Charity fraud

Tools for prevention

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About the authors

Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 134,420 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action. CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world. We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

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Social Business Consulting

Social Business Consulting was established in 2013 as a management consultancy firm with a focus on supporting charities and not-for-profits. Michelle Pearce is the Principal of Social Business Consulting. She has led the charity fraud research and authored this guide. She is a Fellow Chartered Accountant, a member of the Australian Institute of Company Directors and has a Master of Business Administration. Michelle has been an auditor, employee, board member, consultant and volunteer for several Australian charities that operate both domestically and internationally. Michelle was a member of the CA ANZ Charities and Not-for-Profits Advisory Sub-Committee for five years and a member of the ACFID Code of Conduct Committee for 12 years. Michelle has encountered many frauds, and stories about frauds, during her over 20 years in the charity sector. She is passionate about both raising awareness regarding charity fraud and reducing its incidence.

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Foreword

Charities are an important part of the social fabric in Australia and New Zealand. They represent a wide range of causes and serve a diverse group of people. They contribute to the economy and employment across Australia and New Zealand, offering opportunities for people to make meaningful contributions to their communities and causes.

Unfortunately, occasionally some individuals and/or groups may act fraudulently, and this undermines the charity's good work. Fraud leads to monetary losses, diverts charity employees and volunteers from their essential work, damages the charity's reputation and dents confidence in the integrity of the charity sector in general. It can also have a significant impact on the efficiency and effectiveness of a charity's operations.

Investing in preventing fraud is far more cost effective than spending money on investigating fraud and attempting to recover losses. Raising awareness about how to prevent fraud is important to reducing its incidence.

Chartered Accountants Australia New Zealand (CA ANZ) in partnership with Social Business Consulting recognised the need to take action on these issues. In early 2022, we conducted surveys and interviews among charities across Australia and New Zealand to obtain new data about the prevalence of fraud in charities, fraud prevention methods used and their effectiveness.

This guide draws on the results of this research and includes advice from practitioners and experts in the field to provide a toolkit to prevent fraud in charities.

Simon Grant FCA

Group Executive – Advocacy,
Professional Standing and International

**Chartered Accountants
Australia New Zealand**

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Executive summary

Charities must be extra vigilant to the risk of fraud. Many operate with a high degree of trust, so they may lack adequate safeguards because of scarce resources or the nature of their work, and could face severe reputational and financial consequences if fraud occurs.
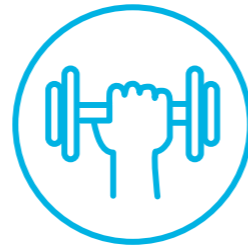
This document explains how charities can strengthen their capabilities to prevent fraud and what to do if incidents are discovered. Charities should adapt the tools in this guide to their own circumstances.

Charities may be unable to fully eliminate fraud, but they can take achievable steps to reduce fraud.

Creating an ethical culture, spreading awareness and publicising a zero-tolerance policy of fraud can deter fraudsters and bring incidents to light. A suite of measures that cover prevention, detection, reporting, investigation, response and review mechanisms, is also critical.

Charities that manage fraud risk and prevent fraud can improve the efficiency and effectiveness of their operations. They can also contribute to the overall health of the charity sector by improving stakeholder trust and confidence in what they do.

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Fraud and the charity sector

Charity sector snapshot: 2020/21 reporting years

Australia

60,000+
Registered charities[1]

1.38 million employees
(10.5% of all employees in Australia)[2]

3.4 million **volunteers**[2]

AU$**176** billion **revenue**[2]

AU$**168** billion **expenses**[2]

AU$**391** billion **assets**[2]

New Zealand

27,000
Registered charities[3]

145,000 employees
(5% of all employees in New Zealand)[4]

217,000 **volunteers**[4]

NZ$**21.19** billion **revenue**[4]

NZ$**19.87** billion **expenses**[4]

NZ$**67.85** billion **assets**[4]

1. ACNC website
2. Australian Charities Report – 8th edition
3. About the Charities Register
4. Charities Services New Zealand 2020/2021 Annual Review

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What is fraud and why does it occur?

"Fraud occurs when someone acts in a dishonest way so that they receive a benefit, or someone else experiences a loss."[5] For the purposes of this guide, the word fraud also encompasses bribery and corruption.

Fraud can be internal – committed by someone inside the charity such as an employee, volunteer or governing body member or external – committed by someone outside the charity such as a supplier, partner or other third party.
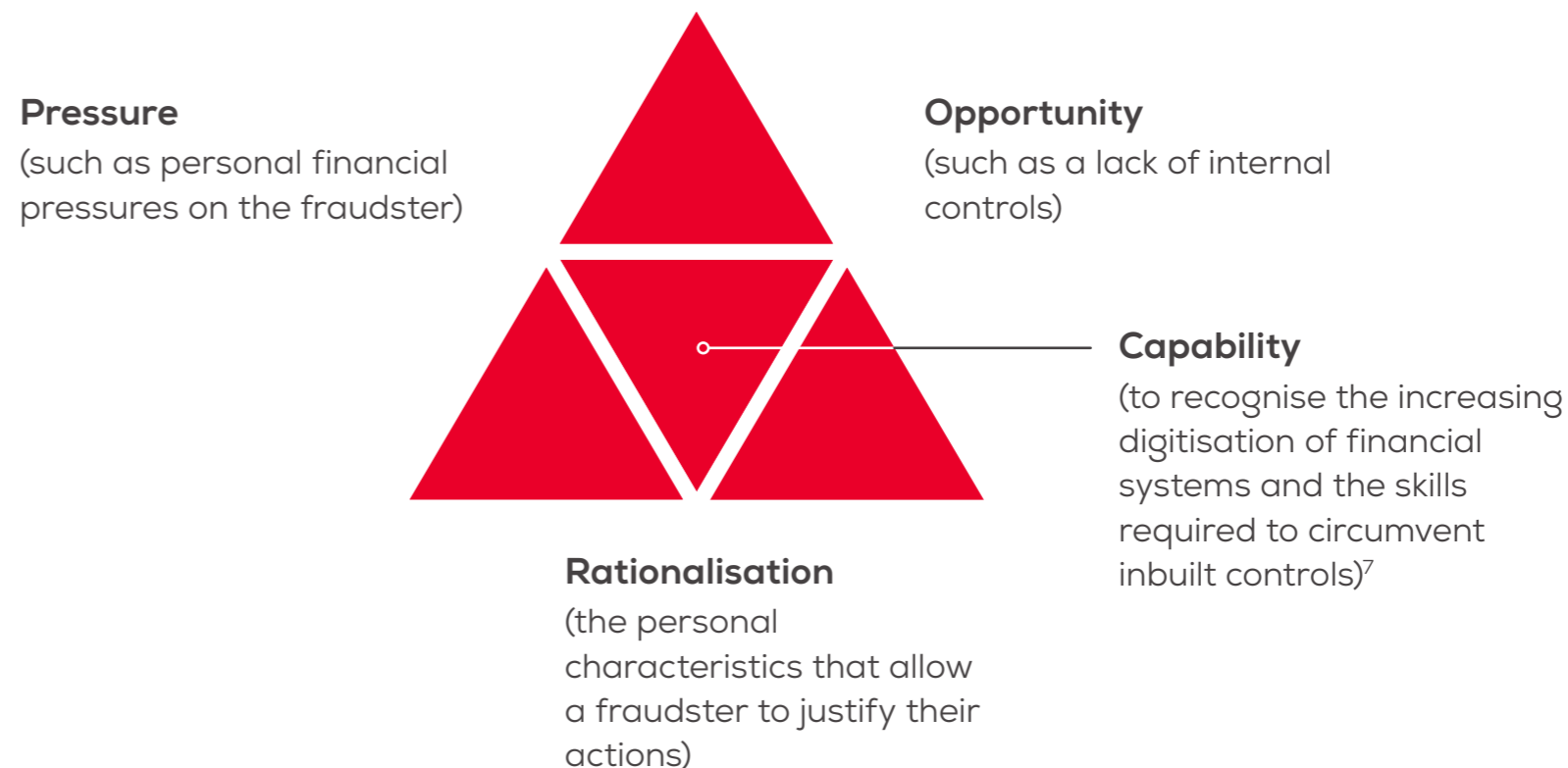
In the 1950s, American criminologist and sociologist Donald Cressey developed the Fraud Triangle identifying the three conditions required for fraud to occur: Pressure, Opportunity and Rationalisation.[6]

