

A high-angle photograph of a person walking across a zebra crossing. The person is wearing a red jacket, black leggings, and white sneakers, and is holding a large, open rainbow umbrella. The background is a dark asphalt road with white diagonal stripes.

Charity Fraud Report 2024

Putting lessons into practice

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This year's Charity Fraud Report highlights the profound and long-lasting implications fraud has on charities of all sizes. Whilst there are positive and meaningful steps taking place to detect and prevent fraud, charities should not take their finger off the pulse when assessing fraud.



Sir David Green CB KC
Chair, Fraud Advisory Panel



Foreword

Welcome to the 2024 edition of BDO's Charity Fraud Report, conducted in partnership with Fraud Advisory Panel. The survey findings were launched at the annual Charity Fraud Conference, hosted by BDO, on the first day of Charity Fraud Awareness Week 2024.

Charity Fraud Awareness Week is dedicated to supporting a sector that tirelessly supports others. We extend our heartfelt thanks to everyone who participated in the survey, contributing to the creation of this comprehensive report.

This year marks a significant milestone as we achieved the highest response rate to date, with 139 respondents - a 15% increase from last year. This growing participation underscores the commitment from charities to share their fraud-related experiences, enabling us to gain a clearer and more comprehensive view of the charity fraud landscape.

The survey results reveal some critical insights: 50% of frauds experienced were committed by individuals within the organisation, and 44% of charities did not have a fraud response plan in place. These

two results in particular demonstrate how, despite the fantastic progress that charities have shown across other areas of fraud risk management, there remains a requirement to retain focus on some of the more established fraud risks and tools for mitigation.

Despite operating in a continually challenging fraud environment and with findings such as those mentioned showing where work must continue to progress. Our 2024 survey reveals a real sense of development and growth in how charities manage fraud risk. For example, a positive stance when dealing with instances of fraud to an optimistic outlook when developing prevention strategies.

We are encouraged by the proactive measures being taken and the collaborative spirit within the sector. Together, we can continue to build resilience and safeguard the vital work that charities do.



The 2024 Charity Fraud Report demonstrates how previous campaigns have helped charities to address fraud risk. The ongoing commitment from BDO and representatives from across the public and private sector demonstrates the success that can be achieved when all work together. We extend our thanks to all who contributed to the survey, conference and campaign, and to BDO for their support with tackling charity fraud.

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Key findings

This year, we had the highest response rate for the survey, with 139 respondents – a 15% increase from 2023. This demonstrates a strong commitment from charities to share their fraud-related experiences, helping us all gain a clearer view of the charity fraud landscape.

Despite a challenging fraud environment, our 2024 survey reveals significant development and growth in how charities manage fraud risk.

The level of fraud experienced by our respondents has remained broadly the same as last year (42% compared to 43% last year). However, the number of charities experiencing losses due to fraud has decreased to 84% (from 92% last year).

Fraud impacts charities in many ways beyond financial loss, and non-financial impacts can be more profound and long-lasting, especially if not handled correctly. This year, 78% of charities recognised that they experienced some non-financial impact after a fraud, compared to 56% last year. **Although higher, this indicates a positive recognition by charities of the true reality of fraud and its far-reaching impact.**

The human cost of fraud is also significant, with 21% of charities losing staff, volunteers or trustees, and a further 21% reporting a loss of morale. While staff changes might be inevitable after a fraud, **it is good that those reporting a loss of morale have more than halved this year.** By fostering a culture of integrity and transparency, charities can support their teams and maintain a positive work environment.

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 139 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 Fraud Advisory Panel between 2021-2023. This year's survey included some different questions to prior surveys and has a larger sample of respondents. Percentages included in the charts have been rounded, and therefore there may be small rounding errors

Half of detected frauds were committed by individuals within the charity, highlighting the persistent internal threat. This underscores the need for robust internal controls and a culture of vigilance. By addressing these issues head-on, charities can strengthen their operations and build resilience.

Looking ahead, 50% of charities expect fraud risk to increase in the next 12 months, which is lower than last year, showing a more optimistic outlook. This expectation is likely influenced by the still uncertain economic climate, with 60% of respondents agreeing that the ongoing cost-of-living crisis continues to heighten fraud risk.

The introduction of the Economic Crime and Corporate Transparency Act will impact some of our respondents over the next year - 45% said it will apply to them. This legislation aims to enhance transparency and combat economic crime, providing a framework that charities can utilise to strengthen their fraud prevention efforts. Affected charities should review the guidance issued by the Home Office on 6 November 2024 and ensure their fraud risk management frameworks are fit for purpose and have reasonable procedures in place to prevent fraud. However, those not directly affected should also be prepared that they may also be impacted through their 'associate' relationships, which could bring them within the purview of the act.

35%

thought they experienced more instances of fraud than last year

42%

reported fraud or attempted fraud

78%

experienced other 'non-financial' issues as a result of fraud

50%

expected fraud risk to increase in the next 12 months

21%

suffered a loss of morale amongst staff, volunteers or trustees

60%

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

50%

of detected frauds were perpetrated by an insider

84%

experienced financial losses due to fraud

Focus on the Economic Crime and Corporate Transparency Act (ECCTA)

45%

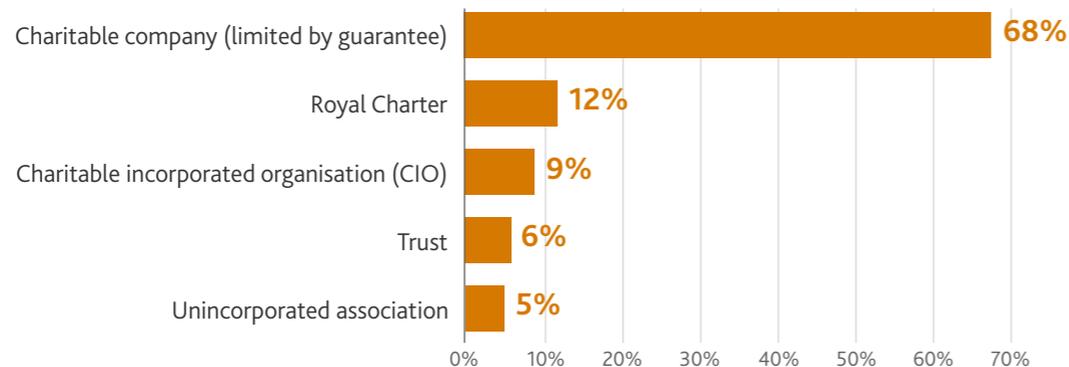
believe that ECCTA will apply to them

88%

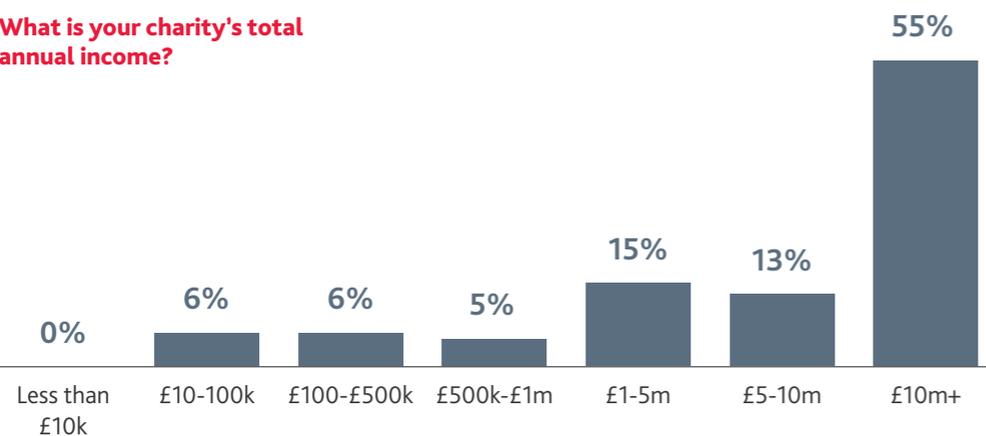
have taken or are committed to taking action in preparation for ECCTA

Who did we survey?

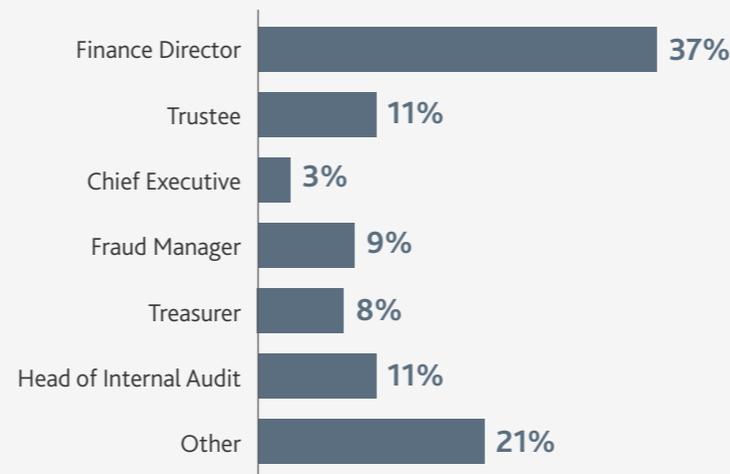
What type of charity are you?



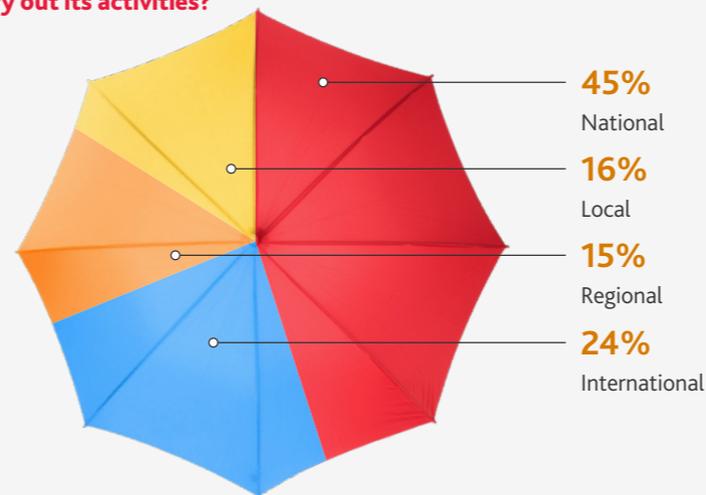
What is your charity's total annual income?



