What is fraud?

Fraud means deliberately misusing an organisation's resources for private gain. It includes smaller offences, like fiddling an expense claim, and major offences, like stealing funds. If your organisation has suffered fraud, you are not alone. Many voluntary organisations have been the victims of fraud.

The most important thing that organisations can do to combat fraud is to recognise that it happens. It is normally carried out by an organisation's own member of staff, or their partner's staff - often by people you have previously trusted.

Alongside theft common frauds include:

- bribes paid to staff by suppliers or beneficiaries
- supplies sold for personal gain
- unauthorised personal use of assets (e.g. telephones, vehicles)
- staff or trustees being paid inflated expenses (supported by false receipts)
- the same project being funded by two different donors, and
- resources given to ghost staff or beneficiaries, who do not really exist

Fraud is hard for organisations to come to terms with because it involves a betrayal of trust, and because it can lead to negative reports that could damage fundraising and reputation.

But the real betrayal of trust is to donors, staff and the beneficiaries who could have been helped by the organisation but were not.

Avoiding fraud

Fraud can be avoided most effectively by creating an effective organisational culture that uses money carefully. This is an important task that goes to the root of financial management and how an organisation works to achieve its mission.

As an organisation you achieve this, by:

- Providing staff and volunteers with a clear sense of purpose and direction and inspiring them to live out the organisation's values.
- Putting in place appropriate controls and checking that they are working - in a way that empowers field staff to make good judgements. This also means providing staff with the training and support they need to work in practice e.g. two signatories for cheques.
- Making sure that regular financial reporting is made to beneficiaries.

Dealing with fraud

Even in a strong organisation with a positive culture, fraud can still happen. Organisations are advised to have a written fraud policy that sets out how you will respond to allegations of fraud.

This should include how you expect to deter fraud, how you will respond to different types of irregularity, how allegations can be reported (including 'whistle-blowing', if appropriate) and how they will be investigated. Furthermore staff and volunteers need to know about the policy.

All allegations of fraud must be treated seriously and investigated as soon as possible. Internal investigations must be fair and take the time to assemble real evidence before coming to conclusions. This is a detailed and time-consuming job. The Police and Charity Commission may be able to help - particularly in bringing the perpetrator to justice and recovering funds.

An investigation may help you understand how to avoid the same type of fraud happening again in the future. But: 'extreme cases make bad laws'. It is better to change your rules and policies after careful reflection - because they have to work for normal times, as well as extreme cases.

Organisations should also consider recording the details of each fraud, and the actions they take in response, in a fraud register. This is an important document for monitoring fraud and for learning how to strengthen controls in the future.

Further information

HM Revenue and Customs (HMRC)
Tel: 0845 010 9000
www.hmrc.gov.uk

Charity Commission for England & Wales
Tel: 0845 3000 218
www.charity-commission.gov.uk

For further information contact