"It's in the employee's best interests if you design a system that doesn't put them in a place of temptation."

– Charity Finance Manager

Cressey's Fraud Triangle

All of these conditions or employee characteristics can be present in charities.

Pressure
(such as personal financial pressures on the fraudster)

Opportunity
(such as a lack of internal controls)

Capability
(to recognise the increasing digitisation of financial systems and the skills required to circumvent inbuilt controls)[7]

Rationalisation
(the personal characteristics that allow a fraudster to justify their actions)

5. ACNC website
6. Cressey, D. R. Other People's Money: A Study in the Social Psychology of Embezzlement. Montclair, N.J.: Patterson Smith, 1953.
7. Wolfe, D.T., Hermanson, D.R., The Fraud Diamond: Considering the Four Elements of Fraud, Digital Commons, 2004.

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What is fraud and why does it occur? (continued)

Why charities are vulnerable to fraud

No organisation is immune to fraud. There are some common characteristics of charities that can make them more vulnerable to fraud than other organisations.

> **"We are too small for segregation of duties and rely on trust."**
> – Survey respondent

Charities operate on high levels of trust. Many have low levels of financial resources, so they may not be able to invest in sophisticated financial processes and software to prevent and detect fraud or have sufficient employees to monitor it.

Historically, many charities handled significant volumes of cash, either receiving cash donations or payments to suppliers and employees. Some charities may need to send large amounts of cash overseas, often to countries with less regulated banking systems where there is a greater potential for exploitation.

Many charities transfer money and provide services during humanitarian emergencies. This requires rapid responses and high-volume financial transactions, both of which increase the risk of fraud.

Charities often work with other organisations that lack sophisticated financial systems or with individuals with low financial literacy.

Armed with the knowledge that they are vulnerable, charities can take positive steps to prevent fraud.
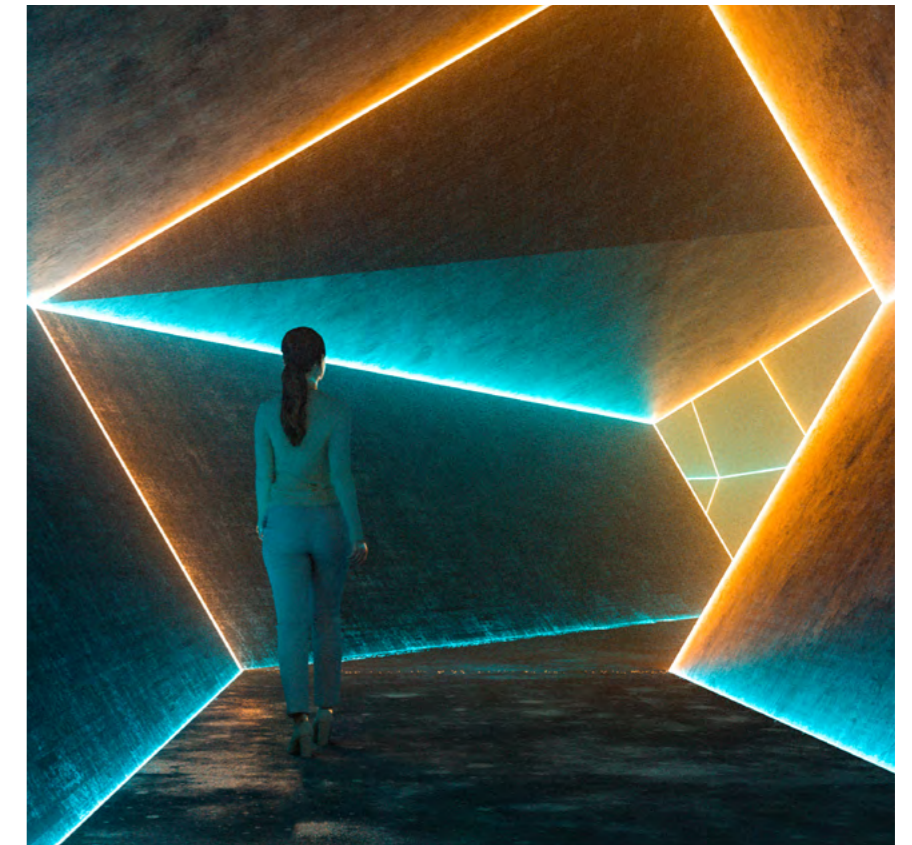
Based on an assessment of their fraud risk, charities can design a framework of fraud prevention measures to limit opportunity for potential fraudsters to defraud them.

> **"With cash donations reducing at our charity, fraud risk has also reduced."**
> – Survey respondent

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CA ANZ's cybersecurity playbook covers how to deal with cyber fraud

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The charity fraud research project

To investigate charities' fraud experience further, CA ANZ and Social Business Consulting conducted two surveys across Australia and New Zealand from March to June 2022. We asked respondents about their experience of fraud (prevalence) and what they do to prevent it (prevention), as well as recording charity demographic data.

We discerned patterns across different groups of charities and segregated charities' domestic and international work to discover any lessons.

Our research confirmed that a third (34%) of our Australian survey respondents had experienced suspected or proven fraud in their domestic operations in the past two years, and 14% of survey respondents in New Zealand had done so. The most common number was one fraud.[8]

In charities with international operations, 61% of Australian respondents and 40% of New Zealand respondents experienced either suspected or proven fraud in the past two years. The most common number was three frauds.[9]

Most charities that reported fraud in their international operations recorded smaller amounts (the median was less than AUD$1,000 for Australian

charities and less than NZD$5,000 for NZ charities), while some charities faced much larger losses. One respondent lost more than AUD$300,000.