What role do you hold in your charity?



In what area does your charity carry out its activities?



How many trustees do you have?

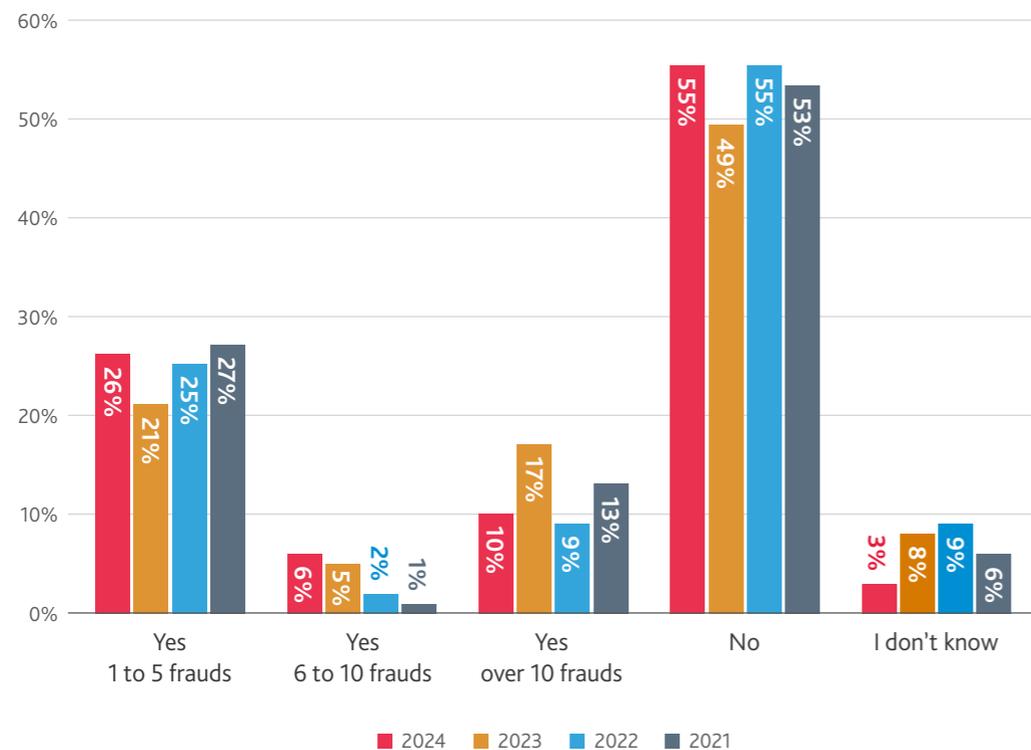
It is excellent that 94% of charities had more than five Trustees and only one charity had below the required number of Trustees (i.e., less than three).



Reported fraud: What fraud have charities suffered?

Reported fraud in the last 12 months

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



42% of charities reported fraud or attempted fraud, which is consistent with the 2023 response rate of 43%. This is positive news for charities as there was a 19% increase in reported fraud between 2022 and 2023 - but this trend has not continued as fraud levels have stabilised.

Charities have shown a clear commitment to tackling fraud, as seen through their engagement with surveys such as this and participation in Charity Fraud Awareness Week. By sharing their experiences, they provide valuable insights that help others develop and implement practical prevention solutions.

Of the charities that experienced fraud or attempted fraud, most faced between one and five incidents in the past year. However, 10% suffered more than 10 frauds, which, although high, is a decrease from 17% last year. This positive development suggests the average number experienced is decreasing.

This is supported by analysis of the average number of frauds experienced per respondent. Last year, the average number of frauds per respondent was between five and eight, reducing to between four and seven this year.

Interestingly, donation, legacy and identity fraud and bribery and corruption were all most commonly associated with charities having experienced over ten frauds. Grant fraud and cyber-enabled fraud were most commonly associated with charities having experienced one to five frauds.

Despite the positive trends, we recognise the significant impact even one instance of fraud can have on a charity. This includes financial losses, but also other internal consequences such as lost management time, decreased staff and volunteer morale, disrupted services, and loss of donor confidence. There is often no correlation between the value of the loss and the wider impact on a charity, so even low-value frauds can have a big impact.

Over half of respondents said they did not suffer fraud or attempted fraud (55%), an improvement from last year's 49%, which may indicate that preventative measures are being successfully implanted.

However, we know from experience and recent fraud cases in the press that some frauds can go undetected for many years. Therefore, we remain cautious when considering the true extent of fraud.



What does this mean for the sector?

We applied these numbers to our respondents and the wider sector and arrived at the following findings:

Our respondents:

Suffered between 224 and 414 frauds (average between four and seven frauds)¹

The sector:

Suffered between 10,000 and 20,000 frauds²

1. We are only able to show a range because the average is based on the response options of 1-5, 6 to 10, and 10 plus frauds.

2. Average number of frauds to registered charities with same income profile as our respondents (i.e., over £1 million).

Reported fraud: What fraud have charities suffered?

Types of reported fraud

We asked charities about the different types of fraud they experienced in the last 12 months, as well as some specific questions about their most recent significant fraud.

Last year, the top three types of fraud were a combination of internal (misappropriation of cash or assets and staff expenses fraud) and external (payment diversion fraud, also known as APP or Authorised Push Payment fraud). This year, the position remains broadly the same.

Misappropriation of cash or assets

Misappropriation of cash or assets accounted for 40% of all fraud experienced by charities (down from 42% last year) and 31% of the most recent significant fraud (down from 35% last year).

Payment diversion fraud

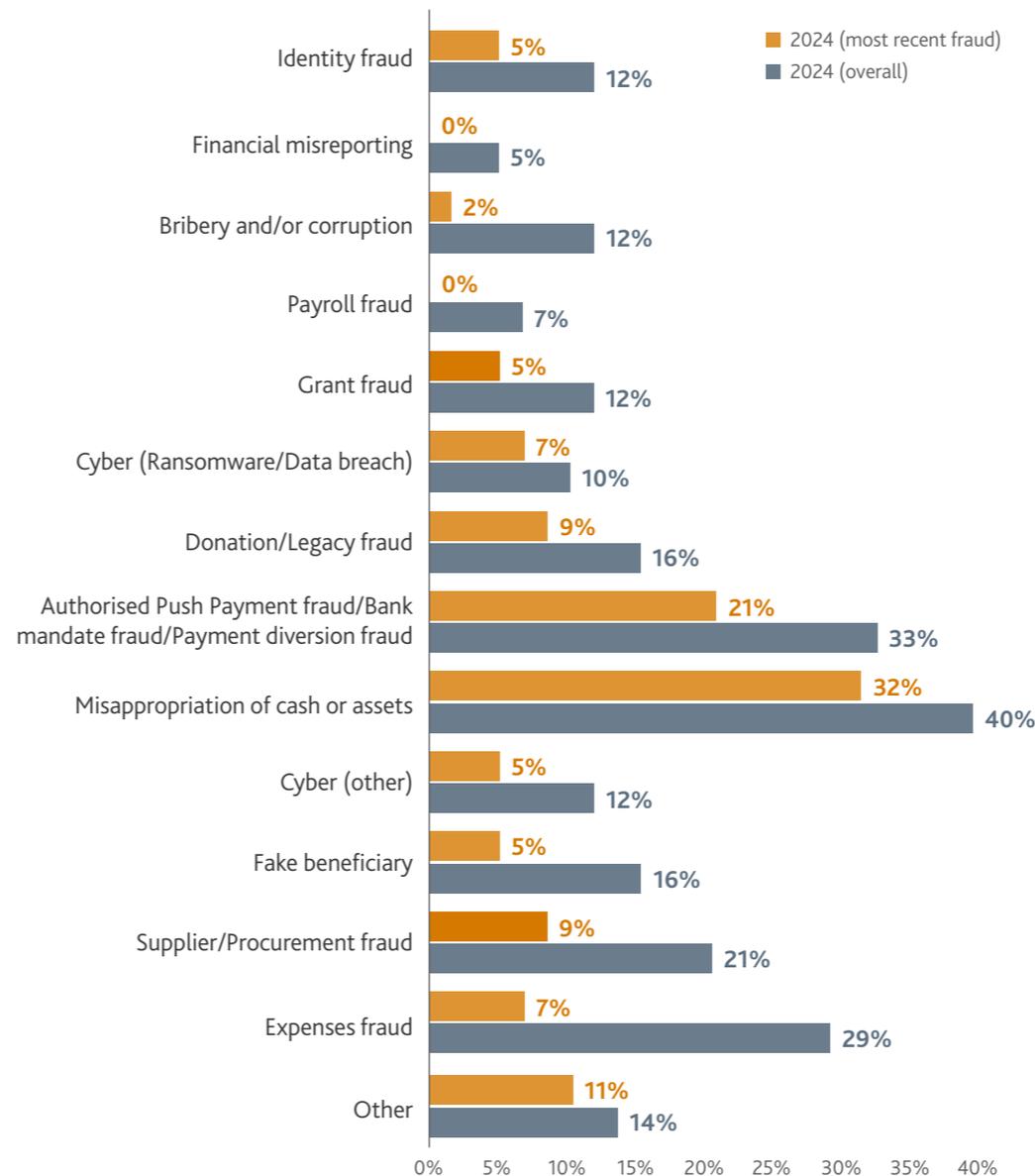
Payment diversion fraud was faced by 33% of charities in the last 12 months (the same as last year) and 21% as their most recent significant fraud (up from 19% last year).

