



# PROTECT YOUR CHARITY FROM FRAUD

The ACNC's guide to  
fraud prevention



Australian Government



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Not-for-profits  
Commission

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# Introduction from the Commissioner



Charities enrich our society. They affect each one of us, reach into every Australian community and do extraordinary work that has effects beyond our shores.

They are set up and run by people who want to make a difference and it is this goal that inspires high levels of public trust and confidence, which underpins charitable giving and volunteering.

The Australian Charities and Not-for-profits Commission is the national regulator of charities. We exist to maintain and protect this public trust and confidence, to support a sustainable sector and to promote the reduction of unnecessary regulatory obligations on charities.

Charities (like any organisation) can be victims of crime, just as individuals can. The public tell us that fraud and financial crime are the biggest areas of concern.

There are lessons from our experience working with charities, and the experiences of others, that we believe may help charities guard against fraud and other crime. This guide draws on those experiences and sets out practical steps that every charity can take to protect itself.

We hope you find this guide informative and helpful. If you need more help our ACNC staff are committed to helping support you and your charity in its important work.

Good wishes

**Susan Pascoe, AM**



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# Who is this guide for?

This guide is aimed at board or committee members, trustees and managers of charities. It will also be of interest to employees and volunteers. It is designed to help you protect your charity from fraud and other financial crime. It highlights some of the risks to which charities can be vulnerable and provides some practical steps that you can take to reduce and manage these risks.

# Why is this guide needed?

During the first six months of the Australian Charities and Not-for-Profits Commission's (ACNC's) operation, fraud and financial crime have emerged as the most common concerns about charities referred to us by the public.

> By June 2013 the ACNC had received 119 concerns, 76 of which were deemed serious enough to warrant review by our Compliance and Strategic Intelligence team. Of these, nearly a third related to fraudulent activities or conduct.

Clearly there is concern amongst members of the public about the financial operations of charities, even if the number of charities involved is very small, relative to the size of the sector.

Charities can be victims of crime in the same way as individuals and other parts of society, and the impact on them can be devastating. The [2012 BDO Not-for-Profit Fraud Survey](#) indicated that 12% of the not-for-profit organisations surveyed had suffered fraud in the past two years. The survey suggested the average fraud committed was to the value of \$8 838, although some involved much greater sums. The study also suggested a reluctance on behalf of some organisations to report or confront fraud. This was due to concerns about the impact on their reputations, and thus their ability to raise

funds and recruit volunteers, or about time being taken away from charitable work.

Many of the incidents of fraud reported in the Australian media involve substantial sums, taken from charities over a long period of time, resulting in criminal investigation. These typically affect larger charities, often committed by someone involved in running them, such as those in finance or payroll areas. For smaller charities profiled in the media funds or goods were taken by frontline staff and volunteers.

The risk that fraud involving charities will harm public trust and confidence in both individual charities and the sector generally highlights the importance of charities not only taking action to prevent fraud, but being transparent about their processes.

Of the concerns reported to the ACNC, and in many cases highlighted in the media, the main factors leading to fraud were breaches of trust and a lack of satisfactory controls. While charities must individually weigh up the need for protective measures against administrative burden, all charities can take some simple steps that will significantly reduce the risk of fraud.

This guide sets out some of these steps and some strategies for charities to consider. Our suggestions fall under three aspects: **prevention**, **detection** and **action** to take if there is a problem.

# What is fraud?

Fraud is a form of dishonesty – where someone acts in a dishonest way so that they receive a benefit or someone else experiences a loss. People can commit fraud in a variety of ways, including by:

- making false representations
- abusing their position
- failing to disclose information, and
- using other forms of deception.

Over half the allegations of fraud received by the ACNC have related to the conduct and activities of senior and entrusted members of the charity, including the chief executive officer (CEO), directors (those on the governing body) and financial officers (such as the treasurer). But fraud can be

committed by any staff member (paid or volunteer) or any other person who is given some responsibility.

Fraud does not necessarily involve large sums of money. Fraud involving small amounts can still result in significant harm, particularly for smaller charities with limited resources.

It is often not just the financial loss that damages the charity; the impact on its reputation and the negative effect on the charity's staff, volunteers and board or committee members can also be profound. No charity expects (or wants) to be a media headline for this reason.

# What types of fraud are there?

There are many different types of fraud, and the methods used are constantly evolving. Fraud and other types of financial crime can be committed by someone within or connected to a charity (internal fraud, which can be by staff, volunteers or others), or by someone who has no connection to it at all (external fraud).