Fraud losses in survey respondents' domestic operations were greater. The median loss for Australian charities was AUD$45,000, with one respondent losing AUD$600,000. The median loss for New Zealand charities was NZD$5,000 and one lost NZD$50,000 to fraud.[10]
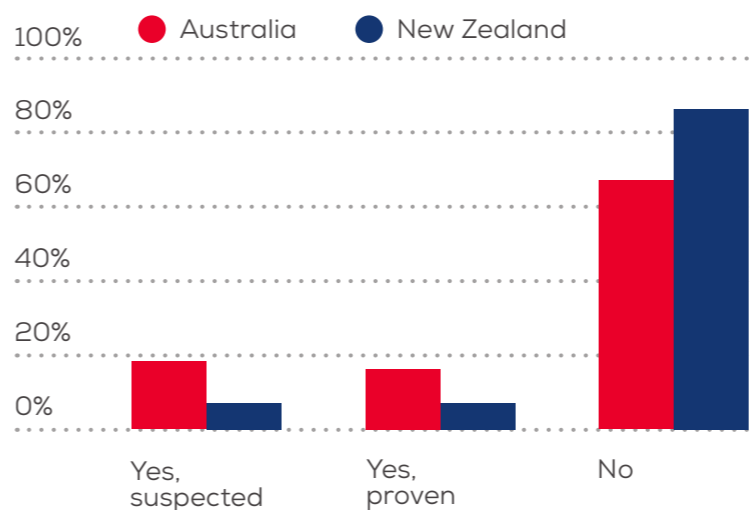
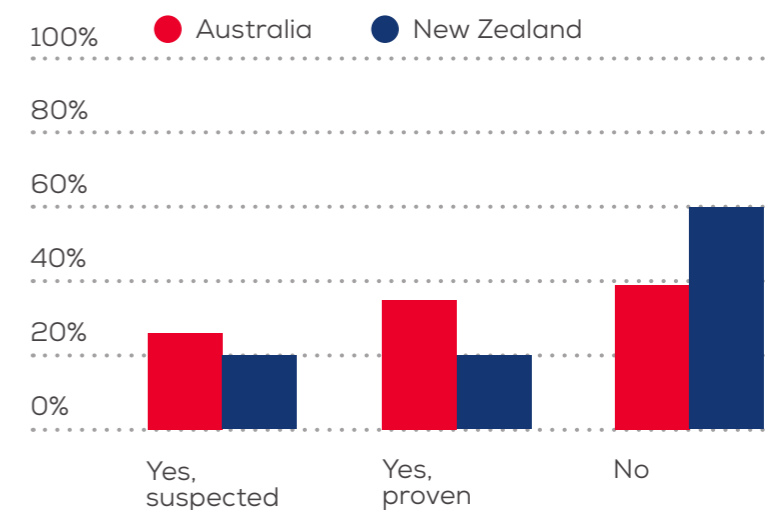**Findings from CA ANZ and Social Business Consulting Charity Fraud Prevalence and Prevention Surveys 2022**

"We have experienced significant fraud for multiple years."

– Survey respondent

Domestic operations fraud
Last two years

● Australia ● New Zealand

International operations fraud
Last two years

● Australia ● New Zealand

8-10. CA ANZ and Social Business Consulting Charity Fraud Prevalence Survey March 2022

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Fraud prevention toolkit

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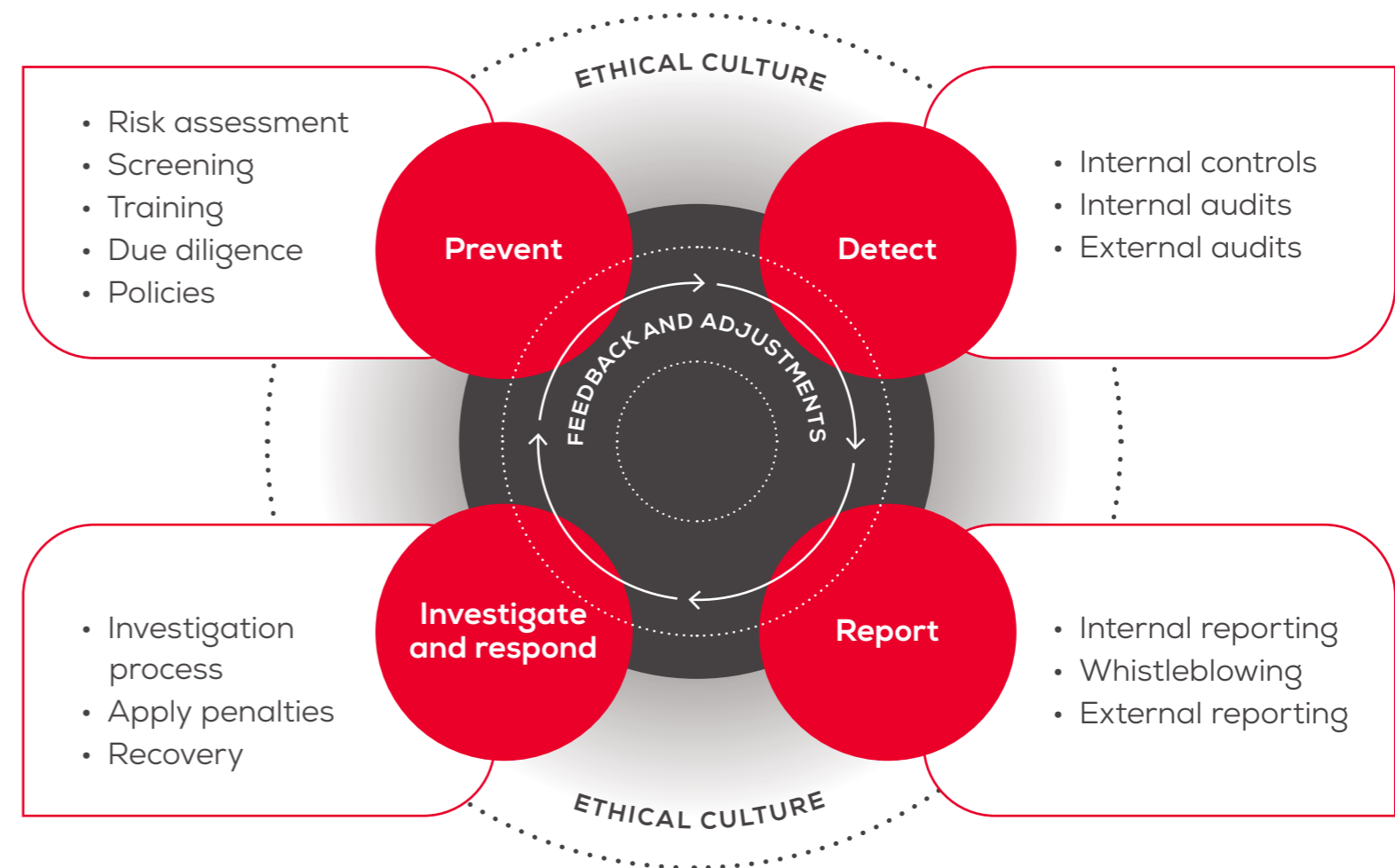
Measures to prevent fraud

There is no single policy or tool, procedure or training to prevent all fraud in all charities. Rather, there is a suite of measures based on their areas of risk or vulnerability.

These measures are part of an overall framework to prevent fraud. Within the framework are prevention, detection, reporting, investigation and response controls, underpinned by an ethical culture and incorporating feedback and adjustment mechanisms.