Staff expenses fraud

29% of charities experienced staff expenses fraud over the last 12 months (down from 35% last year).



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



Insider Fraud

Case study:

A cancer charity suffered a loss over £85,000 due to fraud. A Fundraising Manager forged senior charity staff signatures on cheques to make payments from fundraising accounts. The fraud happened over a 10 year period, including after the individual was made redundant and the two main signatories had left the charity.

Top tips:

- ▶ Check bank mandates regularly, particularly for those leaving the charity
- ▶ Carry out exit interviews to understand the real reason that someone might be leaving
- ▶ Carry out regular bank reconciliations
- ▶ Have a register of who holds a cheque book.

Reported fraud: What fraud have charities suffered?



Payment diversion fraud

Case study:

A charity fell victim to a payment diversion fraud when purchasing a property – the fraudster posed as the charity's bank. They persuaded the employee to log into the bank account to set up new payments using the CEO and FD's dongle. £200,000 was transferred before they raised the alarm after worrying about the incident overnight.

Top tips:

- ▶ Educate employees about what phishing calls, emails and letters might look like and encourage independent checks and a healthy level of scepticism - time is not always of the essence
- ▶ Do not share bank logon details, PIN cards/dongles and have a robust policy for bank access, use and changing bank details
- ▶ If you receive a call purportedly from your bank, or any other third party, asking for account details to be changed or payments to be made, call them back using a number you have identified independently
- ▶ Do not feel pressured, take a step back and consult with others.



Inter-relationship between fraud types

We examined the inter-relationship between the most common fraud types experienced over the last 12 months and the most common recent significant fraud type. There were notable differences. For example, staff expenses fraud accounted for 29% overall but only 7% in the most recent fraud category. Similarly, supplier fraud accounted for 21% overall but only 9% in the most recent category. Bribery and corruption accounted for 12% overall and only 2% most recently, while fake beneficiaries accounted for 16% overall and only 5% more recently. These differences suggest that the fraud landscape has changed over the year. Fraudsters are constantly evolving and finding new ways to target charities. External influences, such as changes in how charities operate or new processes, can also impact fraud trends. This makes it crucial for charities to stay vigilant and adapt to the changing risk landscape.

Cyber-enabled fraud

Cyber-enabled fraud was a regular feature in last year's survey, particularly regarding perceived future risks of this type of fraud. This year, 22% of respondents experienced cyber-enabled fraud. This highlights the importance of regularly updating cyber defences, as a cyber-attack and resultant loss of data, access to data, cash, or assets could be debilitating for charities.

Multiple frauds

We asked charities to report all the different types of fraud they experienced, allowing each charity to report more than one type of fraud. On average, each charity experienced at least two different types (compared to three last year).

Closer look at the top three

- ▶ Of the charities that experienced payment diversion fraud, 58% also experienced different types of external fraud such as cyber-enabled fraud or supplier/procurement fraud
- ▶ Of the charities that experienced misappropriation of cash or assets and/or staff expenses fraud, 21% experienced both. Internal fraudsters often start with small, low-value frauds, such as staff expenses fraud, and may progress to larger-scale fraud as their confidence grows, especially when that fraud goes undetected
- ▶ Of the charities that experienced misappropriation of cash or assets and/or staff expenses fraud, 29% also experienced some other type of fraud with an external element, such as cyber-enabled fraud, payment diversion fraud, or procurement fraud.

Internal vs. external

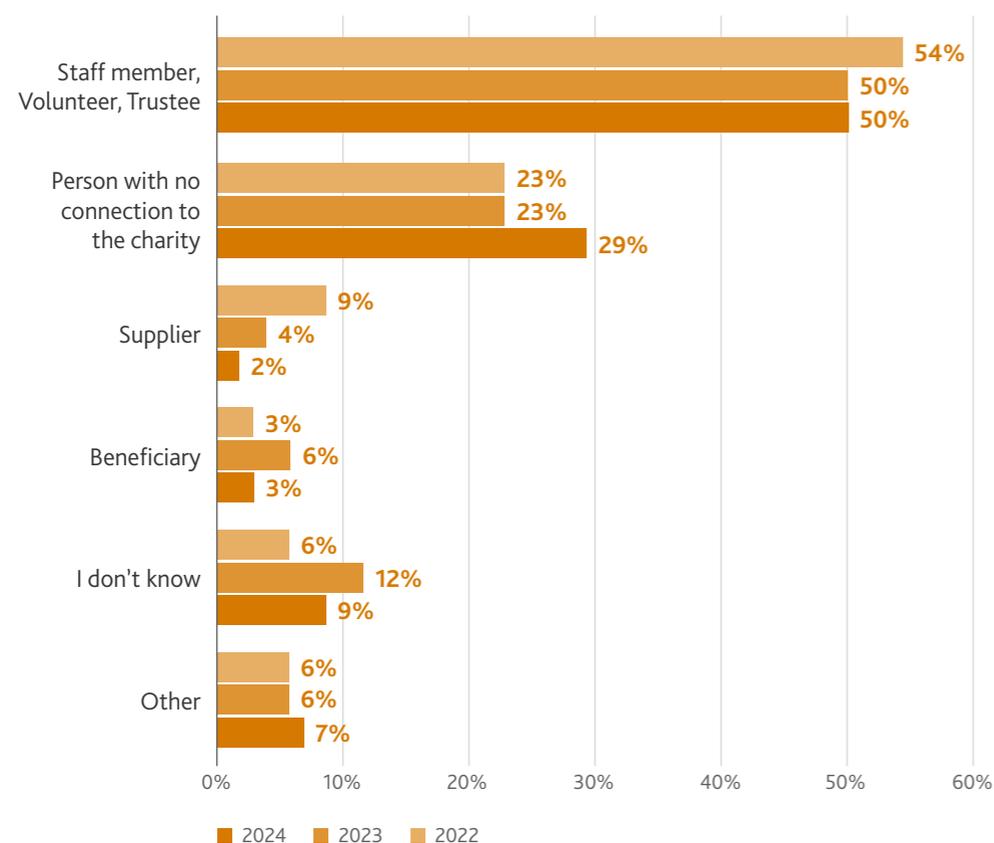
From a high-level perspective, our survey found that approximately one third of all frauds were internal and two thirds external. However, we also recognise that some frauds can fall into both categories (e.g., supplier/procurement frauds, and bribery and corruption).

Overall, these findings suggest a continued threat from both angles, insider and outsider. Charities should be mindful of this dual threat when carrying out risk assessments and allocating resources to combat fraud, ensuring maximum protection from all kinds.

Reported fraud: What fraud have charities suffered?

Perpetrators of reported fraud

What relationship did the alleged fraudster have to your charity?



Overall, the top two most common perpetrators were split between charity insiders (staff, volunteers, and trustees) and those with no connection to the charity, which remains consistent year-on-year. 50% of detected frauds were perpetrated by staff members, volunteers, or trustees, showing that the internal risk is still the most prevalent (2023: 50%, 2022: 54%).

29% of detected frauds were perpetrated by a person with no connection to the charity, compared to 23% last year. This increase aligns with the trend based on the type of fraud, as set out on the prior pages.

If we include beneficiaries and suppliers in the outsider threat category, as they do have a connection with the charity but are still external from a risk and controls perspective, this narrows the internal and external gap further and highlights the importance of a well-rounded approach to fraud risk management so that all risks are properly assessed and managed.

For any fraud risk management strategy to be effective, there needs to be a comprehensive risk assessment that encompasses the likelihood of occurrence, and an impact assessment. An effective and agile risk-based approach will ensure that limited resources are deployed as effectively as possible.

50%
of fraud was perpetrated by staff members, volunteers or trustees.

29%
of fraud was perpetrated by a person with no connection to the charity.



Cyber fraud

Case study:

A charity providing support to the homeless was amongst other large charities that were caught up in a major cyber-attack when an associated entity was a survey company which worked with many of the UK's biggest charities. Hackers had potentially gained access to the charity's data, including personal information.

Top tips:

- ▶ Perform a cyber-fraud risk assessment
- ▶ Seek specialist advice for prevention support, including penetration testing, or as soon as you suspect an incident
- ▶ Carry out due diligence on suppliers and other associated entities
- ▶ Ensure you are ready to act quickly if a cyber-related incident does occur (i.e., have a cyber response plan).

Reported fraud: What fraud have charities suffered?

Detection methods

One of the biggest challenges charities face is building fraud detection tools into their fraud risk management framework. As set out in this report, there are many risks coming from different directions, and we understand that charities need to make decisions based on their limited resources.



Internal controls

At 62% internal controls remain the most common means for detecting fraud, compared to 67% last year. Although this is slightly lower than last year, it is still an improvement on 2022 (56%). Charities must ensure their internal controls are tested and fit for purpose, as they are a crucial first line of defence.



Internal whistleblowers

At 12%, internal whistleblowers are the next most common means for detecting fraud, which is consistent with last year (13%). It is essential that staff, volunteers, and trustees know how to report concerns and feel able to do so without fear of repercussion. Culture is key. Culture can be described as a set of shared values and beliefs, clearly established and reinforced through communication and strong leadership (i.e., tone from the top). Building a strong anti-fraud culture is an important part of this, and a well-communicated zero-tolerance fraud policy will help protect from fraud and other harmful and high-risk behaviours.



External whistleblowers

External whistleblowers are the third most common method of fraud detection this year, increasing from 4% to 10%.

Other means of fraud detection include:

- ▶ External parties, such as banks or suppliers (6%)
- ▶ Internal fraud teams (4%)
- ▶ Data matching or data analytics (3%). Digital and data-analytics tools can help detect both cyber-related fraud and other types of fraud, depending on how they are applied.