## Examples of internal fraud

- Stealing goods or money from charity shops or other trading activities
- Stealing cash donations
- Misusing charity banking facilities for personal expenditure (such as credit cards, debit cards or internet banking)
- Claiming non-existent, excessive or inappropriate expenses

- Creating false or inflated invoices or purchase orders to obtain payment for goods and services that have not been supplied
- Submitting false applications for grants or other charitable benefits
- Creating non-existent beneficiaries or employees for the purposes of directing unauthorised payments.

## Examples of external fraud

- Using false invoices to obtain money from a charity
- Committing identity fraud, for example, hijacking a charity's bank account
- Unauthorised fundraising in a charity's name, such as setting up a fraudulent disaster appeal website.

# Are charities particularly vulnerable to fraud?

All of us can be victims of fraud and financial crime. Charities are not necessarily any more vulnerable than other parts of society, but there are characteristics shared by many charities that can attract opportunists and those with criminal intent. These include:

- high levels of public trust and confidence can provide a cover of respectability to those committing fraud, and their activities
- an inherent culture of trust, built on volunteerism and pursuit of common goals can enable the unscrupulous to operate with less suspicion
- sometimes, a lack of segregation of duties and/or dependence on one or two individuals can result in ineffective oversight of funds and assets, particularly in smaller charities
- large amounts of cash and unpredictable income can make suspicious activities harder to identify.

# What are the legal duties and responsibilities of those governing or managing a charity?

Members of a charity's governing body (such as board or committee members, trustees or directors – what the ACNC calls 'responsible persons') have legal duties towards that charity.

They have a duty to act in the best interests of the charity, to avoid conflicts of interest and to act with reasonable care and diligence. They should act in a way that protects the charity's assets and ensures that the charity's financial affairs are managed in a responsible manner and for its charitable purpose. This helps protect against fraud. Their role includes:

- acting responsibly and in the interests of the charity, if and when a charity becomes the victim of fraud or other financial crime. This includes notifying the police and the ACNC and taking appropriate steps to manage the consequences of the fraud.
- making sure that everyone involved in the charity (including trustees, board or committee members, and staff and volunteers) is aware of the risk of fraud and what it can mean for the charity
- using proper financial controls and procedures, suited to the size and nature of the charity

You can find out more about governance and managing a charity by reading about our [governance standards](#) and our [Governance for good guide](#).



# What can I do to protect my charity?

In identifying ways to best protect your charity, you should consider three aspects of your charity, as follows:

- its ethical culture
- the communication flow within it, and
- its formal policies and procedures.

These aspects must be considered together. For example, detailed policies are ineffective if they are not promoted or championed by those who hold positions of responsibility, such as directors or CEOs.

With this in mind, the key things you can do to protect your charity are to:

- be clear about the ethical values your charity prioritises, such as honesty and accountability – talk about and model these
- be open with those in your charity about the possibility (risk) of fraud or other financial crime, even if it is only a small risk
- identify the types of fraud your charity may be at risk from (including fraud committed by those connected to the charity, and those who are not)
- understand the triggers or ‘red flags’ your charity may have, that act as a warning of possible issues
- consider developing sound written policies and procedures that are clear about roles and responsibilities, and what steps must be taken, including:
  - » detailed and robust financial procedures
  - » a fraud prevention policy
  - » human resources procedures
- promptly report any suspected fraud or other criminal activity that does take place, and take steps to minimise any loss and prevent it recurring (see 7.6).

We now look at each of these suggestions in more detail.

## Be clear about ethical values and behaviour

It is important for board and committee members and managers to set the 'tone at the top' on fraud and criminal behaviour, including ensuring that fraud and the approach to responding to fraud is understood within your charity.

Setting the tone at the top includes:

- establishing and communicating clear expectations about behaviours, roles and responsibilities
- developing a 'no blame' culture that enables the concerns to be voiced and queries listened to and followed up, and
- promoting fairness, and
- protecting those who report concerns (whistleblowers).

## Be open about the possibility of fraud, even if risk is low

Communicate about how fraud can occur – what it is, what it might look like in your charity and that your charity takes the risk of fraud seriously.

## Identify types of fraud your charity may be at risk from

Fraud can be very difficult to identify. Opportunities for fraud exist at every stage of a charity's activities, from the point at which funds are received, throughout internal management and decision making processes, to the point where funds are used.

To help you prevent your charity from becoming a victim of fraud, and to make your charity more alert to the risks and its vulnerabilities, you need to assess your risk. You may want to consider:

- the risks relevant to your particular charity, such as those related to the types of activities it undertakes, the roles and responsibilities of staff/volunteers, and the banking procedures and fundraising methods it uses
- documenting your risk assessment and raising awareness of this in your charity
- scheduling regular re-assessment of risks and review of procedures, as well as when your charity's situation changes, for example, when activities change, staff change or you experience increases or changes to funding.