Ethical culture

An ethical culture is an operating environment where all members of the organisation behave with honesty, integrity and transparency in their dealings. In a charity, the governing body and management set the tone for an anti-fraud culture by modelling ethical behaviour, acting transparently regarding the charity's operations and issues and being accountable for decisions. An ethical culture is a foundational component of any fraud prevention response. Fraud is stifled in the face of an ethical culture.
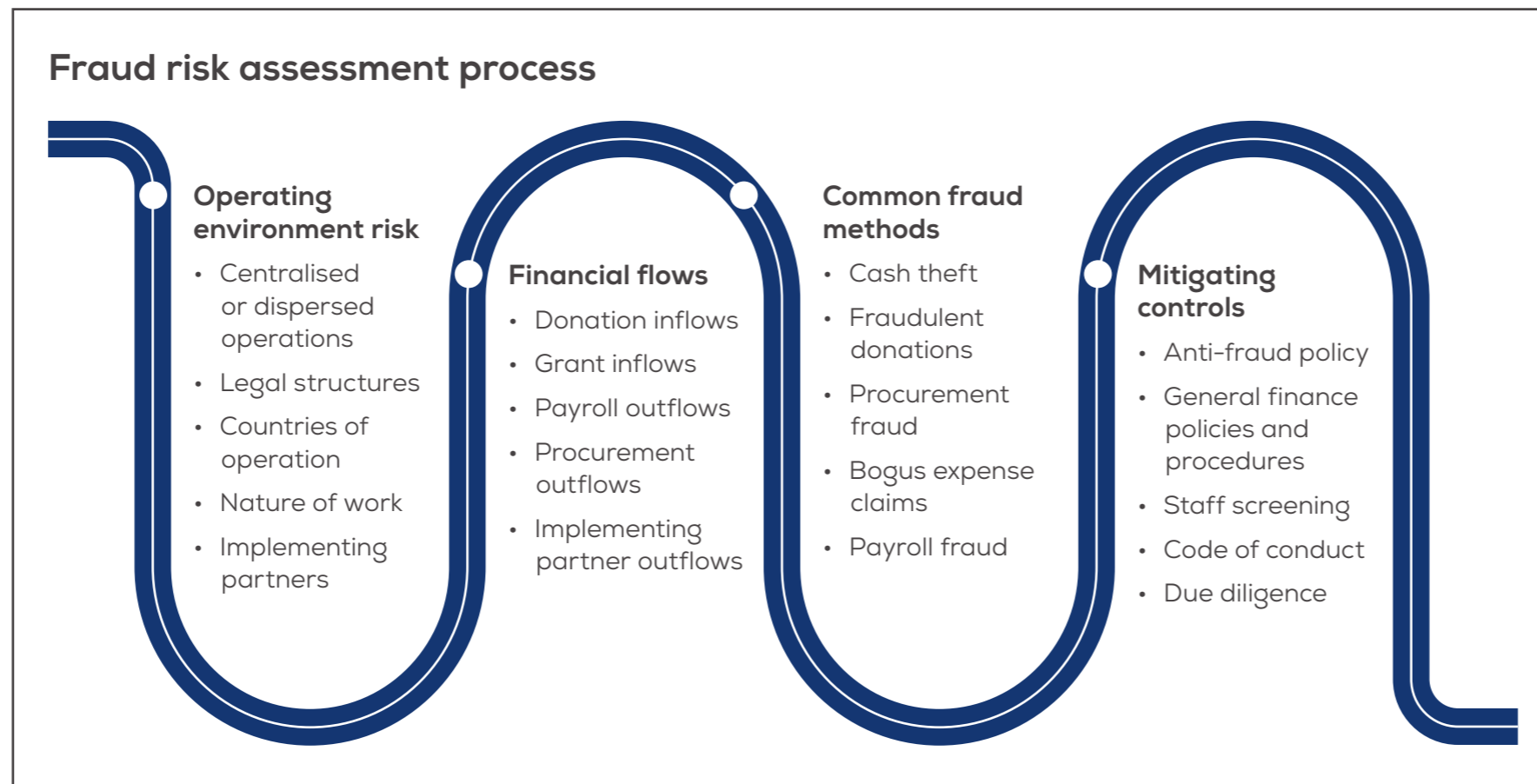
Fraud prevention framework

Prevent
- Risk assessment
- Screening
- Training
- Due diligence
- Policies

Detect
- Internal controls
- Internal audits
- External audits

Investigate and respond
- Investigation process
- Apply penalties
- Recovery

Report
- Internal reporting
- Whistleblowing
- External reporting

ETHICAL CULTURE

FEEDBACK AND ADJUSTMENTS

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Prevention tools

The Toolkit section of this guide has a selection of the most common charity fraud prevention tools, with links to templates where relevant. These tools are categorised according to the Fraud Prevention Framework and should be adapted to the size and circumstances of your charity.

The initial step is to consider the charity's exposure to fraud risks, their size and any controls in place to offset or mitigate them. The charity might record this in a dedicated fraud risk register or include it in the charity's overall risk register.

Fraud risk assessment process

Operating environment risk
- Centralised or dispersed operations
- Legal structures
- Countries of operation
- Nature of work
- Implementing partners

Financial flows
- Donation inflows
- Grant inflows
- Payroll outflows
- Procurement outflows
- Implementing partner outflows

Common fraud methods
- Cash theft
- Fraudulent donations
- Procurement fraud
- Bogus expense claims
- Payroll fraud

Mitigating controls
- Anti-fraud policy
- General finance policies and procedures
- Staff screening
- Code of conduct
- Due diligence

Resources
- → The Association of Certified Fraud Examiners has a downloadable generic **fraud risk assessment template.**

- → The Australian Council for International Development (ACFID) offers a **financial wrongdoing risk assessment guide** that includes a template for a fraud risk log and questions to ask to identify fraud risk. The tips section contains diagrams with common examples of fraud risk experienced by international charities.

- → The Department of Foreign Affairs and Trade (Australia) **Fraud Control Toolkit** has a fraud risk self-assessment.

- → Humentum has developed a template for an **organisational risk register**.

- → The Australian Institute of Community Directors provides an example of an **organisational risk management policy**.

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Prevention tools (continued)

Policies and procedures

1. Fraud prevention policy

A fraud prevention policy provides the structure a charity needs to tackle fraud. The fraud prevention policy should contain:

→ definitions of fraud at the charity

→ a clear statement of having zero tolerance for fraud

→ responsibilities of key people in relation to fraud, such as the governing body members, senior management, finance team and employees

→ procedure to report suspicions of fraud

→ mitigations for specific areas of fraud risk

→ fraud response approach

→ policy review plan

→ governance approval

A charity should consider communicating its fraud prevention policy widely and publishing it on its website. This sends a clear message to would-be fraudsters that the charity is aware of the potential for fraud and will act on it.

Resources

→ ACFID has a comprehensive guide to creating a **Financial wrongdoing-policy** and also developed a **free webinar**.

→ Humentum has a **Fraud prevention policy template**.

"It's essential that the Board approves and supports the fraud prevention policy."

– Survey respondent

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Prevention tools (continued)

2. Finance policies

Charities should also have a broader suite of financial policies and procedures that cover off all aspects of their financial management. The detail and volume of the policies will vary based on the charity's circumstances. They provide clear expectations around processes and document internal controls. Some higher fraud risk areas for charities that might need specific policies include:

→ expense reimbursements

→ receipt of gifts and hospitality

→ procurement

→ bank accounts and other payment facilities

→ regular annual leave

→ staff task rotation

Case study

Scenario: An international charity needed to source a vehicle for a project so they obtained quotes, following their procurement policy and institutional donor guidelines. Their procurement policy required them to consider value for money as part of the process.

The quotes came back double what they had expected. The charity learned that the vehicles had to be imported and the country's government required that any vehicles imported had to be accompanied by an identical vehicle, imported and paid for by the importer but donated to the government.