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

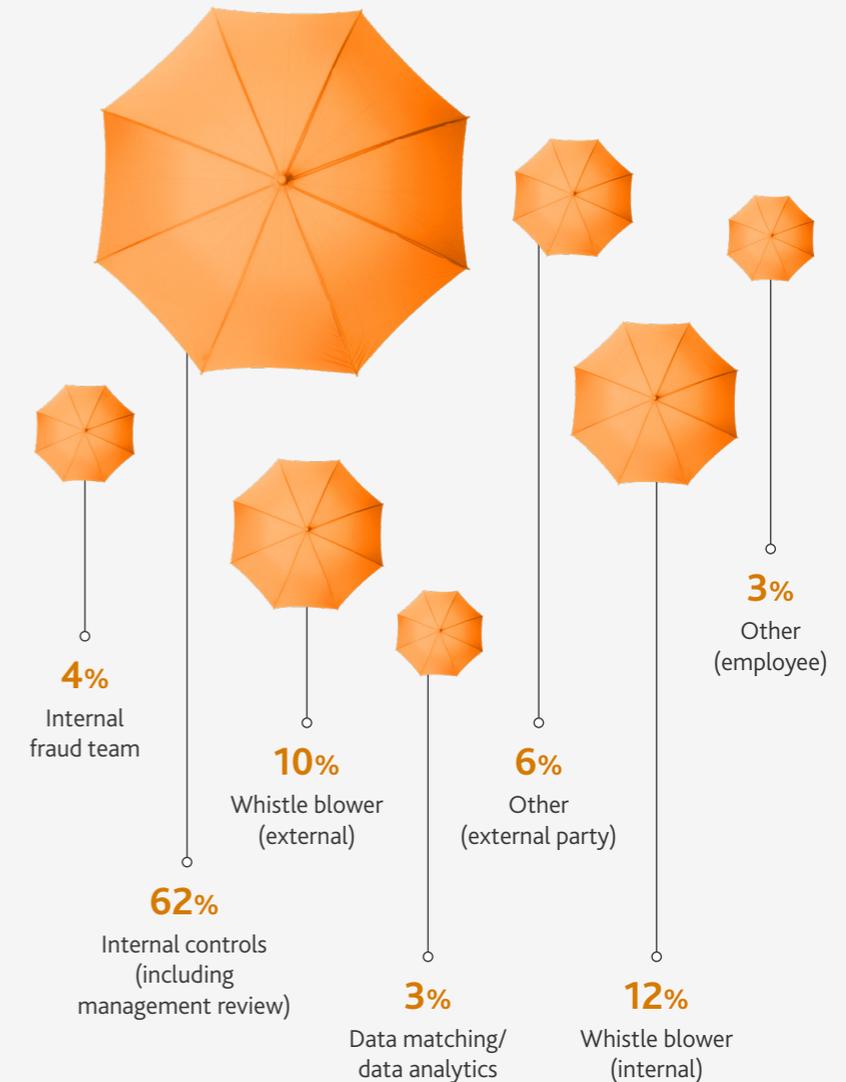
62%

Internal controls remain the most common means for detecting fraud.

12%

of fraud was detected by internal whistleblowers.

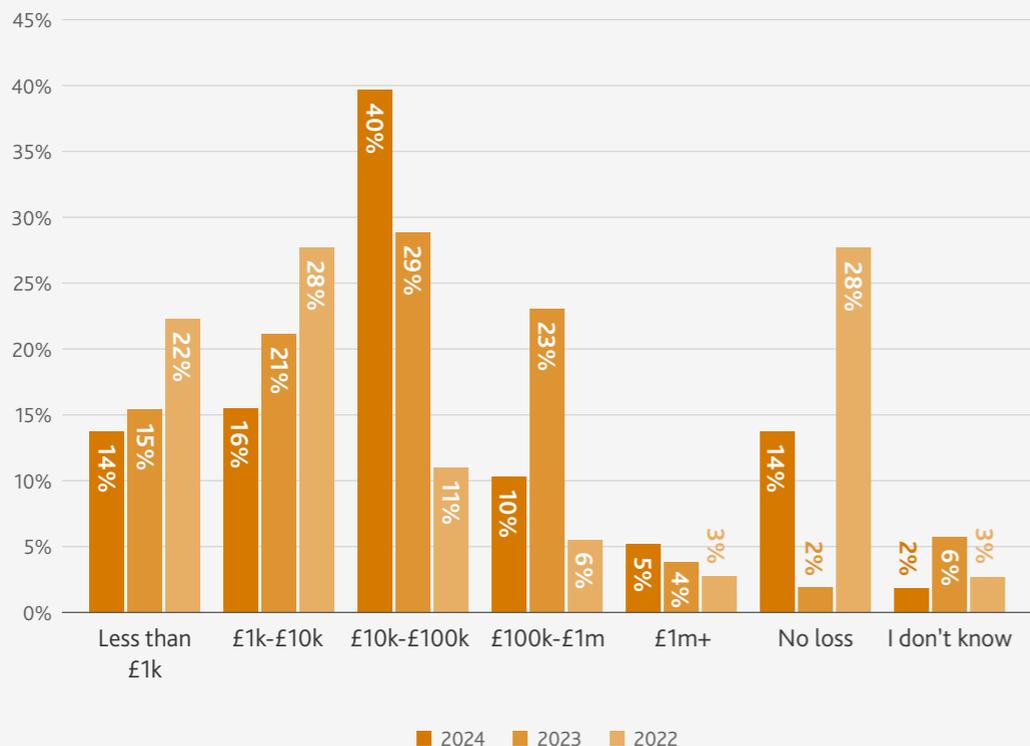
How was the fraud detected?



Reported fraud: What was the impact on charities?

Financial impact

What was the total estimated value of all fraud?



84% of the charities who suffered a fraud experienced a financial loss, which is an improvement compared to 92% last year.

14% reported that they did not suffer a loss in the year, which is a very positive increase from 2% last year.

This indicates that fraud prevention measures are working, by detecting fraud early and before losses are incurred. This demonstrates the importance of internal controls and early detection mechanisms, including a charity's ability to act quickly when fraud or attempted fraud is identified.



Total value of financial losses

In terms of the total value of financial losses for all fraud in the last year:

- ▶ Most charities (40%) suffered losses between £10,000 and £100,000 (29% last year)
- ▶ Losses between £100,000 and £1 million reduced by 57%, dropping from 23% last year to 10%
- ▶ Losses over £1 million remained broadly the same (5% this year, 4% last year).

These results indicate that more invaluable funds have been retained for charitable causes, which might otherwise have been lost to fraud.



Most recent incidents

In terms of the most recent incidents of fraud, the numbers are broadly the same as last year:

- ▶ Almost half (48%) experienced fraud below £10,000 (50% last year), increasing to almost 80% below £100,000 (same as last year)
- ▶ 7% experienced losses between £100,000 and £1 million (12% last year)
- ▶ 5% experienced losses over £1 million (2% last year).



What does this mean for the sector?

We applied these numbers to our respondents and the wider sector and arrived at the following findings:

Our respondents:

Average value per fraud between £102,000 and £197,000; total value of fraud between £5.9 million and £11.4 million.

The sector:

Total value of fraud between £286 million and £849 million.³

3. Average number of frauds to registered charities with same income profile as our respondents (i.e., over £1 million).



Reported fraud: What was the impact on charities?

Financial impact - recovery of losses

The most common response from charities this year was that they successfully recouped at least some of their losses (40%), a slight decrease from 44% last year.

It is also reassuring that only a quarter of respondents who suffered fraud were unable to recover any losses, which is a steady decline on previous years (2023: 31%, 2022: 34%). We hope this positive trend continues over the coming year.

In further positive news, there was a 50% increase in those reporting that recoveries were 'not applicable', from 13% in 2023 to 26% this year. This correlates with those that did not experience a financial loss and therefore had no funds to recover, or the investigation was still live so the outcome at the time of the survey was unknown.



Recovery by fraud value

We looked at the relationship between the value of fraud and whether any recovery was made. The highest levels of recovery were for frauds between £100,000 and £1 million. In fact, there were recoveries for all fraud above £100,000. For losses between £10,000 and £100,000 there were recoveries more often than not.



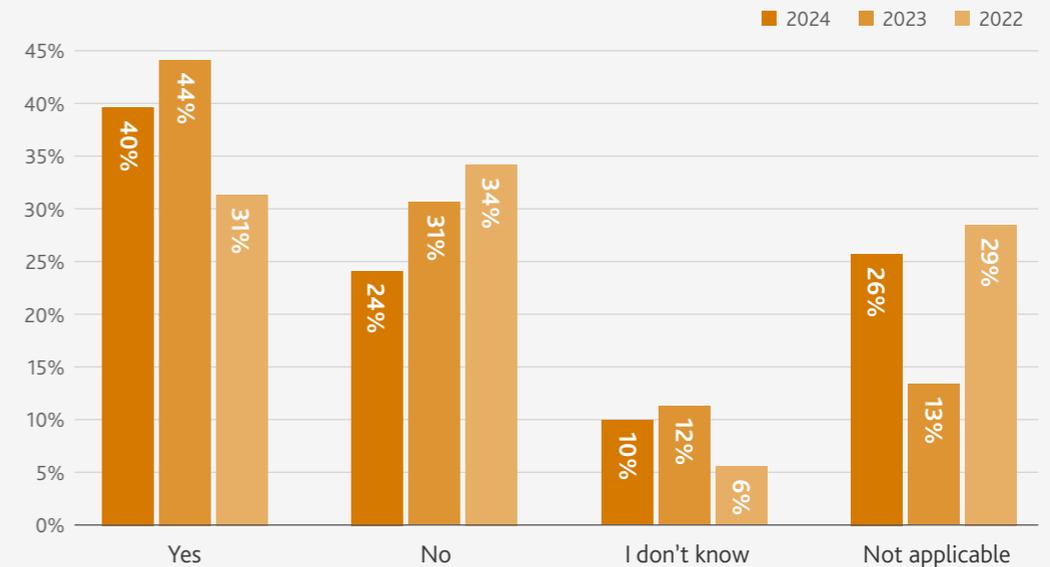
Financial remediation

Financial remediation is an important step to recovering from an experience of fraud, but it may not be the most important one. Charities should take appropriate advice on the merits of taking action and their ability to recover funds in the most efficient way possible, which is likely to include a cost-benefit analysis. There are also compensation schemes available to charities, particularly if they have experienced a payment diversion/APP fraud. Charities should consider the most recent changes to the banking compensation scheme which was updated on 7 October 2024 - there is now a mandatory framework for compensation up to £85,000 for this type of fraud, which replaces the previous voluntary system.

