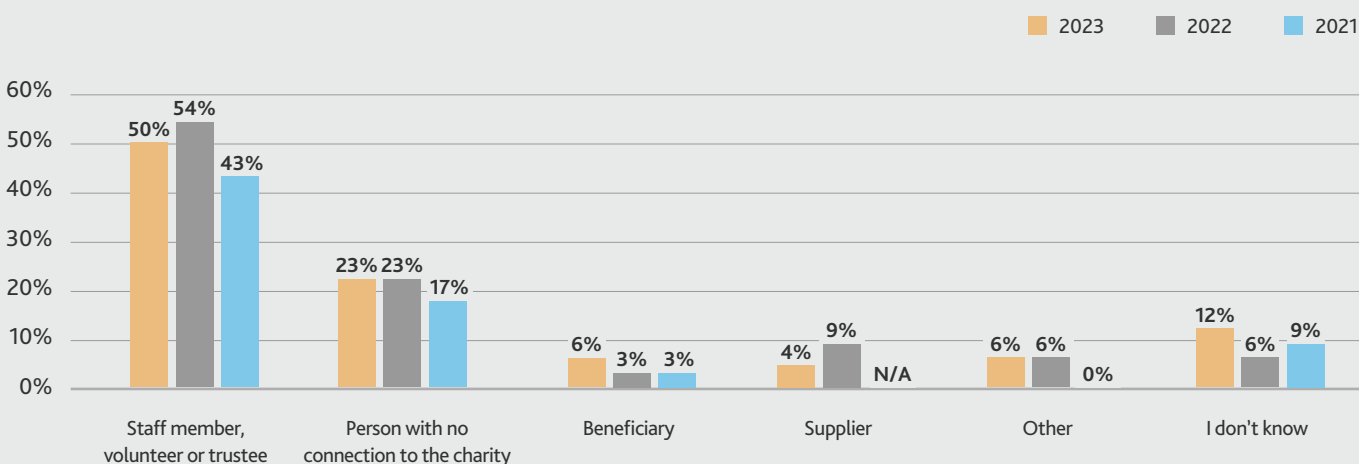
would cause the biggest impact to a charity's ability to operate and meet its core purpose.

We also asked charities about the external threat of cyber-related fraud, as this came up as a regular theme last year. **35% of respondents said that they experienced cyber-related fraud in the last 12 months.** This emphasises how important it is for charities to regularly update their cyber defences as a cyber attack and resultant loss of data, access to data, cash or assets, could be debilitating for charities.

For all fraud-related risks, whether traditional fraud or cyber-related fraud, one of the key defences is regular training for staff and volunteers, so they are aware of the risks and can assist your charity to mitigate these risks.



What relationship did the (main) alleged fraudster have to your charity?



Overall, the top four most common perpetrators (staff members, volunteers and trustees; beneficiaries; those with no connection to the charity; and suppliers) remain consistent year-on-year.

This year, 50% of detected frauds were perpetrated by staff members, volunteers, or trustees, demonstrating that the internal risk is still the most prevalent.

In contrast, only 23% of frauds were perpetrated by a person with no connection to the charity.

This further emphasises that charities must remain vigilant to all threats, whether internal or external, in an effort to combat fraud risk effectively, remembering that not all fraudsters are the ones that are perhaps feared the most (ie. the unknown external threat).

For fraud risk management to be effective, all potential fraud risks need to be assessed both in terms of likelihood of occurrence and impact, including whether the impact is financial, reputational or disruption to service. These risks should be managed through a fraud risk register and regular fraud risk assessments.

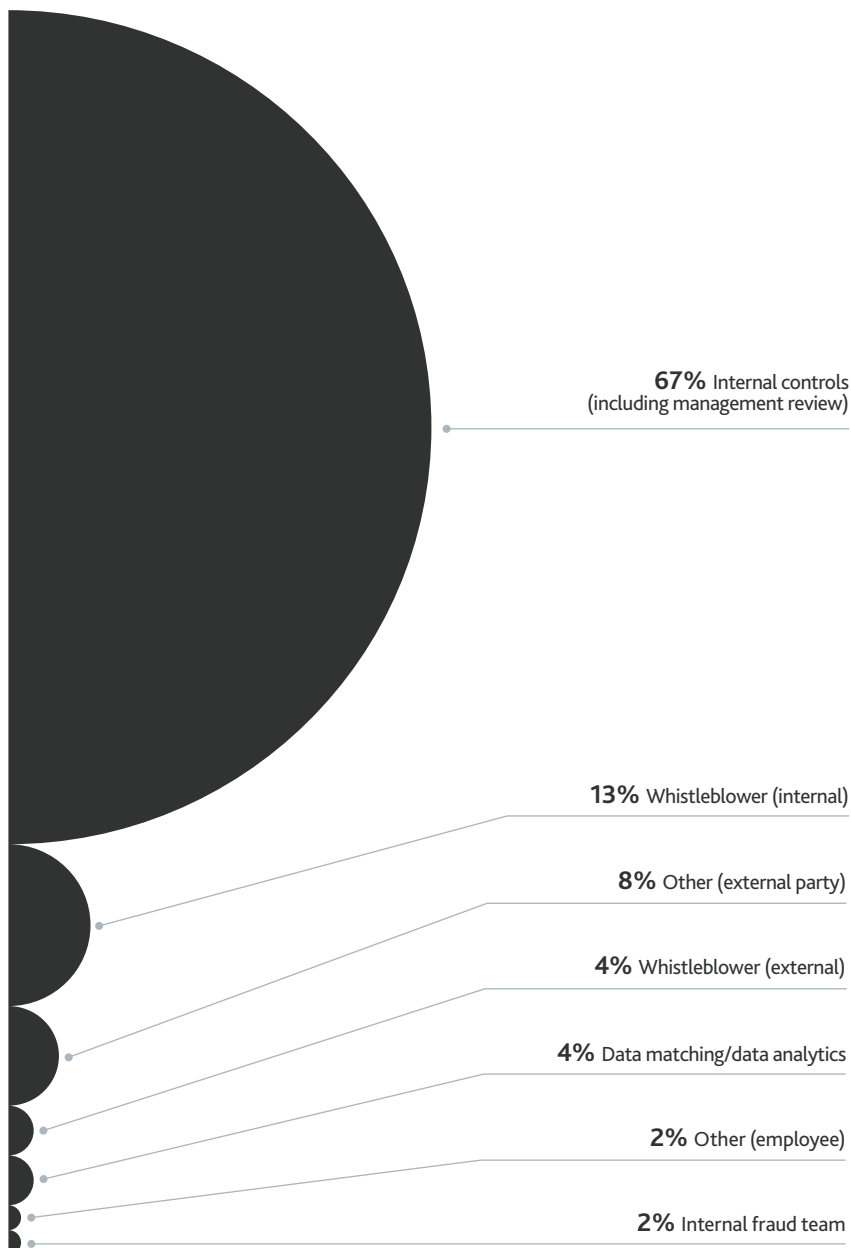


The outcome of the survey is fascinating and portrays a very helpful insight into the risks of fraud within the sector. It's really reassuring to read that Charities are now more than ever recognising these risks and using some of the tools provided by the FAP and other partners to great effect. It's important to acknowledge that fraud is a very real risk but with appropriate controls and processes can be kept to an absolute minimum.



Dave Carter
Head of Counter Fraud, British Council

How was the fraud detected?