## Understand your charity's 'red flags' for fraud

It is important that you understand your charity's own particular warning signs, or 'red flags' which may indicate fraud.

### Your charity's financial procedures

Most fraud can be detected by a charity's internal controls or audit process. Regularly check your charity's accounts and records and look for the following warning signs.

- Are reconciliations (comparing transactions recorded for a financial account against monthly statements) completed on a regular basis and checked for discrepancies?
- Have any documents, books or records gone missing?
- Are your financial documents (such as invoices) photocopies rather than originals? (Can indicate counterfeit documents.)
- Do alterations or deletions frequently appear on documents? (Can indicate falsified records and transactions.)
- Are there any duplicated payments or cheques?
- Do transactions take place at unusual times with irregular frequency, unusual amounts or to unknown recipients?
- Are suppliers submitting electronic invoices in an electronic format that can be altered (instead of PDF)?
- Are there unexplained variances from agreed budgets or forecasts?
- Have audits or reviews (internal or external) highlighted any inconsistencies or irregularities?

### Behaviour of those in your charity – board or committee members, staff or volunteers

Most people who work and volunteer for charities are honest and law-abiding. But being a charity does not automatically make you immune from dishonesty.

When it does happen, fraud is often carried out by employees, including people in positions of trust. Over half the allegations of fraud received by the ACNC so far have related to the conduct and activities of senior and trusted members of the charity, including CEOs, directors and financial officers.

People commit fraud for a variety of reasons – to pay debts, out of greed or through opportunism. Be alert to the following behaviours:

- Does any person have sole control of a financial process from start to finish?
- Are vague responses being given to reasonable and legitimate queries and/or are these queries taking a long time to resolve?
- Is there reluctance to accept assistance with managing finances or to take leave/holidays?
- Has the format of financial information provided to your board suddenly changed or become more complicated?
- Is anyone trying to delay work reviews or audits?

When looking at risk indicators, it is worth remembering that:

- the typical perpetrator of fraud is a paid employee
- the most common types of fraud suffered are cash theft, payroll or credit card fraud, and
- having internal financial controls is one of the most effective ways to discover fraud.

## Sound written policies and procedures

Sound written policies are a critical part of fraud prevention, and provide accountability.

### Financial procedures

> If you do nothing else, have sound written financial procedures and ensure these are followed.

The steps that you take will depend upon the size and complexity of your charity. However, all charities can take some practical and sensible steps which will significantly reduce the risk of fraud. Many measures can be implemented easily and cheaply by board or committee members, staff and volunteers.

You need to use your judgement and knowledge of your charity to ensure that anti-fraud measures are appropriate and proportionate. We recognise that small charities often do not have access to the same resources, professional advice and risk management processes as large charities.

There are many steps you can take. We suggest you:

- Separate duties where possible. For example, one person should not be solely responsible for authorising, completing and reviewing your charity's financial transactions
- Keep proper financial records for receiving and using all funds and records of decisions as they are made (for example, minutes of meetings or email threads), and store them securely. Transaction records should be detailed enough so that you can check that funds have been spent as intended

> Keeping records is also a [requirement for registered ACNC charities](#).

- Carry out regular (monthly) checking of bank statements to ensure all amounts you expect to be banked are actually received in your charity's bank account. Even have this checking reviewed by another person
- Reconcile (match up) supplier statements, invoices and creditor balances – to check that invoices match payments, and so on
- With internet banking, regularly change your password and limit the number of people who have access to it
- Make sure you know which staff or volunteers can access the charity's accounts, including their level of access to the accounting system, and put in place a system to independently check transactions
- Set up authority amounts (thresholds) for the approval of orders and the payment of suppliers – only certain people can approve orders/payments over a particular amount. You can do random checks on spending below this amount
- Require at least two signatories for all bank account activity, including new debit/credit cards and online banking – no banking can be done without both people signing
- Regularly review/spot check payroll records for any paid staff.

### A fraud prevention policy

Some charities develop and implement a fraud prevention policy that is endorsed by its governing body and implemented by staff.

Developing and implementing a fraud prevention policy offers an opportunity to help raise awareness of the risk of fraud, and help staff and volunteers take appropriate steps to **prevent, detect** and **act** (including reporting) if there is fraud. In particular, a fraud prevention policy is a written document that:

- describes actions and responsibilities for preventing, identifying and responding to incidents of fraud
- outlines the key responsibilities of senior staff and board or committee members (or trustees).