It was in fact a bribe for allowing the import.

Action: The charity did not import the vehicles but instead bought a second-hand vehicle already in the country.

Resources

→ The ACNC has general information on **charity financial policies**

→ The Institute of Australian Community Directors have a template for a **Financial Controls Policy**

→ The New Zealand Council for International Development has a **Control of funds and resources policy template**

TIP

Value for money in procurement requires competitive and non-discriminatory processes, making decisions in an accountable and transparent manner, using resources efficiently, effectively, economically and ethically, awareness of process risks, and conducting a process proportionate to the scale of the procurement.

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Prevention tools (continued)

3. Conflict of interest policy

Conflicts of interest happen when there is a conflict between the best interests of the charity and the personal interests of someone who is an employee, governing body member, volunteer or supplier. A conflict of interest policy helps charities identify, prevent and manage conflicts of interest. In our survey, 72% of respondents had a governance conflict of interest policy and 84% had a conflict of interest policy for employees.[11]

A good practice conflict of interest policy:

→ acknowledges that conflicts occur

→ defines conflicts of interest and the differences between actual and perceived conflicts

→ explains what to do when conflicts arise, such as exclusion from decision-making or advice to supervisor

→ requires that conflicts are noted on a conflict of interest register

It is also good practice for governance members, employees, volunteers and consultants to have conflict of interest clauses in their agreements.

11. CA ANZ and Social Business Consulting Charity Fraud Prevention Survey March 2022

Example employment agreement conflict of interest clause:

"The Employee shall refer all business contracts and all ideas, inventions and opportunities of which the Employee becomes aware and which relate to the business of the Employer and shall not engage or be interested in any way in any other business (except that the Employee may invest personal monies in any other entity or business not competing with the Employer) without the prior written consent of the Employer."

Example consultant agreement conflict of interest clause:

"The consultant must not do anything that gives rise to a conflict between the consultant's duties and responsibilities to the entity in connection with the engagement or the business interests of the entity, and the consultant's personal interests or the consultant's obligations to any other person, unless the consultant has the prior written agreement of the entity."

Resources

→ The ACNC **conflict of interest policy template**.

→ Charities Services New Zealand **conflict of interest guide** including a policy and register template.

→ New Zealand Institute of Directors **conflict of interest practice guide**.

"We discovered that our staff didn't have a good understanding of conflict of interest and thought it only applied to the Board. So we added some relevant examples to our standard training and it really improved awareness and compliance."

– Survey respondent

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Prevention tools (continued)

4. Delegation of authority policy

In small charities, the governing body typically undertakes all activities, while in larger charities, the governing body delegates these activities to various employees and volunteers. A delegation of authority policy spells out how this process would work and is an important control policy to prevent fraud.

A delegation of authority policy might include:

→ financial delegations

→ approval of purchase orders and expense payments, asset purchases and disposals, expenditure that is within or outside budget

→ legal delegations

→ approval of contracts of different sizes and nature

→ human resources delegations

→ approval of hiring and termination of employees and pay increases

→ public relations delegations

→ authority to speak externally on behalf of the charity

5. Donation acceptance policy

Charities are often supported by generous donations from members of the public, businesses and philanthropic organisations. Some charities allow 'restricted donations', which means a donor can require that their money be used for a particular purpose (within the charity's overall mission). Charities need to ensure that such donations do not constitute fraudulent behaviour, including bribery.

Good practice is to develop a donation acceptance policy, which would:

→ have a strong ethical statement

→ define donations that are and are not acceptable

→ state decision-making protocols for restricted donations.

6. Code of Conduct

A Code of Conduct describes and prescribes a set of behaviours that are expected from anyone engaged with a charity, including governing body members, employees and volunteers. Reading and signing a Code of Conduct should be a pre-requisite to involvement with a charity.

A code of conduct generally contains an overall expectation of ethical behaviour, then explicit requirements for certain types of behaviour including fraud prevention. It is important that a code of conduct is enforced.

Resources

→ The Australian Institute of Community Directors has a sample **Delegation of authority policy**

→ The Fundraising Institute of Australia has a helpful **practice note regarding acceptance and refusal of donations**

→ The Australian Institute of Company Directors (AICD) has information about **governing body member conduct**

TIP
The delegation of authority policy should state that people can't approve items relating to themselves (such as their own expense claims) and therefore create a conflict of interest.

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Prevention tools (continued)

7. Contract clauses

Including a strong anti-fraud clause in contracts can prevent fraud. Charities should include these clauses in contracts with employees, volunteers, implementing partners and potentially with suppliers. Some institutional donors will also require these clauses.

Example employment agreement anti-fraud clause:

"[Employer] may terminate your employment at any time immediately should it be established that you have engaged in serious misconduct. Serious misconduct includes fraud."

Example implementing partner contract anti-fraud clause:

"[Donor] has a zero-tolerance approach to fraud in its operations. [Implementing Partner] is required to undertake activities to prevent fraud as a condition of accepting funds from [Donor]. These activities include having a fraud prevention policy in place that is communicated to employees, providing regular fraud prevention training for employees and reporting suspected fraudulent activity to [Donor] within 2 working days and cooperating in any resultant investigations."

8. Due diligence on implementing partners

Charities should assure themselves that any implementing partners that they work with are reputable entities that have the appropriate systems in place to manage the charity's funds and effectively deliver the programs. This includes assessing the fraud risk and control mechanisms of the partner. This is called doing a due diligence on the partner. It should be performed when they first commence working together, and then periodically based on the assessed risk of the relationship. Implementing partner due diligence is a requirement of some regulators and institutional donors.

7. Resources

→ The Department of Foreign Affairs and Trade (Australia) provides an implementing partner contract clause in its **fraud control toolkit for funding recipients**

→ Humentum has a **financial health check assessment tool for implementing partners** (It can also be used for Australian and NZ charities)

→ The UK Charity Commission has a number of **templates for implementing partners due diligence**

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Prevention tools (continued)

9. Fraud control plan

Some charities find it useful to document their overall approach to fraud in a separate framework or fraud control plan. This is a requirement of some charity donors. An example of a fraud control plan is provided in the Appendix.

10. Screening

Another fraud prevention tool is to screen people that work with the charity. Screening mechanisms can include:

→ police check as part of the volunteer and employment recruitment process, including international police checks for people who have recently worked overseas.

→ asking direct questions during employment interviews and from referees about fraud,

→ verifying candidate qualifications.

Resources

→ Not-for-profit Law (Australia) has developed guidance around **background checks**

TIP

An interview question to assist in screening for potential fraudulent behaviour can involve describing a fraud case study and asking candidates to describe how they would respond. This can help to give an insight into the candidate's motivations and thought processes.

It is also good practice to explain to candidates at interview stage that the charity has a zero-fraud tolerance culture and to confirm that they are comfortable undergoing a police check as part of their recruitment.

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Prevention tools (continued)

11. Training

Providing fraud prevention awareness training to key stakeholders in a charity combats fraud - particularly if that training is tailored to them. For example, employees in the finance team might need more detailed training for fraud recognition and prevention than those in operational areas. Fraud prevention is everyone's responsibility, so stakeholders need to be trained to notice warning signs of fraud and report them, but not investigate suspected fraud themselves.