Detecting fraud is one of the most challenging aspects of the fraud risk management framework. **Internal controls (67%) remain the most common means for detecting fraud, increasing by almost 20% from last year.** This suggests that charities are giving internal controls the attention they deserve as they are a charity's first line of defence.

Internal whistleblowers are the next most common means for detecting fraud at 13%; however, this does represent a slight decrease from the prior year (19%). The cost-of-living crisis is a potential reason for this decrease. Staff, volunteers and trustees are the eyes and ears of a charity. However, the more they come under personal financial pressure, the less likely they may be to report wrongdoing, especially if they are fearful of losing their jobs and are not familiar with the protection and recourse they could be afforded if they do report their concerns.

This point shows how important it is for charities to ensure that:

1. **Their control environment is designed with the risk of fraud in mind;**
2. **There is appropriate fraud awareness across the organisation at all levels; and**
3. **There is a clear and robust whistleblowing policy in place that all staff members, volunteers and trustees are familiar with.**

Other means of fraud detection included external parties, such as banks or suppliers (8%), external whistleblowers (4%) and data matching or data analytics (4%). Regarding the latter, digital tools can help detect both cyber and other types of fraud, depending on how they are applied.

As with any survey that deals with experiences of fraud, the results are only based on frauds that have been detected. The better charities understand their fraud risk and implement measures to prevent and detect it, the more accurate fraud reporting will become.

Reported fraud

What was the impact of fraud on charities?

Alongside the overall concern that fraud risk is increasing, this year's survey results also show that financial losses from fraud appear to be growing.

We asked charities about the financial losses for the most recent incident of fraud. Last year, 69% of respondents who suffered a fraud, suffered a financial loss as a result. In contrast, this year's results show that a staggering **92% of the charities who suffered a fraud suffered financial loss.**

There has been a steady decline in the number of charities who did not experience financial losses starting at 43% in 2021, reducing to 28% last year, and only 6% this year. Although this shows that financial loss is not inevitable, particularly if fraud is detected before any loss to the organisation, it does show that the vast majority of frauds will result in losses.

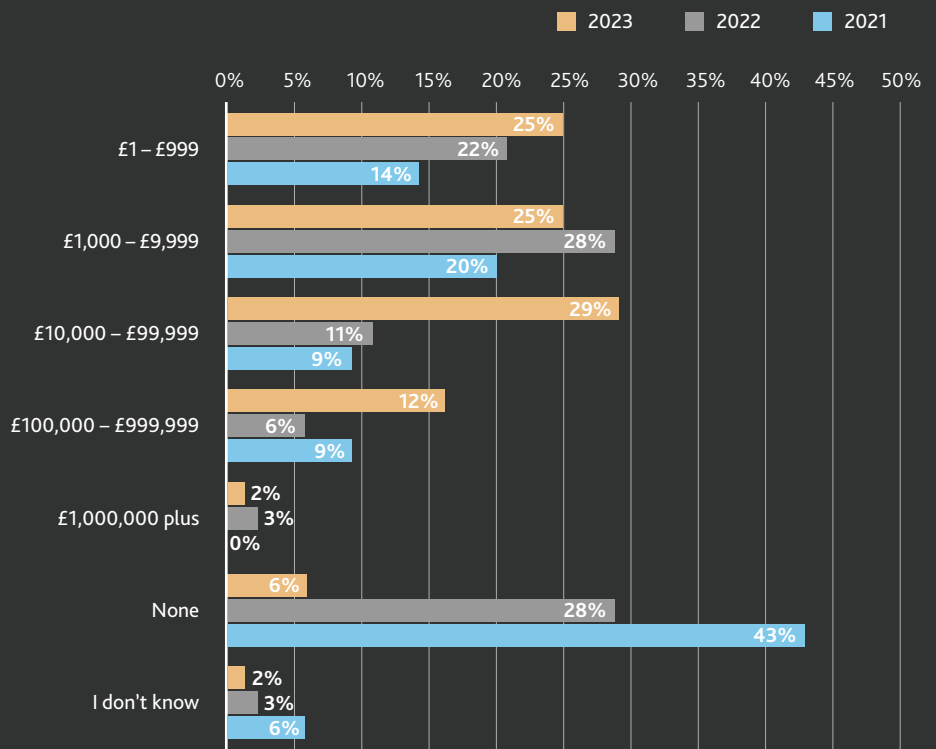
In terms of the total value of financial losses for the most recent incidents of fraud, 50% of respondents lost between £1 and £10,000 both this year and last year. However, **the number of charities that experienced losses above £10,000 more than doubled compared to last year, accounting for 43% of respondents.** Of these 12% of respondents' losses were between £100,000 and £1 million, with 2% exceeding £1 million.

In terms of total financial losses for the 12 month period, 23% of charities experienced losses between £100,000 and £1 million, and a further 4% above £1 million. This is a huge amount of valuable funds that has been diverted from charitable purposes.

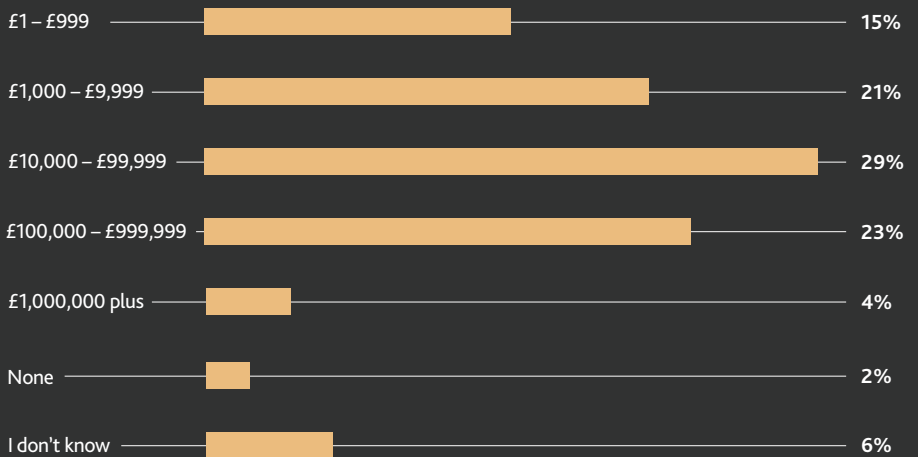
In summary, not only is the occurrence of fraud increasing, but the likelihood of financial losses and the value of those losses is also increasing. This presents a tripartite worsening of the fraud risk landscape for charities.

92% of the charities who suffered a fraud suffered financial loss.

What was the financial loss for the most recent incident of fraud?