In developing a fraud prevention policy for your charity consider including:

- a short statement about what fraud means within the context of your charity – you could start with our simple definition of fraud and explain how it may apply to you
- a plan for how your charity will respond to fraud – who in the charity needs to be told and if anyone outside the charity needs to be informed or reported to (see 'Reporting suspected fraud')
- the process for reporting suspicions of fraud
- how fraud prevention training will be provided
- the process (including time frame) for reviewing the policy.

### Human resources procedures

Consider your recruitment process, ongoing training and how staff (paid and volunteer) are communicated with. Some practical steps can include:

- using a clear job description and sufficiently detailed application form, and reference checking procedures
- ensuring certain standards are met when using volunteers, particularly in fundraising or where charity funds are handled
- including fraud prevention policies and procedures in a staff handbook, and having designated staff responsible for them
- where possible, dividing duties between staff so irregularities can be spotted
- introducing supervisory and monitoring checks, where appropriate
- encouraging fraud awareness by using and training staff in the use of fraud prevention measures, such as financial controls and reporting suspicions
- keeping risk assessments a regular feature on the board meeting agenda – this ensures fraud is always considered and provides an opportunity to raise concerns
- having a whistleblowers policy that is supported
- having a code of conduct (prominently displayed) that sets out the ethical culture expected in your charity and is used as a standard by which behaviour is judged.

## Reporting suspected fraud or other criminal activity

### Reporting fraud to the police

If you suspect a crime has been committed in your charity then you should report your concerns to the police as soon as possible. This is an important part of ensuring that your charity, and the sector, is protected from fraud.

The Australian Federal Police has primary law enforcement responsibility for investigating serious or complex fraud, where Commonwealth laws have been broken. More information can be found on the [Australian Federal Police website](#).

Consider reporting fraud to your local police, particularly if the situation is urgent and there is a risk of immediate loss or harm.

- [ACT Police](#)
- [New South Wales Police](#)
- [Northern Territory Police](#)
- [Queensland Police](#)
- [South Australia Police](#)
- [Tasmania Police](#)
- [Victoria Police](#)
- [Western Australia Police](#)

### Reporting fraud to your bank

If the fraud relates to online banking, cheques or your charity's debit or credit card or you suspect fraudulent activity on your charity's account, you should contact your bank or credit card company immediately and ensure a stop is put on access.

### Reporting scams, misrepresentation or other fraudulent behaviour to other regulators

You can report a scam (like a fake website in a charity's name) to [SCAMwatch](#), a website run by the Australian Competition and Consumer Commission that provides information about how to recognise, avoid and report scams.

You can also report fraudulent behaviour to your [state or territory consumer regulator](#), such as a consumer affairs or fair trade agency.

### Reporting fraud to the ACNC

The ACNC also has an important role in considering whether criminal activity indicates there has been mismanagement of a registered charity, and whether we need to act to protect that charity (and those it helps).

If you report instances of fraud to the ACNC this allows us to work with you to manage the consequences of fraud and to support you to take appropriate steps to better protect your charity so it does not happen again.

▶ We take information-handling and [privacy](#) seriously, and do not comment publicly about individual ACNC investigations.

Reporting an incident of fraud to the ACNC is simple and easy to do. Please contact us – you may be asked to fill in a form and detail your concerns.

The ACNC Act requires charities to report breaches of the Act (including breaches of the proposed governance standards, anticipated to come into force on 1 July 2013) as soon as practicable, and no later than the end of 28 days after the charity has knowledge of the breach. You can use [Form 3C: Notification of contravention or non-compliance](#) to notify us.

There is no minimum level that must be reported – you need to decide whether the incident is serious or significant enough to be reported, taking into account the actual harm or potential risk to your charity (including to those it works to help, its assets, its staff, members, donors, funders and the public).

The ACNC expects instances of high value fraud or theft, and/or when there is media or public interest, to be reported immediately.

Low value incidents may not seem important but may be an indicator of organised behaviour or a cultural issue and can pose serious risks. If you decide fraud is too minor to report you should keep records and document your decision.

It is important to remember that reporting an incident is one way to demonstrate that your charity's board or committee members (or trustees) are dealing with it appropriately.

Read more about our policy on [handling complaints from the public](#) about charities.



# What is the ACNC's approach if fraud is reported?

Where a registered charity has been involved in fraud, or is the victim of fraud, the ACNC's key areas of regulatory interest are:

- protecting the charity's funds and assets
- maintaining, promoting and protecting trust and confidence in the charity and not-for-profit sector, and
- ensuring that members of the governing body (board or committee members or trustees) comply with their legal duties and responsibilities in managing the charity.