We recognise that there are other important considerations in the aftermath of a fraud, and charities mustn't lose sight of their ultimate charitable purpose, particularly considering the additional time and resources needed for recovery. Other forms of remediation may have a bigger impact, especially if it means avoiding future losses, redressing any imbalances in systems and controls, or maintaining staff morale and retention.



Were any of the funds recovered?



What does this mean for the sector?

We applied these numbers to our respondents and the wider sector and arrived at the following findings:

Respondents:

Non-recovered loss: £3.5 million to £6.8 million
Recovery: £2.4 million to £4.6 million.

The sector:

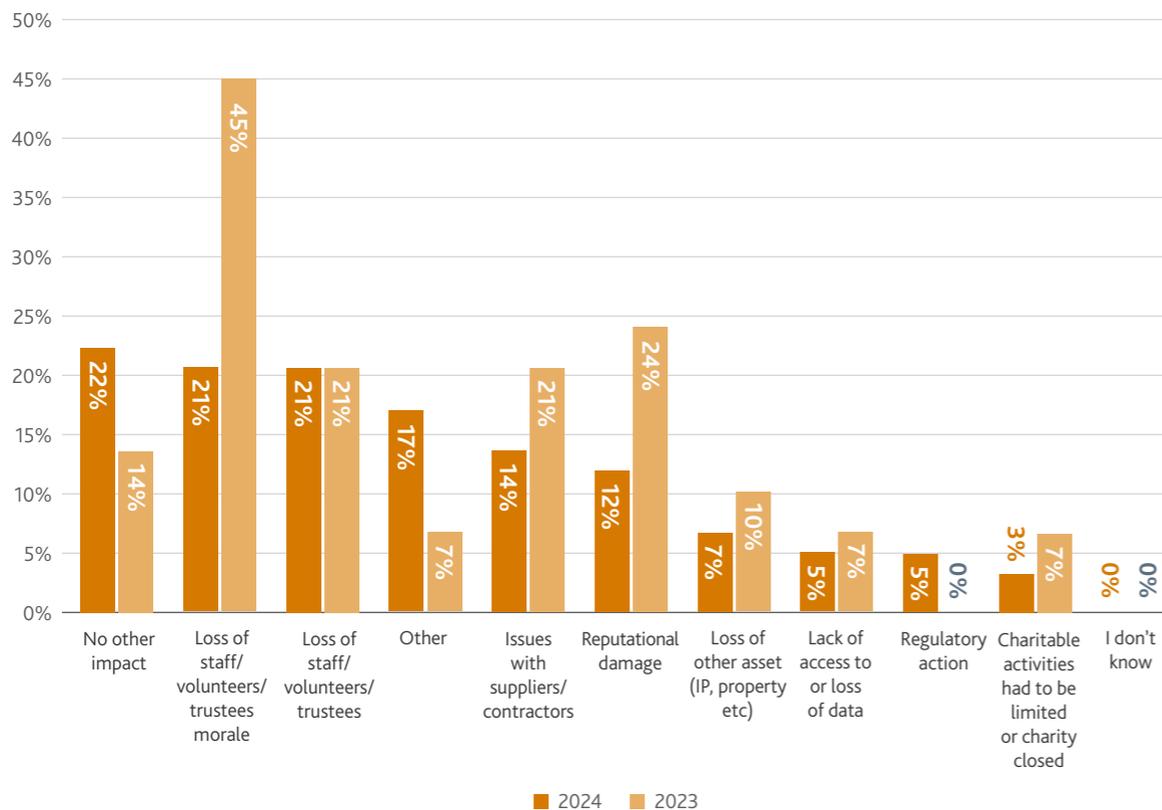
Non-recovered loss: £172 million to £509 million
Recovery: £114 million to £340 million.⁴

4. Average number of frauds to registered charities with same income profile as our respondents (i.e., over £1 million).

Reported fraud: What was the impact on charities?

Other non-financial impact

In addition to financial loss, was there any other impact on your charity?



Non-financial impacts can be more profound and long-lasting. This year, 78% of charities experienced some non-financial impact after a fraud, compared to 56% last year. Although higher this year, we see this as a positive recognition by charities of the true reality of fraud and its far-reaching impact.



21%

Reported loss of morale as a non-financial impact of fraud, down from 45% last year.

12%

12% reported reputational damage compared to 24% last year.

Last year, charities saw a significant drop in morale among staff, volunteers, and trustees. This often happens when fraud isn't managed properly. The key is to balance being proactive, open, and honest (while respecting confidentiality) with key members of your organisation to foster a proactive counter-fraud culture.

21% reported loss of morale as a non-financial impact of fraud, down from 45% last year, a 50% decrease. This shows that charities are making great progress in managing the internal fallout from fraud, even though the levels of actual fraud experienced remain the same as last year.

However, 21% (the same as last year) reported that the impact went beyond morale issues, resulting in a loss of staff, volunteers, or trustees. This could be due to those individuals being involved in the fraud, team restructuring to address issues linked to the fraud, or discomfort with being part of a fraud investigation. Some may have had concerns about how the fraud was managed and felt they could no longer work in that environment.

Only 12% reported reputational damage compared to 24% last year, a decrease of 50%, which is another significant improvement. There was also a 33% decrease in issues with suppliers or contractors, down from 21% to 14%.

There was a 57% increase in charities who thought there was no other impact, up from 14% to 22% this year. This may indicate that charities are becoming better at ringfencing the knock on effects of fraud. However, fraud needs to be proactively managed as knock-on effects are common, so this raises a slight concern that charities might not be aware of or dealing with those issues.

Taking all this into account, we have seen real progress from charities this year in how they are controlling the damage caused by fraud, whether internally or externally. However, charities need to continue to build contingencies into their fraud response plans to ensure they are prepared to deal with all potential knock-on effects in the face of fraud to keep this momentum going in the years to come.

Reported fraud: What was the response of charities?

Action against fraudsters

Of the charities who reported fraud in the last 12 months, over half (52%) reported the fraudster to the police, a 41% increase on last year. This marks a reversal of the decline in this method of remediation in prior years. This indicates that charities want justice and are prepared to take this step, even if it means the case may become public and receive media attention.

There was also an increase in internal disciplinary action, with 45% of charities taking action, up from 35% last year. This is another positive development as it sends a clear signal that they have a zero-tolerance approach to fraud and are prepared to take necessary action.

In further good news, instances where charities took no action at all decreased from 21% to 12%, which is great progress and closer to 2022 levels (9%).

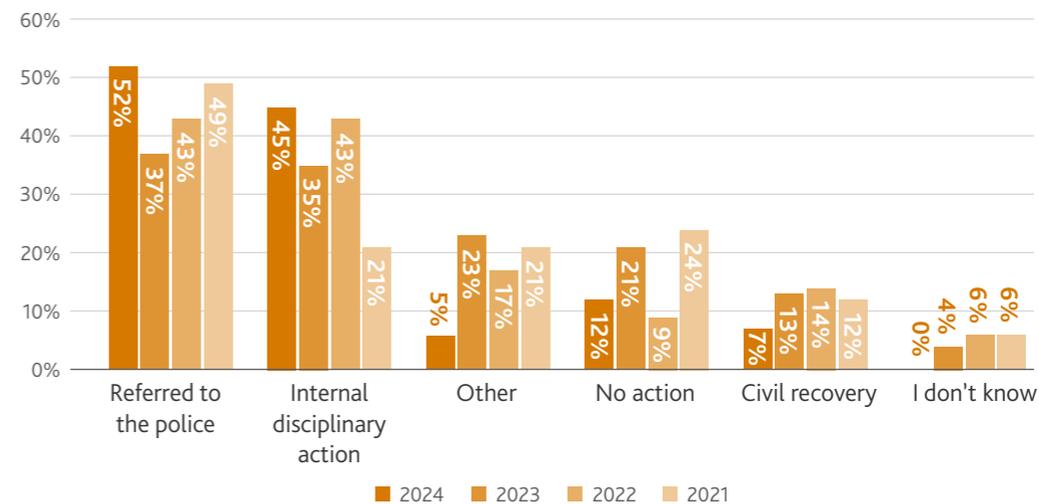
All three of these improvements paint a positive picture of our respondents' commitment to justice and taking appropriate action. A three-fold improvement in these metrics is hugely better than the three-fold worsening we observed last year. Well done, charities!

For the first time this year, we asked charities to tell us about action taken by another party and private prosecutions. We have not included this in the chart as we do not have comparative data for prior years:

- ▶ 16% of charities reported that another party took action against the fraudster – third parties included suppliers, third-party agencies, and banks
- ▶ Only one charity reported a private prosecution.

We are surprised about the low uptake on private prosecutions, which are criminal proceedings commenced privately, rather than relying on the police or other prosecuting authorities. In circumstances where charities are unable to get traction from the police, private prosecutions can be a useful tool for justice and recovery and are usually much quicker than a traditional criminal prosecution.

What action did you take against the alleged fraudster?



52%

Over half (52%) reported the fraudster to the police, a 41% increase.