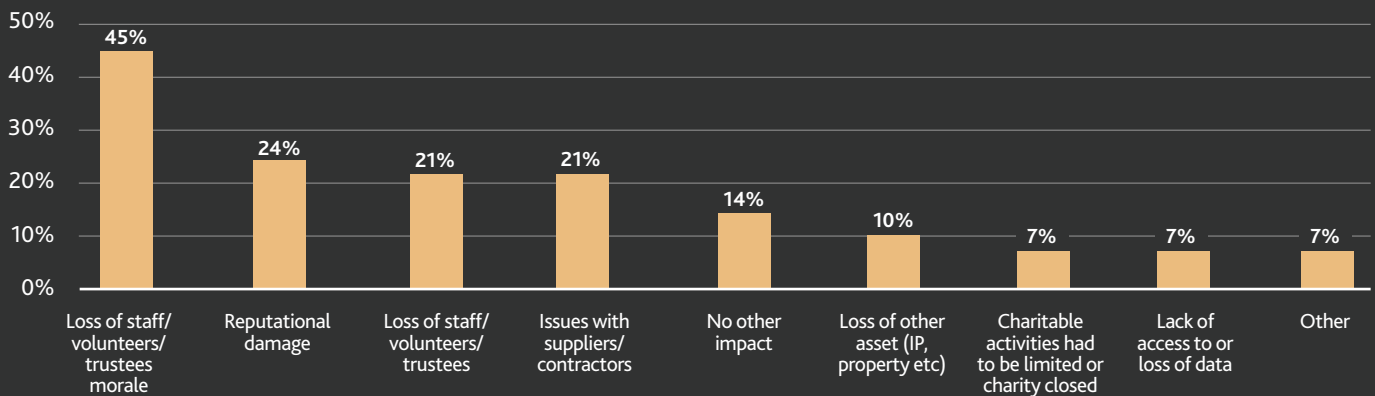


What was the total financial loss for all fraud across the last 12 months?





In what other ways did the fraud have an impact on your charity?



56% of charities also experienced some other impact in addition to financial losses, of which 65% experienced more than one.

Of course, financial loss is not the only impact that fraud can have on a charity. 56% of charities also experienced some other impact in addition to financial losses, of which 65% experienced more than one.

45% of respondents said they suffered a loss of morale amongst staff, volunteers or trustees, making this the most common impact outside of financial losses. 21% also said that the impact went beyond morale issues and actually resulted in a loss of staff, volunteers or trustees from their organisation.

The second most common non-financial impact was a loss of reputation, reported by 24% of respondents; this was the most common impact last year. The focus this year on internal consequences, instead of external repercussions, such as the opinions held by the general public, is perhaps indicative of the general level of vulnerability that charities are feeling. Dedicated employees and volunteers struggling with increasing cost-of-living pressures may find issues at work caused by fraud to be the final straw, and charities are feeling the impact.

A charity can control the knock-on effects of fraud by being proactive, open and honest (within the bounds of confidentiality restrictions), engaging with staff members and creating a proactive counter-fraud culture with robust whistleblowing procedures – this stance may improve morale and encourage staff retention, even through the most difficult of times.

21% of respondents said they experienced issues with their suppliers or contractors due to the fraud, and 10% said they lost, or lost access to, data due to fraud. Both of these can have a direct impact on a charity's ability to continue providing valuable services.

In last year's survey, 36% of respondents who reported a fraud said that other than a financial loss, there had been no other impact on the organisation. This year, this figure has dropped to 14%. In our experience, there are always additional consequences. Therefore, hopefully, this shows that the true impact of fraud on charities beyond the immediate financial loss is becoming more recognised. This is positive as these impacts should not be underestimated. It can adversely impact staff, volunteers, beneficiaries, donors and suppliers if not handled appropriately.



The 2023 Charity Fraud Report shows that we are now looking at the issue of fraud through new and increasingly complex lenses. Most charity leaders recognise that the economic downturn and the cost-of-living crisis can be catalysts for increased fraudulent activity, from both inside and outside their charity.

However, the increasing financial pressures that charities are under can sometimes make taking action a lower priority. Your staff, trustees and volunteers are the eyes and ears of your organisation and are on the front-line of fraud prevention. It's vital that they are able to recognise different types of fraud and understand its potential impact.

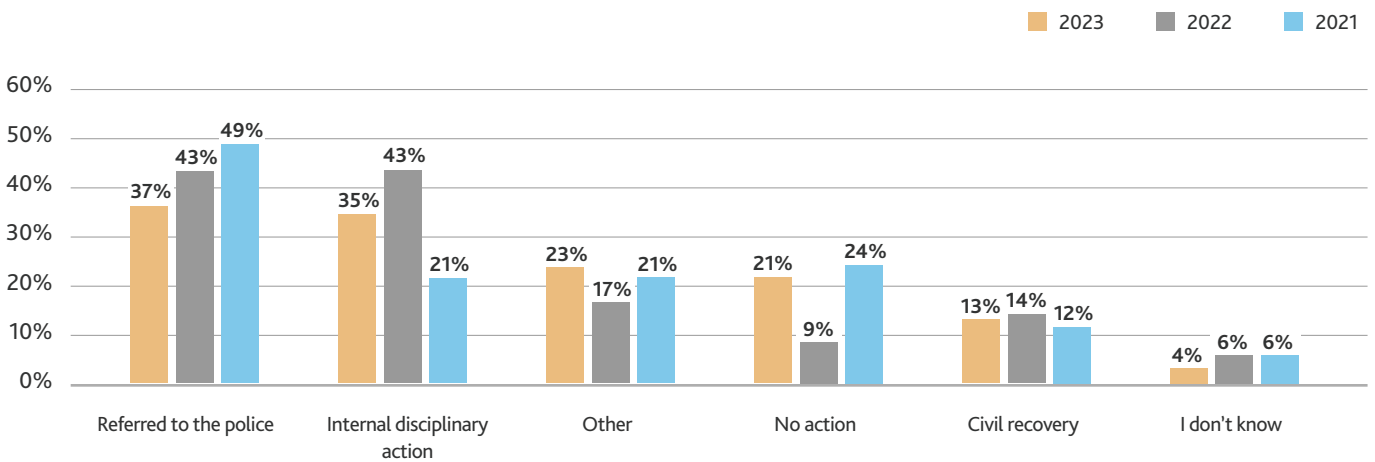


Rui Domingues
Director of Finance and Operations,
Charity Finance Group

Reported fraud

What was the response of charities?

What action(s) did your charity take against the alleged fraudster?



Of the charities who said they had suffered a fraud in the last 12 months, **75% took more than one type of action in the aftermath of the fraud.**

37% reported the fraudster to the police, which is down on numbers reported in the last two years (43% in 2022 and 49% in 2021). This might indicate that charities are seeking alternative forms of justice. We know from experience that, even in the face of overwhelming evidence to support a case against a fraudster, a fraud referral may not make progress beyond the initial Action Fraud report.

A similar proportion (35%) chose to deal with the fraud through internal disciplinary action, which is also slightly lower than last year (43%). This ties into the finding that the majority of frauds perpetrated against charities this year was by someone on the inside of the organisation.

In addition to the general decline in the two most common paths of action, instances whereby charities took no action increased from 9% to 21%, rising closer to the highest levels of inaction in 2021 when 24% of respondents took no action. The recent decrease in action taken could be a concerning metric.

However, the reasons respondents provided for not taking action included not being able to identify the fraudster or another party already taking action. The main point to stress is that action should be taken, where possible, whether by the charity or another party if that is more appropriate.

23% of charities said that they took some 'other' type of action, including:

1. Supplier – the contract was terminated
2. Beneficiary – no longer entitled to receive services
3. Bank-related fraud – the bank was taking action against the fraudster
4. Ongoing investigations – the investigation was ongoing and therefore an outcome had not yet been reached.

Charities could also consider private prosecutions, which are criminal proceedings that are commenced privately, rather than by the police or other prosecuting authority. In circumstances where charities are unable to get the criminal authorities to pursue a prosecution, this might be their only option, particularly if they want to ensure that the fraudster is held to account and unable to put another organisation through the turmoil and aftermath of a fraud that they have themselves endured.