As part of the induction process for new employees and volunteers, charities should provide basic fraud prevention training, that could include:

→ fraud definition

→ reference to the charity's fraud policy

→ examples of fraud that might occur at the charity

→ indicators of fraud

→ roles and responsibilities

→ how to report fraud at the charity

→ any applicable donor or regulatory fraud reporting requirements

More in-depth fraud prevention can be provided to different audiences at the charity. Discussing fraud case studies can be a good way to get participants to engage in the training

Resources

→ The ACNC runs annual charity fraud prevention webinars to coincide with Charity Fraud Awareness Week in October each year, including its 2021 webinar **Protecting your charity against fraud**

→ Charities Services New Zealand has a free recorded webinar: **How to detect and prevent fraud**

→ Humentum offers a comprehensive fraud prevention training course: **Fighting fraud in NGOs**

→ Humentum also has a useful list of **warning signs of fraud**

"The most effective fraud prevention measure is to train – and keep training – your staff. Fraud is conducted by people."
– Survey respondent

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Detection tools

1. Internal controls

Internal controls are the activities that a charity does to minimise the chance of fraud and error. These include bank reconciliations, segregation of duties, dual signatories for payments and locking cash in a safe. Many controls are preventative, ie they are conducted before a fraudulent activity occurs.

Detective tools assess if internal controls are functioning adequately and identify new risks or weaknesses, after the fraudulent activity might have happened. In our survey, respondents said they used internal controls to detect 54% of frauds experienced in their domestic operations and 50% of frauds experienced in international operations.[12]

Preventative and detective internal controls can work together. It is important that internal controls are not person-specific, and they don't get skipped because someone is a trusted employee.

Case study

Scenario: A finance team member set up a supplier in the financial system with his or her own personal bank account details instead of the supplier's. The charity had no system to independently review new supplier bank details. The charity made a series of payments to the supplier for services rendered but in fact, the payments went to the finance team member's bank account, not the supplier's. The supplier phoned to complain that they had not been paid and the fraud was uncovered.

Action: The charity updated their process so that a second team member checked all supplier bank account additions and changes. They ran a monthly audit trail report from the financial system to ensure that this control was effective. They also provided training to payment signatories so that they performed systematic checks of supplier bank details in electronic payment files to verify supplier bank details.

Resources
→ The ACNC has general information on **protecting your charity with internal controls**

→ CommunityNet Aotearoa has an **Introduction to financial management**

→ The Department of Foreign Affairs and Trade (Australia) has information about fraud prevention internal controls in a **Fraud Control Toolkit**

"Trust your internal controls and enforce them."

– Survey respondent

12. CA ANZ and Social Business Consulting Charity Fraud Prevalence Survey March 2022

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Detection tools (continued)

2. Internal audit

Our survey respondents used internal audits to detect 8% of frauds in their domestic operations and 10% of frauds in their international operations.[13]

Internal audits check for compliance with a charity's financial and governance policies and procedures, review a particular system or overall fraud risk. They should be carried out by an employee from a different team than the one being audited, from a dedicated internal audit team or otherwise be independent. Some charities outsource their internal audit function to an accounting firm.

Internal audit findings should be reported to management and governance, and any recommendations to improve practise followed up.

3. External audit

Detecting fraud is not a main objective of an independent external audit, however external auditors can discover fraud due to the nature of their work. External auditors will enquire about fraud the charity may have experienced as they consider fraud risk when planning and carrying out an audit.

External auditors provide an audit opinion as part of an overall audit report when they complete their work. They also commonly provide a management letter which outlines any internal control weaknesses they discover. This can provide useful information about areas to address to prevent fraud. An external audit can also deter potential fraudsters if they know that their work will be checked by auditors.

Resources
- → The ACNC provides information on: **external reviewing and auditing of financial reports**
- → Charities Services New Zealand provides **statutory audit and review requirements**
- → CA ANZ has a qualified auditor search tool: **find a Chartered Accountant**
- → The Department of Foreign Affairs and Trade (Australia) **Fraud Control Toolkit** provides a summary of different external audits

TIP

Make sure any external auditor has appropriate audit qualifications. Australian charities that are companies should have an auditor who is a Registered Company Auditor. In New Zealand, charity auditors need to be qualified auditors. Smaller charities that are not required by law to be audited should still make sure that their auditors should have appropriate professional qualifications such as a CA qualification from Chartered Accountants Australia New Zealand.

13. CA ANZ and Social Business Consulting Charity Fraud Prevalence Survey March 2022

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Detection tools (continued)

4. Monitoring

Monitoring involves checking financial reports and controls to ensure that what has been reported has actually occurred. Monitoring can involve activities such as checking budgeted project spend compared to actual project spend on a regular cycle, and following up on amounts or descriptions that are inconsistent or appear non-compliant with guidelines.

Project activities can be monitored in person, by visiting project sites and discussing with community members the goods and services that were delivered versus what has been reported. Monitoring is not as formal as auditing, but is still an important fraud detection tool.

Resources
→ The UK Charity Commission has a template for **partner monitoring**

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Reporting tools

1. Internal reporting

Charities should consider how fraud would be reported in their organisations and document this process to save time, resources and stress if and when a fraud actually happens. Employees and other stakeholders need clear and safe reporting pathways.
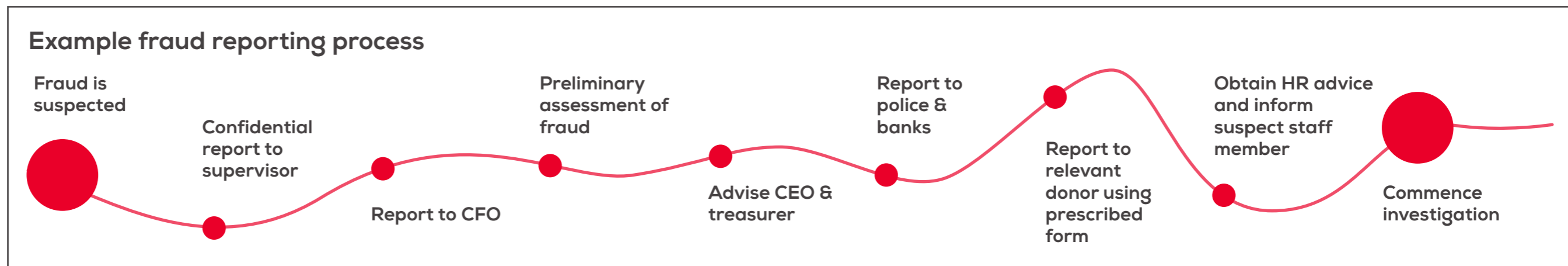
Fraud reporting should be explained in the charity's fraud prevention policy or procedure. Common elements of fraud reporting include:

→ reporting suspicions to a supervisor

→ escalating the situation from the supervisor to a senior person, often in finance, such as the treasurer or CFO

→ who to report to when the supervisor or senior finance person is suspected in the fraud (a reporting alternate)

→ use of a standard form for reporting (see example in the Appendix)

→ timelines in reporting – quick action is usually important in a fraud case

→ responsibility to report but not investigate (i.e., people do not need to prove the fraud before reporting)

→ a requirement to maintain confidentiality of the suspected fraud

→ safety and support for the person that does the reporting

→ recording all instances of suspected fraud in a register (see example in **Appendix 3**)

Charities should have a protocol to escalate suspected fraud to senior management and relevant governing bodies. The fraud investigation process should balance confidentiality while keeping key stakeholders aware of progress. Some charities' policies require that they communicate summary details of every fraud to the treasurer, board or related sub-committee.