12%

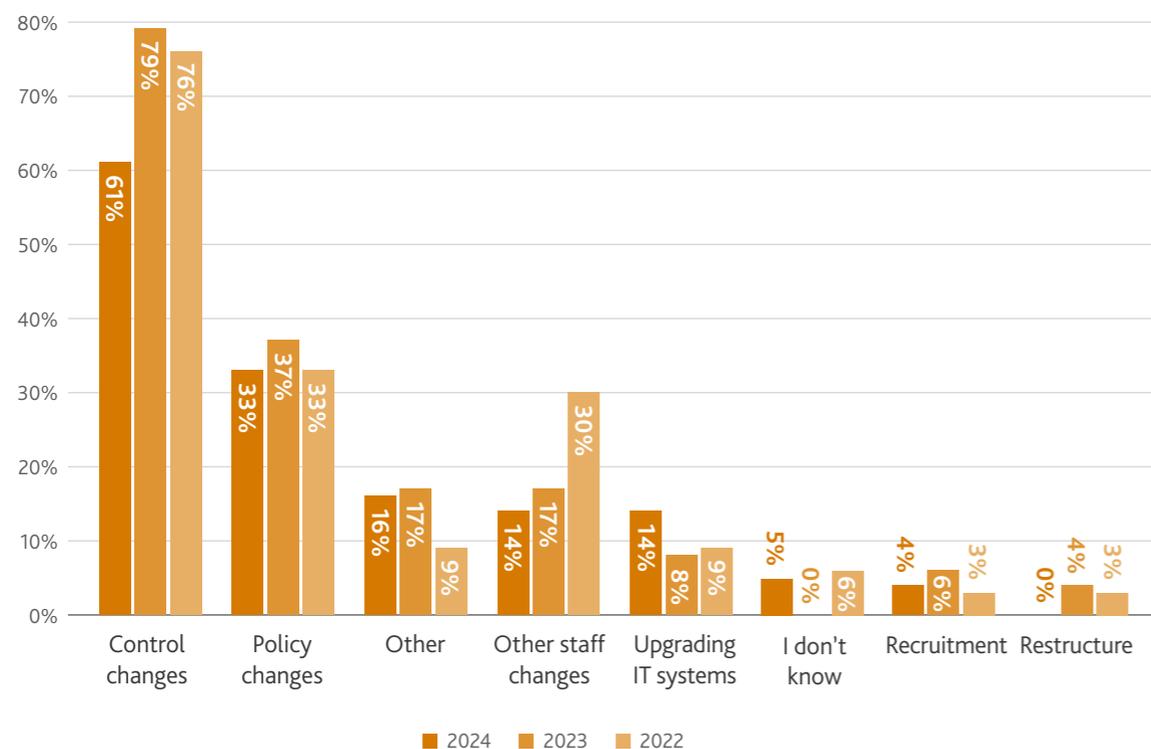
Charities taking no action at all decreased from 21% to 12%.



Reported fraud: What was the response of charities?

Remedial action

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



This year, we have observed a notable shift in remedial actions taken in response to fraud. 61% of respondents reported implementing control changes, marking the lowest response in the past three years, down from 79% last year. While this decrease is somewhat concerning, especially given the critical role of internal controls in fraud detection and prevention, it may indicate that existing controls are effectively detecting attempted fraud. This is supported by the reduction in overall fraud losses this year.

33% of respondents made policy changes after an incident of fraud, a figure consistent with previous years, indicating stability in this area. Additionally, there was an increase in those upgrading IT systems, a very positive development considering the growing threat of cyber-enabled fraud.

This year, we also captured two new responses:

- ▶ 32% of charities reviewed fraud awareness training requirements
- ▶ 19% of charities implemented enhanced fraud awareness training programmes for staff.

This is excellent news. Knowledge and awareness are among the most powerful tools in fraud prevention. By empowering your people to understand fraud risks, recognise red flags, and know what actions to take if they become suspicious, you are significantly strengthening your fraud defences.



Expenses fraud

Case study:

A trustee of a wildlife charity stole £100,000 over a five year period by using the charity's bank card to make unauthorised personal purchases. We note that this case is currently only alleged and is not yet confirmed or prosecuted.

Top tips:

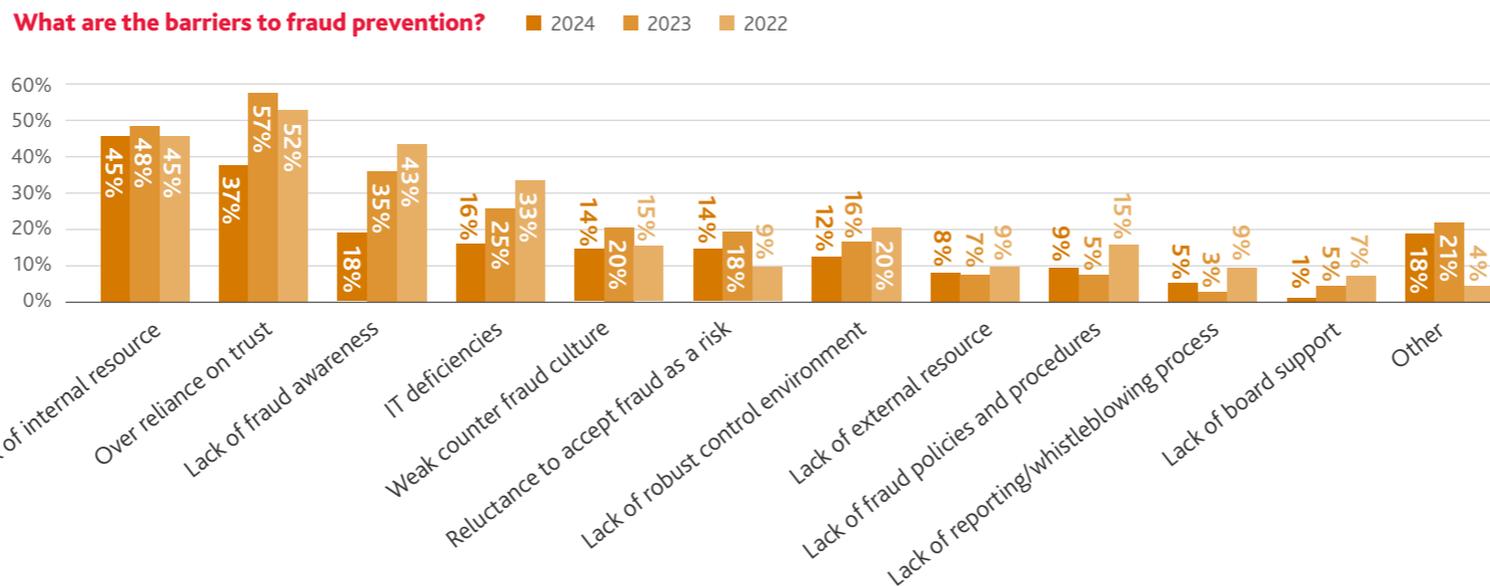
- ▶ Carefully monitor who has access to debit/credit cards and restrict access wherever possible
- ▶ Monitor spend on staff expenses and debit/credit cards for trends or spikes in activity
- ▶ Require pre-approval for expense claims
- ▶ Do not pay debit/credit cards before review (this could free space for further fraudulent activity).



Fraud prevention: What are the barriers to fraud prevention?



What are the barriers to fraud prevention?



Understanding and addressing fraud risks is crucial for charities, but we recognise there are barriers, including costs and availability of resources, that charities cannot easily control. Ideally, charities would review their fraud risk regularly, if not annually, to ensure robust prevention measures are in place. Fraudsters are always evolving their tactics, so staying ahead of emerging trends is essential to mitigate these risks effectively.

However, there is a lot of good news, with key barriers reducing, which improves the overall outlook for charities.

The most common obstacle to preventing fraud was a lack of internal resources, with 45% of charities identifying it as a key concern. This is something that charities have very little control over. What is positive is that it replaced last year's most common obstacle of a culture of over-reliance on trust. Over-reliance on trust dropped significantly by 35%, from 57% last year to 37% this year. This is a significant cultural shift, which can be the hardest change of all. It shows that charities

are listening and taking fraud prevention advice on board and putting lessons into practice.

In a similar vein, a lack of fraud awareness as a barrier to fraud prevention has also reduced considerably. It was cited as a concern by 18% of charities, down from 35% last year. This is encouraging and another indication that charities are taking control and strengthening their fraud defences.

16% of charities identified IT deficiencies as an obstacle to fraud prevention. This is concerning given the increased threat of cyber-enabled fraud and the potential cost implications of widespread infrastructure upgrades.

However, this figure decreased from 25% last year, suggesting that charities are becoming more confident in their IT controls and defences.

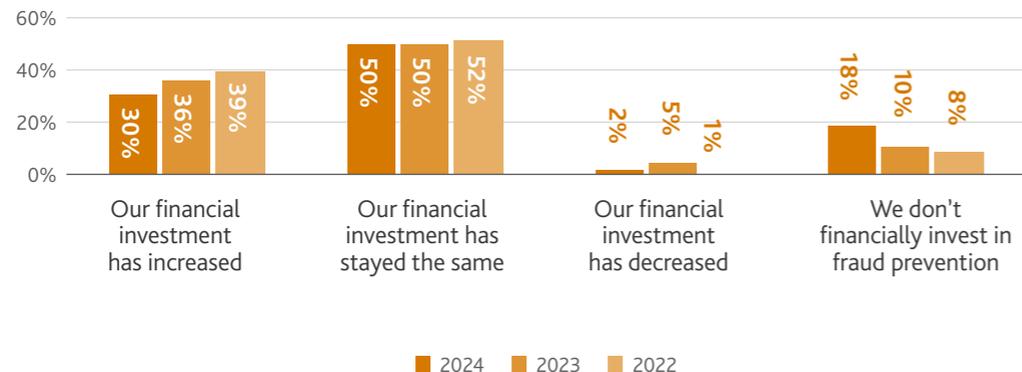
This year, we also captured a new response: 19% of charities identified a lack of effective fraud awareness training as an obstacle to fraud prevention. Training should not be a box-ticking exercise, and off-the-shelf packages often fail to consider the unique operational circumstances of a charity or an employee's role. What can really help people understand the risks and how they can spot them are case studies and real-life examples – something they can relate to in their everyday roles. As this is a new response, we don't have a benchmark yet, so we will be eagerly awaiting next year's results to see if this response has improved.