Indeed, in the last 12 months, we have seen several instances of charities holding fraudsters to account through private prosecutions where they are recovering costs and losses at the same time as removing the threat. Examples of successful private prosecutions in the last 12 months, as reported in the press, include:

- ▶ Annette Wilcox was found guilty of defrauding Macmillan Cancer Support by falsely claiming to be raising funds for the charity but keeping the funds for herself. She pleaded guilty to two counts of fraud by false representation; and
- ▶ Fraser White pleaded guilty to submitting 34 false grant applications to the Football Foundation with a value of £200,000. He submitted false invoices and bank statements in support of fake claims in the name of real football clubs. He was jailed for almost three years.

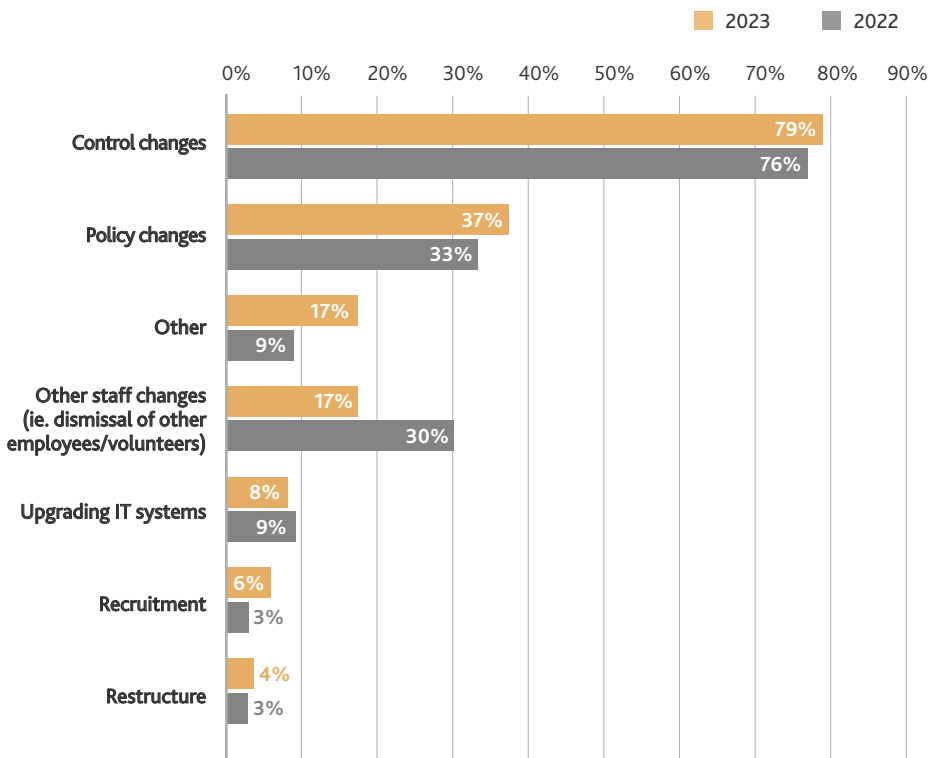
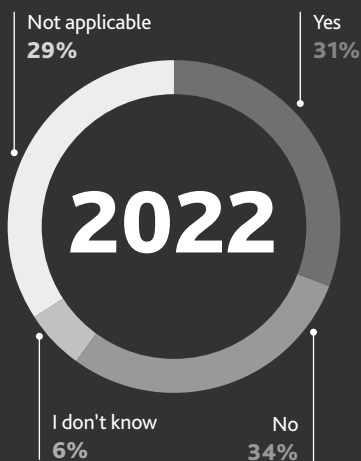
Were any of the funds recovered?



The most common response from charities this year was that they did indeed successfully recoup at least some of their losses (44%). This finding presents an interesting difference from the prior year, whereby most charities reported that they did not recover their losses (34%). It may be indicative that charities are being more proactive because they are more aware of the tools available to them to make recoveries, whether in the civil or criminal courts.

This is an interesting result in light of the responses on remedial action taken (ie. a decrease in referrals to the police, internal disciplinary action or civil recovery). However, as set out on page 12, there are a variety of reasons for the decline in these more traditional routes, including alternative routes such as private prosecutions.

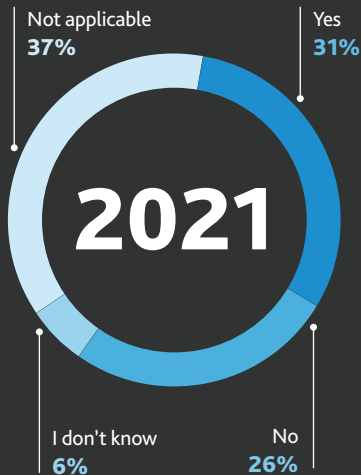
Was any remedial work undertaken as a direct result of the fraud?



We also asked charities about remedial action taken after an instance of fraud. 79% of respondents stated they had instigated control changes, and 37% made policy changes, both increasing from last year. These are positive steps and should be commended, particularly as internal controls have been identified as the most prevalent detection method.

44% successfully recouped some or all of their fraud losses.

79% of respondents stated they had instigated control changes.



Fraud prevention

What are the barriers to fraud prevention?

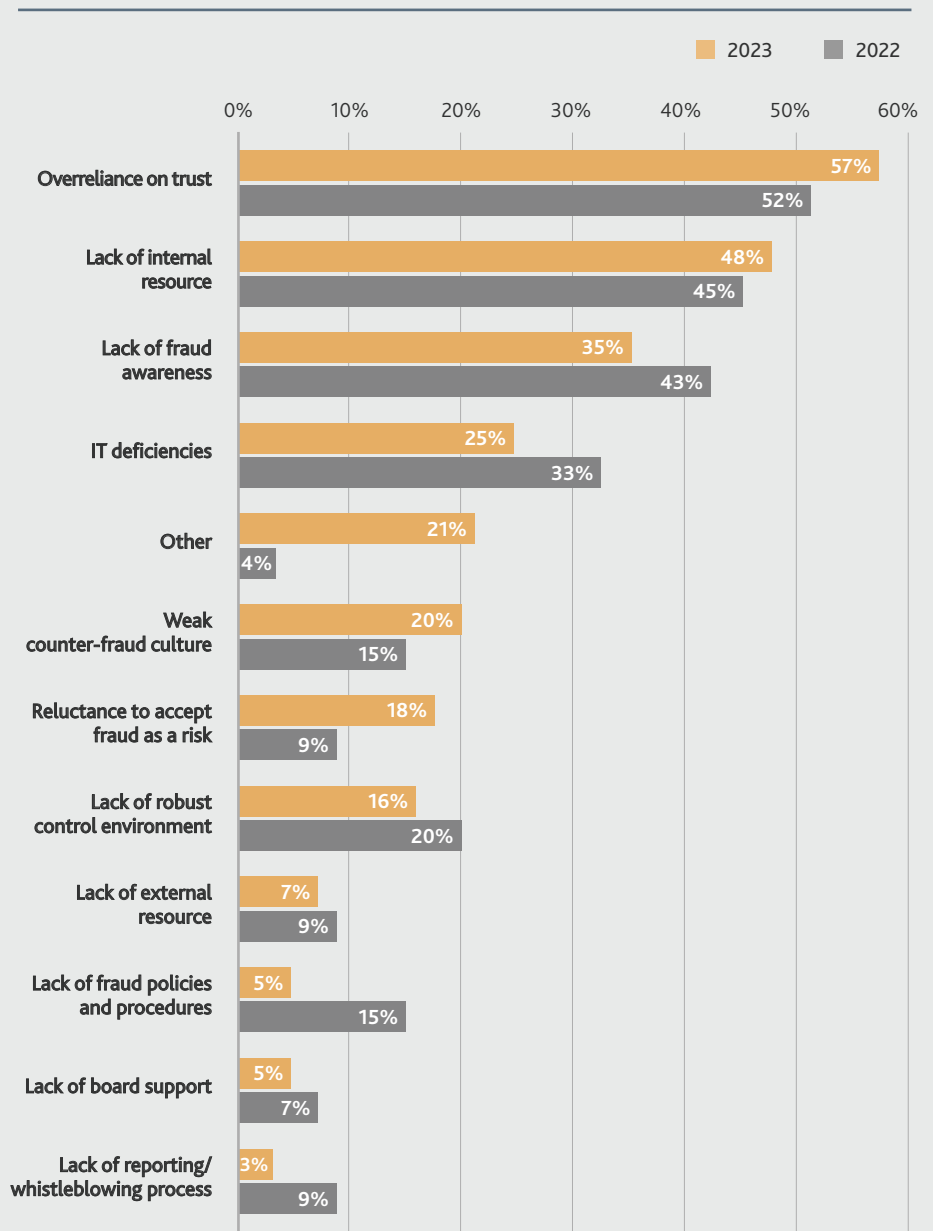
Understanding charities' fraud risks and making sure prevention measures are in place are two exercises charities should complete regularly and certainly on an annual basis. Although there are some consistent fraud risks at play at any given time, there are constantly changing and evolving tactics being deployed by fraudsters and charities need to keep up with emerging trends to stand a fighting chance of mitigating these risks.