Example fraud reporting process

Fraud is suspected

Confidential report to supervisor

Report to CFO

Preliminary assessment of fraud

Advise CEO & treasurer

Report to police & banks

Report to relevant donor using prescribed form

Obtain HR advice and inform suspect staff member

Commence investigation

Reporting tools (continued)

2. Whistleblowing

Whistleblowing is when a person calls out organisational misconduct, including suspected fraud. A whistleblowing process is also a good preventative control to ensure that would-be fraudsters know that other employees are watching them and could report suspicious behaviour.

Our survey respondents said whistleblowers detected nearly a quarter (23%) of fraud in their domestic operations and one in five frauds in international operations.[14] A charity's whistleblowing policy should reflect the local legal criteria for whistleblowing protection in your jurisdiction.

A charity's whistleblowing policy should include:

→ a definition of whistleblowing

→ reference to local legislation

→ an assurance of safety for the whistleblower

→ if they are permitted to remain anonymous

→ information to be submitted with a whistleblowing concern

→ a designated person or people who receives and considers whistleblowing concerns

→ the process to provide feedback to the whistleblower about the investigation and resolution of their concern including timeframes.

Ways charities could enable people to raise whistleblowing concerns include providing a dedicated whistleblowing hotline phone number or email service run by a third party, an email address of a senior organisation member, often the board chair, an online form or a physical box.

Resources

→ The Institute of Community Directors (Australia) has a **whistleblower policy** template for use in Australia.

→ The New Zealand Council for International Development also has **whistleblower resources**

14. CA ANZ and Social Business Consulting Charity Fraud Prevalence Survey March 2022

Reporting tools (continued)

3. Complaints

As part of their transparency, charities should provide an accessible avenue for complaints about their operations, including suspected fraudulent activity. Some key elements to have in a complaints policy include:

→ the process for making a complaint, including the required mechanism and information required, as well as expected response times

→ assurance that the complainant will be safe

→ any avenue for appeal regarding a complaint decision

→ how the charity's complaints policy will be publicised (translated into other languages where appropriate).

Charities should log complaints in a complaints register to share with management and governance. This data can also reveal patterns that management might need to address in a more systematic way.
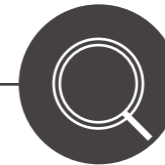
Case study

Scenario: An international charity provided cash handouts to members of a community following a cyclone, to purchase necessities. The cash was distributed via a local implementing partner. Even though all households were supposed to receive the same amount of cash, the partner gave varying amounts to different households and kept the remainder. The partner convinced household members to sign receipts for the full amount to then submit to the international charity. When representatives from the charity visited the community to check on the effectiveness of the project, several community members complained that they had received lower amounts than the receipts that they had signed.

Action: The charity invested in fraud prevention training for all implementing partners and established a formal complaints policy which included culturally appropriate complaints mechanisms. The charity also started keeping data on complaints received and reporting these to its management.

Resources

→ ACFID and NFP Law (Australia) have published a comprehensive guide to setting up a **complaints handling policy and process**

→ The New Zealand Council for International Development has developed **resources about handling complaints**

→ Charities Services New Zealand provides a service for people to **make a complaint about a registered charity**

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Reporting tools (continued)

4. External reporting

The ACNC and Charities Services New Zealand expect charities to report serious cases of fraud to them. Both regulators also offer a whistleblowing service.

Many institutional donors, such as government departments that provide grant funding, have clauses in their grant contracts that require charities to report suspected fraud within a certain number of working days. The charity must keep them updated on the progress of the investigation and recovery process, and changes they make to prevent future fraud.

Most types of fraud are a crime and charities should consider reporting suspected cases to local authorities, including the police. The charity's fraud policy should include the criteria for informing police and who is responsible to make this decision. Some charities take a nuanced approach to report frauds to the police, depending on the size and significance of the fraud, employee safety and the likelihood of police investigating it. In our survey, more than two-thirds (69%) of respondents reported domestic fraud to police but only 30% reported fraud in their international operations.[15]

15. CA ANZ and Social Business Consulting Charity Fraud Prevalence Survey March 2022

To provide greater transparency about their operations, some charities choose to report fraud publicly in their annual report, on their website, or as case studies with lessons learned or actions taken.

Many charities will hold insurance for losses sustained from fraud, and insurance companies will need to be kept advised of the fraud and any investigation outcomes.

Resources

→ The **ACNC website** contains information about reporting fraud to various state and territory police and to the ACNC itself.

→ New Zealand registered charities should report any fraud to Charities Services at **compliance@dia.govt.nz**

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Investigation and response tools

Investigation procedure

Investigating a fraud depends on a charity's size and the nature and scale of the suspected fraud. Some charities have a fraud investigations policy or procedure. A fraud investigation process should involve a senior person, often with financial qualifications, conducting an initial assessment to determine if any issues warrant further investigation or whether the case should be dismissed.

If there is a case, the charity should appoint an internal investigation team in line with the organisation's policy and procedures and an appropriately qualified person to conduct the investigation.

Some charities will have appropriately qualified internal people. Other options include appointing experts from an accounting firm or fraud investigation specialists from the charity's global organisation.

The internal investigation team can also oversee the work performed by external investigators, if they are not doing the investigation themselves. While external investigators are an extra cost, they also provide some distance between the investigators and those being investigated.

Human Resources policies must protect the rights of the person who allegedly acted fraudulently, as well as the charity's employees and assets. The charity may ask a specialist industrial relations lawyer to draft these policies and assist in the event of an actual case. These policies should address:

→ whether the person should be suspended from duties while under investigation

→ whether the person still has access to any of the organisation's resources during the investigation, including IT systems, banking facilities, vehicles or offices

→ what support the person can access both within and outside the charity.

If the investigators determine the person acted fraudulently, then the charity should apply appropriate disciplinary action. The person should also have appeal opportunities.

Resources

→ The Core Humanitarian Standards (CHS) Alliance provides an **investigators' toolkit** that includes templates to log evidence and plan interviews and investigations

→ The Department of Foreign Affairs and Trade (Australia) has a **fraud control toolkit** with a checklist for a fraud case manager

→ NFP Law (Australia) has information about how to deal with **criminal conduct inside your organisation**

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Investigation and response tools (continued)

Feedback and adjustment tools

Findings

Investigators of any fraud should produce a report that details their methodology, findings and conclusion. They should also recommend steps to adjust the charity's policies or procedures to prevent similar types of fraud occurring in future.

If the investigators conclude that a fraud has happened, the charity's internal investigation team must deal with the person or people involved in the fraud, according to the charity's policies and procedures. This might include termination of:

→ a person's employment

→ engagement as a volunteer or director

→ a partnership arrangement

→ a supplier contract

Remediation

To rectify weaknesses in their organisation, charities should act on recommendations to change policies and procedures. They should also encourage employees, volunteers and governing body members to suggest other adjustments to policies and procedures if they see opportunities for fraud.

Charities should update these policies and procedures on an episodic basis, if for example regulatory or institutional donor requirements change, the charity expands into a new fundraising product, project area or country of operation, or has a significant system change. They also might find it helpful to discuss fraud prevention approaches with external and internal auditors, professional bodies, networking groups or institutional donors.