Interestingly, some respondents reported having no obstacles to fraud prevention. While this sounds positive, it may indicate a lack of awareness of potential barriers. Charities should ensure they do not overlook potential obstacles that may be in plain sight.

While it is encouraging that charities have worked to reduce over-reliance on trust, more work is needed in addressing resource availability, IT deficiencies, and fraud awareness training. These issues should be a priority in charity action plans for the next 12 months.

Fraud prevention: What financial investment are charities making?

What financial investment are charities making?



A lack of resources was one of the main obstacles to implementing adequate fraud prevention measures. Just under a third of respondents (30%) said their financial investment in fraud prevention had increased. This is excellent, although the increase is slightly lower compared to last year (36%).

Half of the respondents said their financial investment had stayed the same, which is also the same as last year.

Concerningly, the number of charities that did not invest financially at all increased from 10% last year to 18% this year. This is especially worrying considering that half of charities expect fraud to increase in the next 12 months. There is a significant risk that fraud losses could surpass any reasonable budget allocated for fraud prevention.

53% of respondents agreed or strongly agreed that their financial investment in fraud prevention was enough to address their fraud risks. However, 15% of respondents thought their charity's current investment was insufficient compared to 26% last year. There are enough pressures in our day-to-day roles to add concern about fraud risk to that burden. We understand that charities do not want to take resources away from their charitable causes, but charities must prioritise fraud risk to ensure it receives the attention it deserves.

Is the financial investment enough?



30% A third of respondents (30%) said their financial investment in fraud prevention had increased.



Donation/fundraising fraud

Case study:

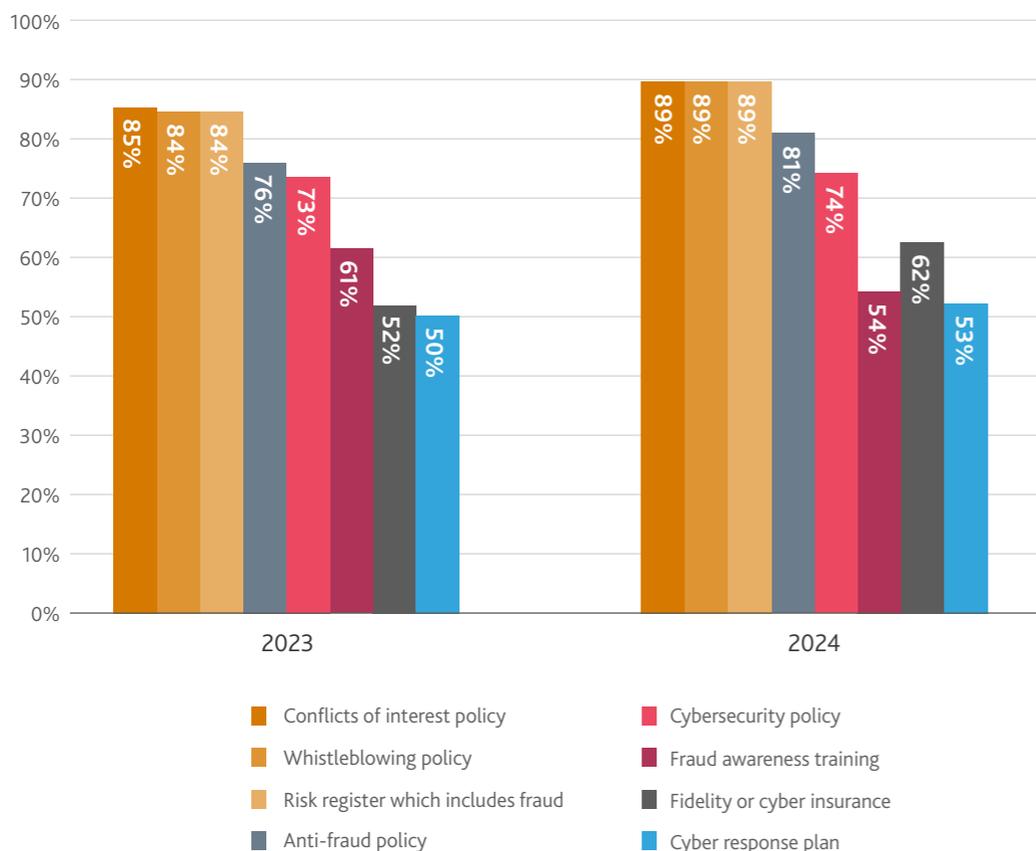
Seven people stole public donations worth approximately £500,000 using collection buckets outside supermarkets, pretending to be some of the UK's largest charities.

Phil Sapey, Counter Fraud Manager at Cancer Research UK, outlined the following behaviours as potential indicators of fundraising fraud:

- ▶ The fundraiser becomes difficult to contact or non-responsive
- ▶ Less money than expected is received
- ▶ Fundraising complaints or concerns are raised
- ▶ The fundraiser applies for branded materials but no funds are received
- ▶ The fundraiser's attitude to the charity changes.

Fraud prevention: What other measures do charities have in place?

What measures do charities have in place?



Having core policies and routine anti-fraud procedures in place shows that charities are aware of the risks associated with fraud. Most charities reported having key policies such as anti-fraud (81%), conflicts of interest (89%), and whistleblowing (89%). Additionally, 89% said they had risk registers that included consideration of fraud risk.

It is encouraging to see a steady year-on-year increase in six of the seven prevention measures we asked about from 2022 to date. One notable increase is that 62% of respondents now have fidelity or cyber insurance, compared to 52% last year. This shows more proactivity in this area, which is vital given the increasing threat of cyber-enabled fraud and its potential impact on a charity's operations.

These policies and procedures are essential as they set the tone for how a charity defines an issue, outlines what is being done to tackle the problem, and details the actions to take in the event of an attempted or actual fraud or cyber incident. Most policies include response plans (which may also be standalone documents) that can guide charities through the turbulent, high-pressured, and emotionally charged circumstances of a live fraud or cyber incident, where there is a clear 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 follow to ensure that key decisions, which could impact future prosecutions or recovery actions, are made. Only 44% of charities had a fraud response plan, with 53% having a cyber response plan. Considering their importance, this needs to be 100% for both.

There are still a reasonable number of respondents who cite a weak counter-fraud culture (14%) and a reluctance to accept fraud as a risk (14%) as key obstacles, but the good news is that these have all decreased since last year. A lack of Board support is now only 1%, down from 7% in 2022, which is excellent.





Grant fraud

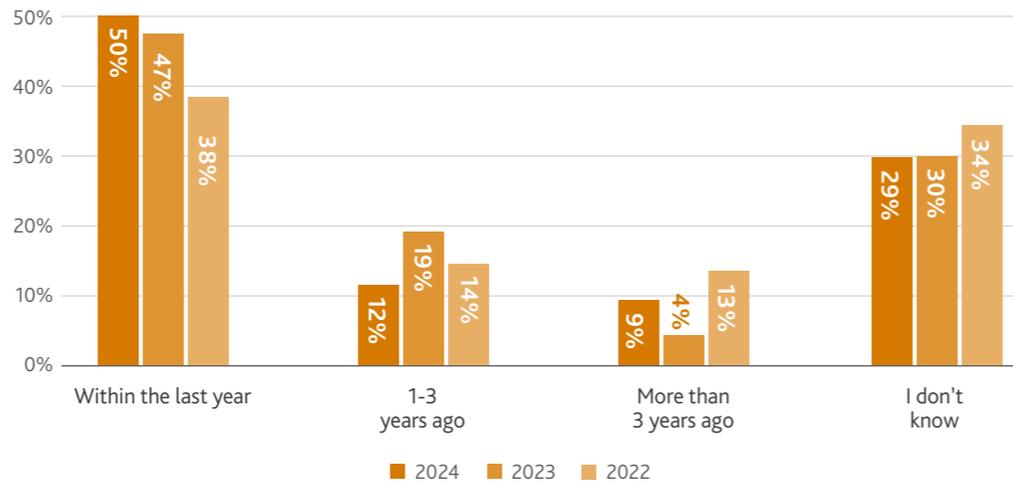
Case study:

A grant giving body supporting grass roots football clubs was defrauded of £200,000 through false grant applications by fraudsters submitting false invoices and bank statements in support of fake claims in the name of genuine football clubs. The charity has since carried out a full fraud risk assessment, implemented additional procedures for checking invoices with suppliers and overhauled its grant management system.