The most common obstacle to preventing fraud was a culture of over-reliance on trust, with 57% of charities identifying it as a key concern. While trust is a fundamental part of organisational culture, and often a necessity in charities, when resources are lacking, and small teams are stretched, it is not an anti-fraud control.

Unfortunately, in our experience, it can be some of the most trusted and long-standing employees who take advantage of that trust when the opportunity arises. Trust needs to be balanced with a robust anti-fraud culture, fraud awareness, practical internal controls and segregation of duties, to ensure that checks and balances are in place. Employees and volunteers should also be encouraged to speak up if there is something they are unsure of.

48% of respondents cited a lack of internal resources (ie. people) as a barrier to fraud prevention – this is something that will become even more critical as the economic climate and cost-of-living crisis puts even further strain on charities' resources and programmes. As teams become more and more stretched, it is easier for opportunities to arise and fraud to go unnoticed.

What obstacles does your charity face in preventing fraud?



57% identified a culture of overreliance on trust as a key concern.

A lack of fraud awareness was cited as a concern for 35% of respondents.

Interestingly, 34% of respondents also said they did not know when their organisation last conducted fraud awareness training or hadn't completed it in at least three years. Staff and volunteers are the eyes and ears of every organisation, and by proactively arming them with knowledge and awareness regularly, fraud risk can be more effectively managed.

25% said that IT deficiencies were an obstacle to fraud prevention, which is an issue given the increased concern around cyber-enabled fraud and the potential cost implications of widespread infrastructure upgrades. However, we also note that this has decreased from 33% last year, which might indicate that charities are more confident about their IT controls and defences.

16% of respondents said that a lack of a robust control environment was an obstacle to fraud prevention. This is a concern given that 67% of frauds experienced by charities were detected through internal controls, which demonstrates its fundamental importance for fraud detection.

Interestingly, the top three barriers to fraud prevention (an overreliance on trust, a lack of internal resources, and a lack of fraud awareness) remain consistent with the top three barriers reported by respondents in the prior year. This suggests charities should be proactively breaking down these barriers and creating action plans to address these issues in the next 12 months.

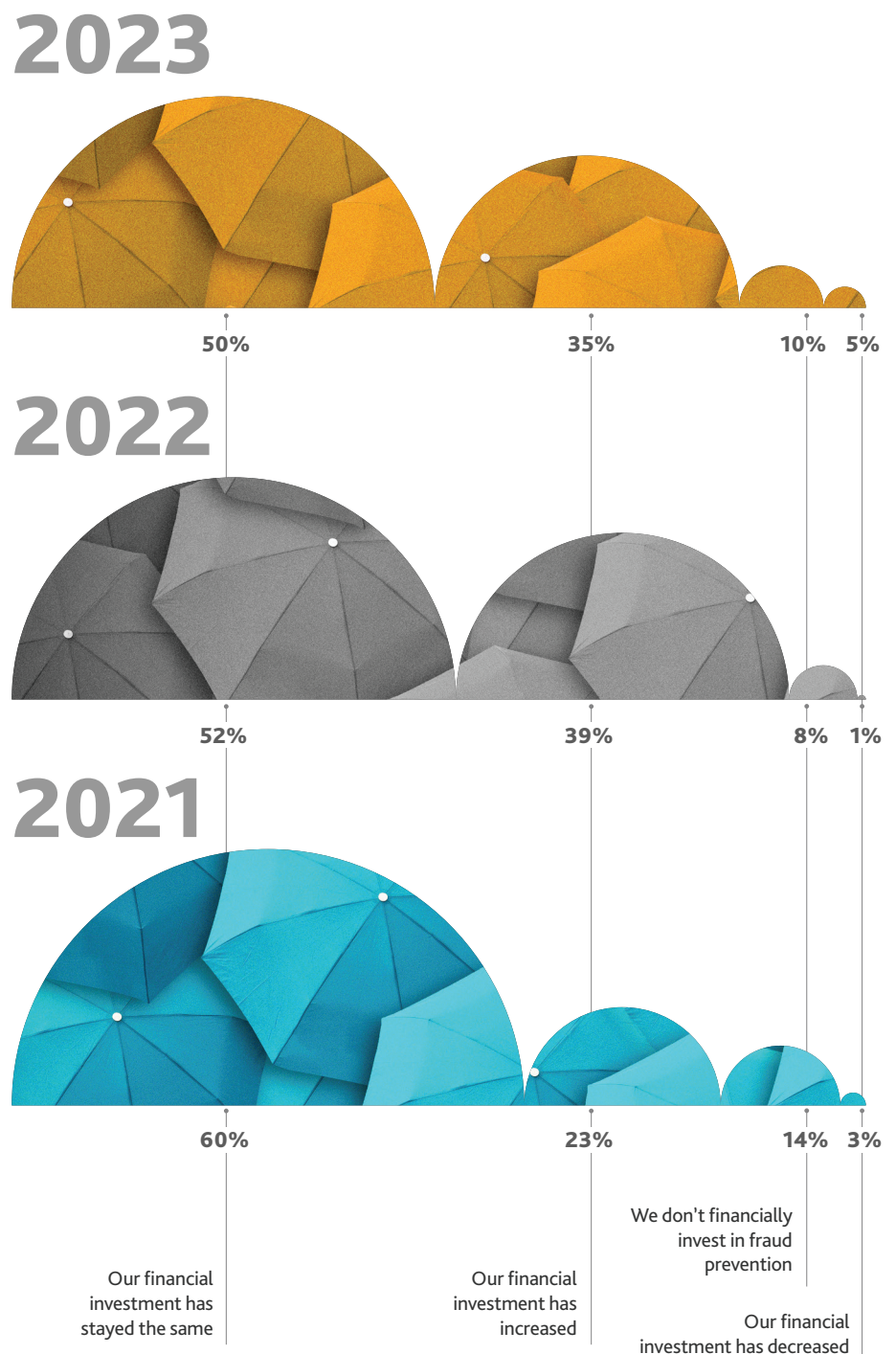


Fraud prevention

What financial investment are charities making?