Where a charity has been the victim of fraud we will generally work with it to understand the causes, assist the charity to protect assets and provide guidance and education to ensure fraud doesn't reoccur.

Where the charity is not willing to work cooperatively with the ACNC or the fraud has resulted from organisational or deliberate non-compliance, we are more likely to consider using our formal enforcement powers, which can include revocation of registration.

Our experience so far has been that most charities are notifying us early, providing full information and then satisfying us that they are taking appropriate action.

Our approach is outlined in our [regulatory approach statement](#).

The ACNC works closely with law enforcement agencies, who generally take the lead in cases involving criminal offences. The ACNC works in partnership with the police and other agencies, and our role is to investigate any regulatory concerns that arise in connection with a registered charity. This includes considering whether there has been misconduct or mismanagement in the administration of the charity and any issues about the suitability of the charity's trustees or board or committee members.



# Case study: uncovering a fraud

This case study helps illustrate how a fraud can be uncovered and what steps can be taken. It is loosely based on ACNC experience and shows some warning signs the charity should have been alert to, and what good steps helped manage the situation.

Joseph is a director of A Charity Inc ('ACI'), a small charity registered with the ACNC. He has also had full financial control of the charity for a number of years.

! Need for dividing up the duties and the oversight of finance functions

Staff at the charity first identified financial discrepancies when Joseph was on leave. He had not delegated any responsibility for the accounts.

! Keep an eye out for staff with financial responsibilities being reluctant to take leave or to delegate responsibilities

Further investigation by staff into the inconsistencies showed that there had been a number of instances of potential credit card fraud. The staff of the charity immediately approached another director to express their concerns.

> Staff understanding internal procedures/ able to report their concerns, confidentially

The director expressed surprise at the allegations, having only ever seen consolidated figures.

> Ensure the board or committee of management is given sufficient information to understand the nature of the charity's financial activity

The charity's board notified the ACNC of their concerns, suspended the individual concerned, stopped requesting public funds (until the charity's financial position – whether it could pay its debts (solvency)) was decided, initiated an internal investigation and communicated to members about the investigation and the action it has taken.

> Importance of swift action to protect assets, communicate with stakeholders and notify the ACNC

At the time of notifying the ACNC, the board had not contacted police.

! Best practice is to notify police of criminal matters, such as potential theft

The board called a meeting with staff to explain the circumstances and reassure them all that was possible was being done.

> Importance of open and transparent communication

The board continued to work closely with the ACNC to uncover the extent of the fraud and to identify areas for improvement in financial controls.

> Importance of working with the ACNC

The board then initiated a risk assessment and review of the charity's policies.

> Being proactive about assessing potential risk and having appropriate processes in place

# Top 10 tips to protect your charity from fraud

## 01 Clear, written financial procedures and delegations (limits)

Have financial controls that all staff and volunteers follow. For example, always have two cheque signatories and, if possible, two people involved in handling and recording any money received, and set clear financial delegations limiting authority to approve purchases and other transactions to set amounts.

## 02 Robust human resources procedures

Make sure your recruitment processes are sound and provide ongoing training and communication to staff and volunteers about fraud prevention measures, including financial controls and how to report suspicions.

## 03 Code of conduct

Demonstrate and encourage ethical behaviour. Display your code of conduct prominently and model it.

## 04 Financial responsibility

Make sure people with financial responsibility are competent and understand their role and responsibilities. It is a good idea to have written role descriptions setting out expectations of staff, including the financial responsibility they have.

## 05 Fraud prevention policy

Consider developing a fraud control policy setting out who in your charity must do what to prevent, identify and respond to incidents of fraud.

## 06 Internet banking security

Make sure your accounts and online banking passwords are secure, and limit who can have access to them. Regularly change your passwords.

## 07 Limit cash handling

Large amounts of cash can encourage theft and fraud, so limit the amount to be handled by your staff and volunteers.

## 08 Regularly check your accounts and any grant funding

Review your accounts regularly and identify anything that does not make sense. Keep a record of all grant applications and how the grant funds were used. Monitor your charity's performance against its budget, and if you see a significant variation in spending or income, ask for more information.

## 09 Ask questions

Members of your board or management committee should feel comfortable to ask questions about the financial information they receive before each board or committee meeting. If you manage a charity, make people accountable and do not take anything for granted.

## 10 Understand the importance of reporting fraud

Make sure your staff and volunteers understand the importance of reporting fraud to senior management and that a clear process is in place to report concerns to the police and the ACNC as soon as possible. This will help to protect your charity from fraud and enable us to work with you to take appropriate steps to better protect your charity.