"No one is immune. Be vigilant."

– Survey respondent

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Good practice examples

Good practice examples

Small charity

A small charity is entirely volunteer run. It has an annual income of $15,000, earned from memberships and events. The charity pays an accounting firm to do some of its bookkeeping, while the treasurer does most of the financial reporting to the volunteer board. It uses an online accounting package and board members review reports.

To help prevent fraud, they have the following good practice measures in place:

→ All board members must have police checks.

→ Board members must sign a code of conduct which has a clause about zero tolerance for fraud.

→ The charity has a conflict of interest policy.

→ Board members must declare any conflict of interest at the start of each board meeting and this is kept in a conflict of interest register

→ The charity has a whistleblowing policy. Fraud is one area people can report on using a clear process.

→ Board members receive and review monthly financial statements, including monitoring budget versus actual income and expenditure and balance sheet items.

→ The charity minimises cash receipts and receives these at events. A separate finance procedure covers this.

→ The charity makes all payments electronically via the bank account and requires two signatories.

→ The charity has a payments policy that includes financial delegations.

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Good practice examples (continued)

Medium charity

A medium-sized charity works in international development and implements projects through overseas partners. Its annual income is $30 million, earned from donations and government grants. The charity has a volunteer board, 50 employees and 20 regular volunteers, and a small finance team.

To help prevent fraud, this charity follows these good practice measures:

→ The charity conducted a fraud risk assessment of its operations, which it updates whenever it adds a significant new activity or to reflect learnings from actual fraud cases.

→ Board members, staff and volunteers must have police checks and answer anti-fraud questions in their interviews.

→ Board members, employees, volunteers and consultants must sign a code of conduct which has a clause about zero tolerance for fraud.

→ The charity has a conflict of interest policy for employees and board members.

→ Board members must declare any conflict of interest at the start of each board meeting and this is kept in a conflict of interest register.

→ Employee and consultant contracts, board and volunteer engagement letters all contain anti-fraud clauses.

→ The charity has a fraud control plan with specific mitigation responses for high-risk projects or activities.

→ The charity is big enough to have a dedicated anti-fraud policy, covering fraud reporting and fraud investigation, published on the charity's website.

→ All suspected frauds are reported in a fraud register.

→ Board members and management receive and review monthly financial statements, including monitoring budget versus actual income and expenditure, balance sheet, cash flow and key performance indicators.

→ Governance policies include a delegation of authority policy, donation acceptance policy, complaints policy and whistleblowing policy.

→ A comprehensive Finance Manual contains requirements for internal controls such as segregation of duties and procedures for key areas such as the operation of bank accounts and procurement of goods and services.

→ Employees, board members and volunteers receive annual fraud awareness and prevention training.

→ The charity gets audited externally annually. Some donors also require external audits on their projects.

→ The charity conducts due diligence on new implementing partners. This contains specific questions about fraud risk and is repeated every one to three years, depending on the assessed risk of the implementing partner.

→ The charity's employees review financial reports and audits of implementing partners, and visit their projects on a periodic basis to monitor progress and expenditure.

→ The charity has a fraud committee to oversee all reports of suspected fraud and ensure management and board members receive summarised reports of fraud. They also follow up on any lessons learned from reported fraud cases.

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Appendix 1

Fraud control plan template

Purpose

Organisational context, e.g., international charity, where works, head office, programmatic areas, acknowledgement of fraud risk, commitment to zero fraud, good controls required to prevent fraud including this document, this document provides outline of approach to fraud prevention

Anti-fraud, bribery and corruption

Definitions	Fraud, corruption, bribery, facilitation payments, other key items – copy from policy
Policy	Paraphrase key points from philosophy and scope sections of policy and noting fraud consequences
Control and governance environment	Describe key elements of the fraud control environment at high level, e.g., policies and procedures, code of conduct, values, organisational structural elements, e.g., Board, investigation Team, etc. Include any international relationships, organisational risk register, can be represented in diagram or words
Key roles and responsibilities	Comes from policy generally, e.g., what are staff required to do?

Anti-fraud, bribery and corruption framework

Discuss components of the framework in more detail. Helpful to include a conceptual diagram at start.

Ethical culture and relevant policies	e.g., Organisational commitment, policies, confidential reporting, strong governance and accountability
Prevention	e.g., Staff screening, conflict of interest, fraud risk assessment and control framework, delegations and procurement policies, fraud prevention training
Detection	e.g., Internal and external audits, internal controls, whistleblowers, monitoring visits
Reporting	e.g., Internal reporting, external reporting to donors and law enforcement

Investigation and response	e.g., Roles and responsibilities, internal and external investigation, investigation committee, penalties and disciplinary proceedings, helpful to include investigation process flowchart
Feedback and adjustment	e.g., Addressing immediate systemic issues, periodic reporting to governance, risk register, regular review of this plan and policy

Annexures

Acronyms	
Fraud risk assessment [Year]	
Projects or Services A, B, etc	Include summary of fraud risk assessment for projects or services, e.g., including amount of funding, type of projects or services, locations, partners, key risks identified, etc
Fraud risk assessment and response matrix	Include table or narrative of fraud risks identified in risk assessments above and mitigation strategies (including risk definitions)
High risk locations/ partners/ services (if applicable)	Detail locations, partners or services that are higher risk and require exceptional risk mitigation strategies and sign off
Links to key documents	
Internal	e.g., Fraud policy, fraud register, delegations policy, procurement policy, code of conduct, fraud reporting form, whistleblowing policy
External	e.g., Charity regulatory requirements

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Appendix 2

Fraud reporting form

A fraud reporting form can be a simple document template. Some helpful headings could include:

Date of report	Name and role of person submitting the report	Date of suspected fraud	Estimate amount of suspected fraud	Description of suspected fraud (e.g., explain events in chronological order)	Name(s) of people suspected of being involved in the fraud	Details of any witnesses	Details of any applicable donor funds involved	Initial actions taken

Appendix 3

Fraud register

Good practice is to record all instances of suspected fraud – whether proven or not – in a fraud register, containing a summary of each fraud. The charity can use this to determine fraud patterns and then change policies or practice. Management and governance should also see an extract of the fraud register.

Fraud #	Date Fraud Reported	Person That Reported Fraud	Date Fraud Suspected to Have Occurred	Description of Fraud	$ Amount of Suspected Fraud	Fraud Reported to Donor? (If relevant)	Actions Taken	Status (Closed – Action Complete/ Closed – Unsubstantiated/ Investigation Ongoing)
1	3 May 2022	J. Finance	1 May 2022	Employee submitted expense claim with falsified receipts	$789	Yes	Formed investigation team, confirmed fraud, terminated staff member's contract. Police investigation ongoing. Provided extra training to managers re reviewing expense claims.	Closed – Action Complete

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Acknowledgements

CA ANZ and Social Business Consulting wish to acknowledge the contributions to this research project and guide by Michelle Pearce FCA, Russell Postle FCA, Laurensia Rosana CA and David Thomas FCA and the CA ANZ Charities and Not-for-profits Advisory Committee. We would also like to acknowledge the contributions of Karen McWilliams FCA, Kristen Wydell FCA, Debbie Kandauw CA, Zowie Pateman FCA, and Shirley Lau of CA ANZ. Thank you also to the many respondents across Australia and New Zealand that contributed to the research and provided case studies and feedback to this project.

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