Over the last 12 months have you increased or decreased your financial investment in fraud prevention?



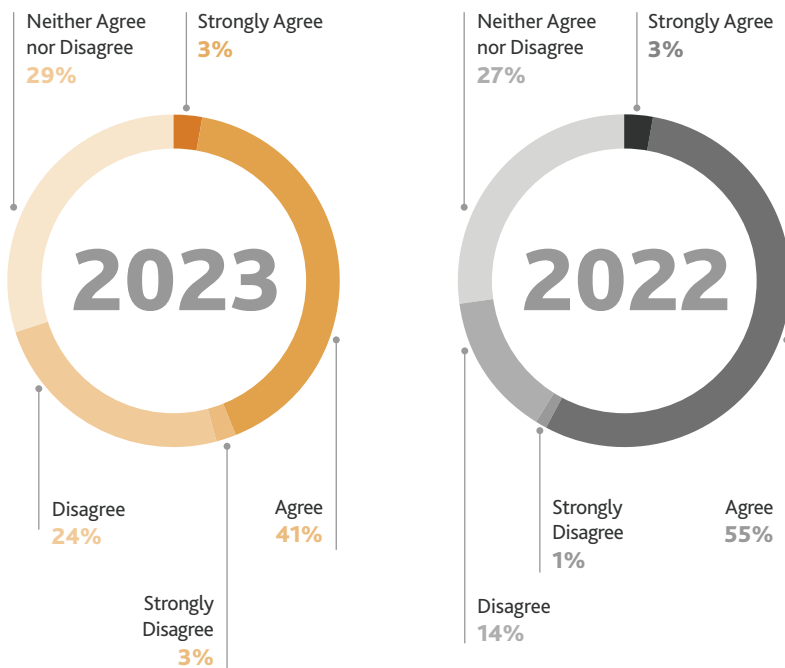
To understand how prepared charities are to tackle fraud, we asked about their financial investment in fraud prevention over the last 12 months. Just over a third (35%) of respondents said their financial investment had increased, which is slightly lower when compared to last year (39%). 50% of respondents said their financial investment had stayed the same. The number of charities that said they do not invest financially at all rose from 8% last year to 10%, as indeed did the number that said their financial investment decreased (1% last year to 5% this year).

It is notable that more charities are investing less in fraud risk prevention, especially in light of the increasing prevalence and value of frauds which have been reported in the past 12 months. Similarly, when most charities expect fraud to increase in the next 12 months, this seems counter-intuitive. It is likely that charities are already bearing the impact of this decreased investment, given the heightened fraud losses which have been reported.

44% of respondents agreed or strongly agreed that their financial investment in fraud prevention was enough to address their fraud risks. However, 26% of respondents thought their charity's current investment was insufficient.

It is encouraging that a significant proportion of charities acknowledge and are aware that their investment is not sufficient to tackle the threat faced, highlighting a recognition of the problem, but also a requirement for investment to be put in place to tackle it.

My charity's financial investment in fraud prevention is enough to adequately address our risks...



Fraud prevention

What measures do charities have in place?

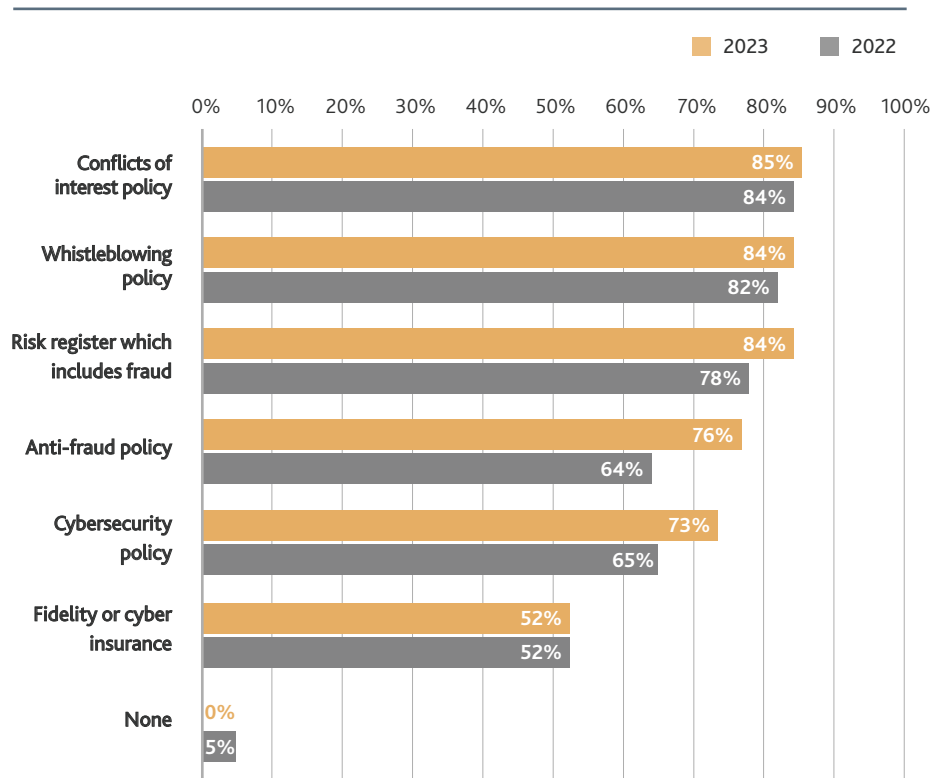
The old adage 'prevention is better than cure' holds true when it comes to good fraud risk management. We asked charities what fraud prevention measures they had in place in their organisation.

Policies are a good indication of whether a charity has considered the various risks associated with fraud. **Similar to the prior year, most charities said they had conflicts of interest (85%) and whistleblowing (84%) policies in place.** 84% also said that they had risk registers which include consideration of fraud.

It is good news that the number of charities with an anti-fraud policy (76%), a cybersecurity policy (73%) and a risk register that includes fraud (84%) have all increased since last year. These are essential policies as they set the tone for how a charity defines an issue, sets out what is being done to tackle the problem, and what should be done in the unfortunate scenario of an attempted or actual fraud or cyber incident. Most policies include response plans (which may also be held as standalone documents) which should clearly guide the charity through the turbulent, highly-pressured, and emotionally charged circumstances of a live fraud or cyber incident, where there is a clear and present danger of ongoing and potential future losses of funds or data.

Both fraud and cyber response plans should include clear and practical steps that responsible persons can walk through to make sure that key decisions, that could impact future prosecutions or recovery actions, are made. We have set out some essential points that should be included in a fraud response plan at the end of this report.

What policies and procedures does your charity have in place?



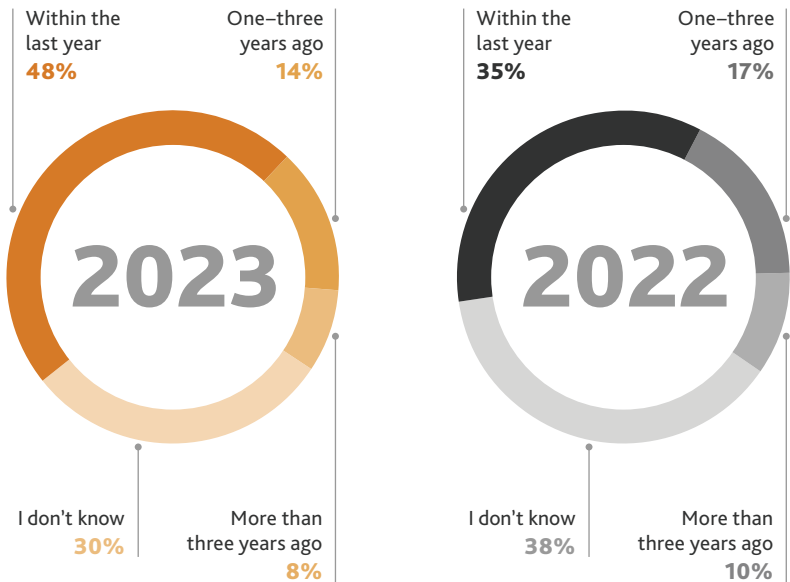
It is encouraging to note a substantial increase in the number of charities who say they have a cybersecurity policy in place, but this is tempered by an overall decrease from 2021 (81%). Having such a policy is commendable, but effective only when robustly put into practice in all areas of the organisation, written into employee/trustee handbooks and acceptable use policies, and supported by regular, structured education and awareness activity.



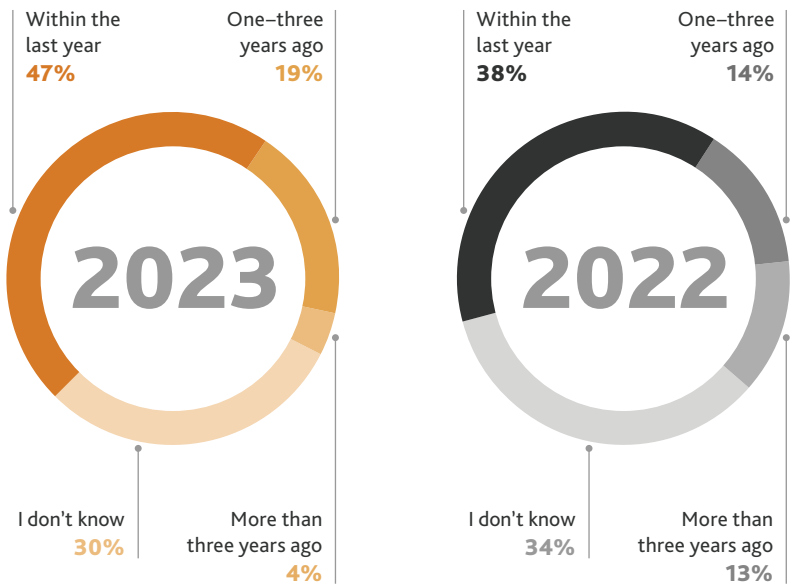
Tim Mitchell
Content director, Get Safe Online

When was the last time your charity had a fraud risk assessment or fraud training?

Fraud risk assessment



Fraud awareness training



This year, 48% and 47% of respondents, respectively, said they had conducted a fraud risk assessment and fraud awareness training in the last year, which is at least a 26% increase from last year; this number increased to over two thirds within the previous three years.

This is a positive finding, but it still means that just over a third (though still a significant proportion) had not completed a fraud risk assessment or fraud awareness training in the last three years or did not know when those activities were last completed.

As we have stated, fraudsters are constantly finding new methods to defraud organisations, and they will take advantage of the current economic conditions to commit further fraud when charities are most vulnerable. Completing a fraud risk assessment and fraud awareness training every year is a critical way to address emerging internal and external threats and to ensure that the most up-to-date fraud risk landscape is being considered.



Summary

The results of this year's survey show an increase in the volume of reported frauds and financial losses. This is a reminder that fraud is an inherent risk that is not going anywhere. This year's results also show there is a requirement for renewed emphasis and focus on counter-fraud efforts, including investment in fraud risk management.

Although dealing with fraud is exceptionally challenging, it affords charities the opportunity to stop the losses and prevent them from happening again. Through careful consideration of counter-fraud measures, charities can reduce their chances of becoming a victim and, if the worst happens, be able to act swiftly to minimise damage and reduce losses. In the long term, this will mean more resources for charities' vital work, which is all the more critical in today's climate.



Over the next two pages we have included some 'top tips' for charities to consider as part of their fraud risk management strategy.

Top tips for preventing fraud

Below are some helpful 'top tips' for charities to consider for some of the key frauds highlighted in this report. The key messages are **raise awareness** amongst staff, volunteers and trustees. **Be proactive** and continually monitor new trends and your responses to them so you know what you are up against. And finally, **have a plan** so that you are prepared, should the worst happen.

Insider fraud

- ▶ Conduct thorough hiring processes that include due diligence, background checks and checking references (from junior members of staff up to senior executive level)
- ▶ Perform rigorous agency checks – you might also want to consider the types of roles that are suitable for temp employees and permissions (ie. access to key systems or bank accounts)
- ▶ Have a clear whistleblowing policy through which members of staff, volunteers and trustees can confidently report concerns
- ▶ Carry out exit interviews to understand the real reason that someone might be leaving the organisation
- ▶ Perform a thorough risk assessment to identify any new weaknesses which have arisen because of hybrid working and put a plan in place to mitigate those risks
- ▶ Consider offering financial and mental health well-being sessions, whether through an independent party or simply a conversation with colleagues (ie. with a manager or HR team).

Payment diversion fraud

- ▶ Introduce a robust internal policy for changing supplier account details or making one-off payments to new bank accounts
- ▶ Only change payment details if you have verified the details directly with the supplier on a phone number that is already known to you and following consultation with your reporting manager
- ▶ Educate employees so they understand the many guises that payment diversion fraud may take
- ▶ Implement a built-in phishing email identifier into your charity's email system to flag unusual or suspicious emails upon receipt.



Cyber fraud

Training and awareness of staff:

- ▶ The latest trends and scams being deployed by fraudsters (ie. what a phishing email might look like)
- ▶ What to do in the event of accidentally clicking on a link from a phishing email
- ▶ The importance of good password management (ie. not sharing passwords, what strong passwords are and using different passwords to other non-work related apps and websites)
- ▶ Associated risks when connecting to public Wi-Fi hotspots vs the relative security of tethering to known devices or networks
- ▶ The importance of up-to-date anti-virus and operating systems on any personal devices being used for work.

Other key areas:

- ▶ Ensure your policies reflect the current working environment in relation to the digitised and technology focused processes your charity uses
- ▶ Ensure you are prepared to act quickly if a cyber-related incident occurs (ie. have a cyber response plan)
- ▶ Ensure that your data is backed-up, so it can be recovered in the event of an attack
- ▶ Review your IT security solutions to make sure they are fit for purpose
- ▶ Perform a cyber-fraud risk assessment, where cyber fraud risks are identified, risk rated and assigned to a responsible individual for managing.

Expenses fraud

- ▶ Require pre-approval of all expense claims
- ▶ Require proof of purchase and delivery of the goods and services
- ▶ Regularly monitor staff expenses to look for any trends or spikes in activity
- ▶ If frequent ad-hoc purchases are required, consider a corporate credit or pre-paid debit card that is controlled and reconciled centrally.

Donation fraud

- ▶ Implement well-managed procedures for controlling the distribution of branded fundraising merchandise
- ▶ Perform social media sweeps to identify unauthorised events and activities
- ▶ Keep good records so that you can scan activity data for unusual patterns and anomalies
- ▶ Create a formal, centralised log of all reports of potential fraud and suspicious behaviour
- ▶ If a fundraiser seems highly reluctant to accept new procedures for handling money, this could be a red flag, particularly if the proposed handling would give the charity more visibility over the funds
- ▶ If you receive reports about collection bags when you are not currently using this fundraising method, you should investigate further
- ▶ Have clear means for members of the public to report any suspicions and deter fraudsters.

Grant fraud

- ▶ Have robust due diligence procedures with strict eligibility criteria, conduct appropriate level of background checks on applicants, and verify the accuracy of information provided in grant applications
- ▶ Ensure that your grant management system is fit for purpose, captures information accurately and is easily accessible for checks and cross-references through the grant management process
- ▶ Carry out a risk assessment to identify high-risk applications
- ▶ Implement regular monitoring and auditing procedures
- ▶ Share best practice with other donors and identify emerging risks.

Procurement fraud

- ▶ Educate staff and volunteers on procurement fraud red flags and provide them with appropriate reporting channels for concerns
- ▶ Have a procurement policy that clearly states the procurement processes, so there is no ambiguity
- ▶ Delegate responsibility for the procurement cycle amongst multiple people, to avoid allowing any one person to monopolise the procurement decisions
- ▶ Check invoices against budget and run exception reports on supplier activity data to identify any outliers or unusual trends
- ▶ Conduct proper research and due diligence on new suppliers.

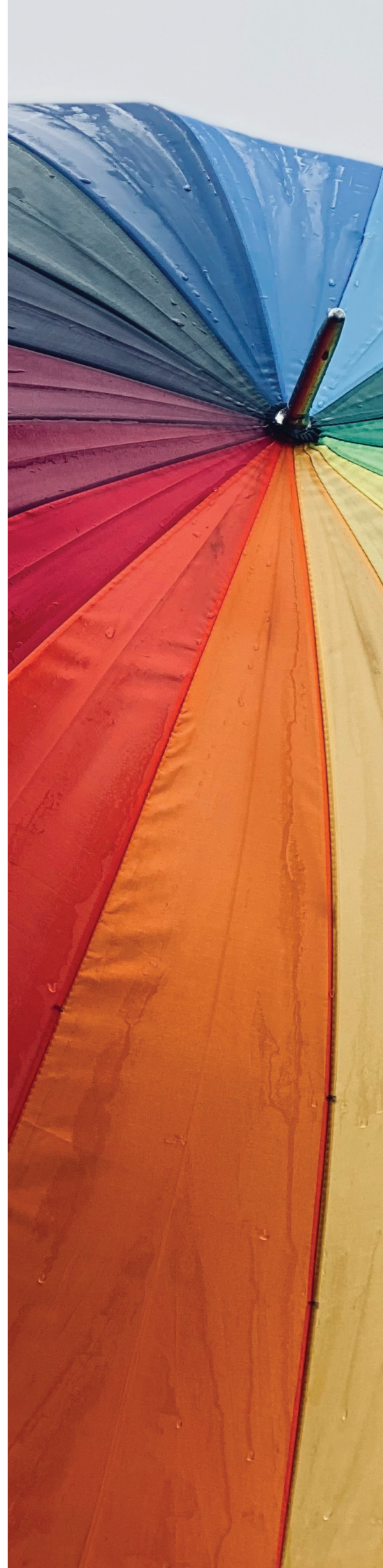
Fraud response plan

Below is a template for a fraud response plan, which is an essential checklist to ensure that charities are prepared, should the worst happen.

- ▶ Establish a Fraud Response Group and list contact details, including out of hours:
 - Chief Executive
 - Head of Internal audit
 - Finance Director
 - Head of IT
 - Head of HR
 - Board/Audit committee representative.
- ▶ All allegations of fraud to be reported to the Fraud Response Group. Establish a 'safe list' if others brought into the Group and brief on confidentiality
- ▶ Establish a list of other relevant external parties:
 - Banks
 - Auditor
 - Legal counsel
 - Insurers
 - Police
 - Independent fraud expert
 - Regulators
 - Other third parties (suppliers etc).
- ▶ Secure access to key systems, bank accounts and other assets, as appropriate
- ▶ Carry out searches to secure information and documents, including assets (laptops, mobile phones etc) and other evidence (emails, chat etc). Collect in line with the Police and Criminal Evidence Act 1984 (PACE) rules. Computer forensics specialists may be required
- ▶ Investigate – prepare fraud investigation strategy and timetable. Revisit and amend the strategy as the case develops. Keep key stakeholders up-to-date. Involve external experts as required. Do not limit the investigation – there may be multiple types of fraud
- ▶ Take appropriate action and recovery:
 - Civil
 - Criminal
 - Private prosecution
 - Internal disciplinary
 - Team restructuring
 - Remove customers/suppliers.
- ▶ Case closure, follow up and review
 - Prepare report for Board/Audit committee:
 - Detail of the fraud
 - Action taken, outcomes
 - Follow-up action required
 - Lessons learnt.
 - Review reasons for loss and prevent reoccurrence:
 - Risk assessment
 - Training
 - Implement additional controls.
 - Quantify the loss
 - Manage reputation and PR
 - Manage internal communications (ie. manage morale)
 - Learn from the incident and move on.



About us



IDEAS | PEOPLE | TRUST

BDO is the fifth largest auditing and accounting firm in the UK and part of the global network, BDO International. We provide audit and assurance, tax, advisory and business outsourcing services to organisations across all sectors of the economy, including the charity sector.

As a firm, we are committed to the charity sector and recognise the importance of personal service delivered by charity specialists. As such, we have a dedicated team of charity sector experts across various service lines, including forensics and dispute advisory. Acting for over 1,000 charitable and not for profit organisations, our breadth and depth across the sector means we have a comprehensive understanding of the challenges and opportunities charities face.

In particular, our forensic and dispute advisory team has experience and expert knowledge of fraud risk management frameworks, fraud awareness training, fraud and bribery risk assessments, fraud, bribery and corruption investigations, commercial dispute resolution and expert witness services, corporate intelligence, forensic technology and data analytics.

We combine this experience and expertise with research and data to provide valuable insights, such as this report, to help charities and the wider society succeed.

bdo.co.uk/charity-fraud



Fraud Advisory Panel is the voice of the counter-fraud profession, committed to tackling fraud and financial crime.

We aim to strengthen fraud resilience by championing best practice in fraud prevention, detection and response. We do this through education, advice and research.

Our members come from a wide range of professions and sectors and are united by their determination to counter-fraud.

We were founded in 1998 by ICAEW which continues to support our work.

fraudadvisorypanel.org
preventcharityfraud.org.uk

FOR MORE INFORMATION:

Tracey Kenworthy

Counter Fraud Director, BDO

+44 (0)79 7619 8653

tracey.kenworthy@bdo.co.uk

Matthew Field

Head of Fraud Advisory Panel

+44 (0)77 9502 6322

matthew.field@fraudadvisorypanel.org

This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO LLP or Fraud Advisory Panel to discuss these matters in the context of your particular circumstances. BDO LLP, Fraud Advisory Panel, their partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO LLP, Fraud Advisory Panel or any of their partners, employees or agents.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO member firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Fraud Advisory Panel is a Company Limited by Guarantee Registered in England and Wales No. 04327390. Registered Charity No. 1108863. Registered Office: Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA.

Copyright © November 2023 BDO LLP. All rights reserved. Published in the UK.

www.bdo.co.uk

www.fraudadvisorypanel.org