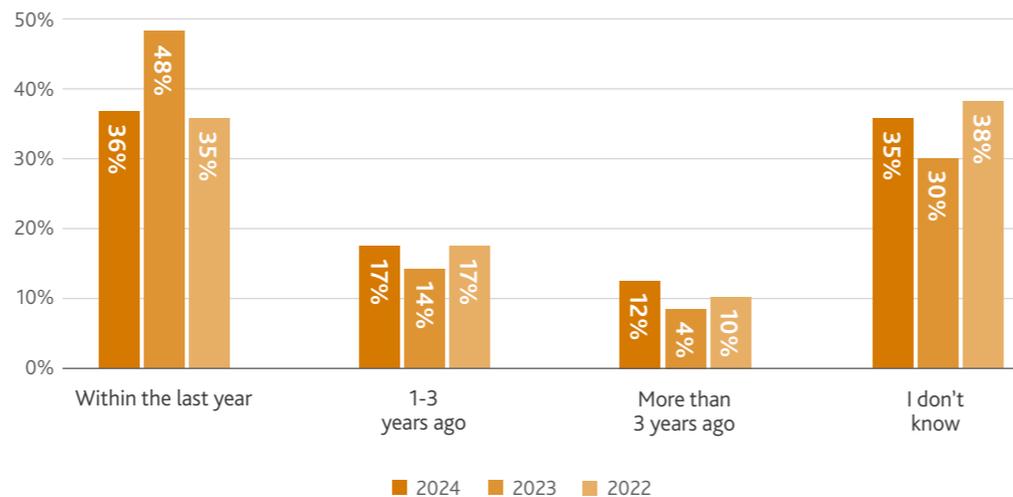
Top tips:

- ▶ Have robust due diligence procedures with strict eligibility criteria
- ▶ Conduct appropriate level of background checks on grant applicants
- ▶ Verify the accuracy of information provided in grant applications
- ▶ Cross-reference information provided on grant applications, including whether bank accounts have been used on other applications.

When was the last time you had fraud awareness training?



When was the last time you carried out a Fraud Risk Assessment?



This year, only 36% of respondents conducted a fraud risk assessment in the last 12 months, down from 48% last year and closer to levels in 2022 (35%). Expanding to those that had a fraud risk assessment in the last three years, the numbers are still down on last year (53% this year compared to 62%).

There was a slight increase in those having fraud awareness training in the last 12 months (50% compared to 47% last year), but if we expand to those having fraud awareness training in the last three years there is an overall decline from 66% last year to 62% this year. Considering how important fraud awareness is to a robust anti-fraud culture, it would be beneficial to see an improvement in this area next year.

When we delve deeper into the responses of charities that had undertaken fraud risk assessments and fraud awareness training in the past year, we found that around 50% had also suffered a fraud in the last 12 months. Of course, the fraud risk assessment and the fraud awareness training could have been a direct response to the incident of fraud, but **may also suggest that charities reporting fraud are being more proactive and therefore detecting more fraud.**

The fraud risk landscape is not static and will change over time due to external pressures such as the cost-of-living crisis, if we consider insider fraud, or the sheer determination and relentless ingenuity of external fraudsters. Conducting a fraud risk assessment and fraud awareness training every year is a critical way to address emerging internal and external threats and ensure that the most current fraud risk landscape is being assessed.



Perception of Fraud Risk: What did charities tell us?



Looking back

35% of respondents thought they had experienced more instances of fraud than last year. This is similar to last year, but **there is a more positive perception this year – 3% strongly agreed and 32% agreed, compared to 24% and 12% last year.**

This is supported by a reduction in the number of respondents who strongly disagreed or disagreed with the statement (18% compared to 26% in 2023) and an increase in those that neither agreed nor disagreed (46% compared to 38% in 2023). This subtle shift suggests a slightly more confident outlook amongst charities, especially considering that the actual reported incidence of fraud has stayed broadly the same as last year.

35%

of respondents thought they had experienced more instances of fraud than last year.



Looking forwards

There is more optimism on the horizon – 50% thought fraud risk will increase, compared to 63% last year, a 21% decrease. Positivity breeds positivity, and hopefully, this can continue to have a ripple effect throughout the sector.

60% of charities identified the economic downturn and cost-of-living crisis as potential catalysts for an increased risk of fraud, compared to 67% last year. **This may indicate that charities are becoming less concerned or less impacted by these economic challenges, or indeed these challenges could be subsiding.** However, a more sceptical observer might argue that this result reflects the normalisation of poor conditions, rather than an actual improvement.

50%

thought fraud risk will increase, compared to 64% last year, a 21% decrease.





Retail fraud

Case study:

A major UK charity was experiencing large losses from its clothes sorting warehouse. High-value/quality clothing and other items were being cherry-picked for private sale by employees on an industrial scale.

Top tips:

- ▶ Deploy security cameras and other security measures, including checks of employees when entering/leaving the facility
- ▶ Log stock weight upon arrival and monitor throughout the sorting process – investigate discrepancies
- ▶ Educate employees on red flags.

Biggest fraud risks in the next 12 months

To anticipate future challenges, we asked charities to identify their most significant fraud risk over the next 12 months. Respondents most frequently cited cyber-enabled fraud (including phishing) and cybersecurity, consistent with the results from 2023 and 2022. This highlights a sustained concern about the threat of digital attacks, possibly linked to the increasing use of online platforms by charities.

Interestingly, the perceived risk of cyber-enabled fraud does not align with the actual frauds experienced. For example, while most charities see cyber-enabled fraud as the biggest risk in the next 12 months, it was only the fourth most common fraud overall. However, we are seeing an increase in the use of cyber and AI-driven tactics in payment diversion and APP frauds, so there could be some crossover here.

This finding aligns with the 2023 survey results, suggesting that media coverage of cyber threats may influence charities' perceptions, making these threats seem more daunting than traditional frauds. While the cyber threat is significant and should not be ignored, traditional human-centric frauds remain the most common. Therefore, a balanced approach to addressing both current and emerging threats is essential. Narrowing the gap between perceived and actual threats will help charities tailor their fraud risk responses more effectively.

Cash and asset misappropriation, including accounts payable fraud, also remain a significant concern, with staff expenses fraud rising on the list. This does align with the actual experience of fraud that we reported on page 7.



Procurement fraud

Case study:

A heritage charity lost £1 million over a period of five years through fraudulent invoices from a building surveyor with personal connections to an employee of the charity. On some occasions the work was not carried out or was not agreed as part of the schedule of works or was not performed to the expected standard.

Top tips:

- ▶ Check for conflicts of interest between employees and suppliers
- ▶ Check invoices against budget and run exception reports on supplier activity data to identify any outliers or unusual trends
- ▶ Have a procurement policy
- ▶ Have robust segregation of duties throughout the supply chain from the tender process or contract approval through to approving and paying invoices.

Focus on: The Economic Crime and Corporate Transparency Act

We asked charities about the Economic Crime and Corporate Transparency Act 2023 (ECCTA) and its potential impact on them. ECCTA introduces a new corporate criminal offence for failing to prevent fraud.



Awareness of ECCTA

53%

of charities were aware of ECCTA, including those to whom it does not apply.

Applicability of ECCTA

45%

of charities understood that their organisation was captured by ECCTA, meaning they met two of the three criteria applicable to the failure to prevent fraud offence:

- ▶ More than 250 employees
- ▶ More than £36 million turnover
- ▶ More than £18 million in assets.

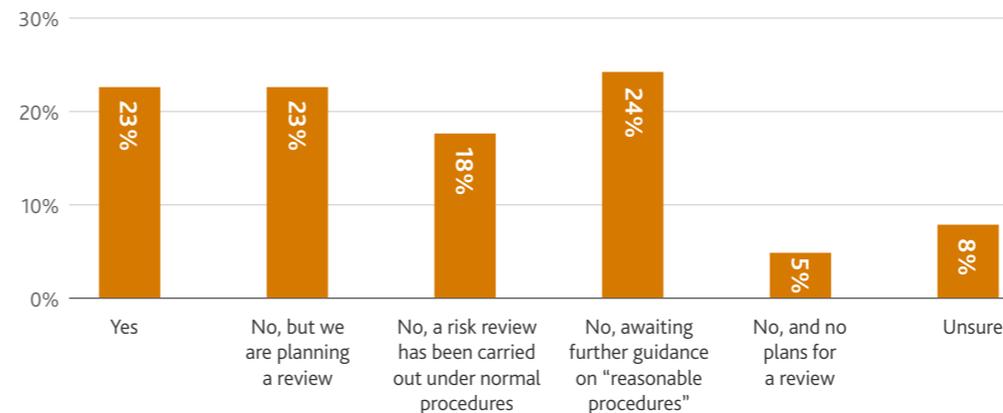
Only two charities were unclear whether ECCTA applied to them.

Fraud prevention processes in response to ECCTA

23% had already considered their fraud prevention processes. A further 41% were either planning a review or felt they had completed a sufficient risk review within their normal procedures. 24% were waiting for guidance to be published before taking action – guidance was published by the Home Office on 6 November 2024.

Only 5% had no plans to undertake a review, which is a high-risk approach given the seriousness of potential penalties and the available defence based on having reasonable procedures to prevent fraud at the time of the offence. However, we recognise that at the time of our survey, no guidance had been issued, and the offence of failure to prevent fraud will only take effect in September 2025.

Have you taken any steps to consider your fraud prevention processes to address ECCTA?



Implementation of changes in response to ECCTA

Of the 23% of charities that had already considered their fraud prevention processes, only 21% had implemented changes. A further 71% were either planning a review, planning to make changes in the future, or waiting for guidance before taking action. Only 7% had not implemented changes and were not planning to do so, based on external advisors' reviews considering their fraud prevention procedures to be adequate. Those charities that had already considered their exposure and implemented changes will need to revisit this review to ensure they are sufficient in light of the new guidance.

Good Practice from those not directly caught by ECCTA

Of those respondents who said ECCTA did not apply to them, 26% are planning to take voluntary action anyway. This is excellent and shows proactivity and commitment to implementing best practice procedures, without the threat of criminal sanctions.

However, all charities could be indirectly caught by the legislation. Even if they do not meet the criteria they may be impacted by virtue of being 'associated persons' of those that are, such as banks, insurers, partners or larger counterparts. Therefore, smaller charities may need to demonstrate their compliance with the requirements in order to maintain those relationships.



Home Office Guidance – Published on 6 November 2024

The long-awaited guidance was finally published on 6 November 2024. You can find a link to the guidance in the 'Useful Resources' section at the back of this document.

Under the new offence of failing to prevent fraud, an organisation will be liable where a specified fraud offence is committed by an 'associated person' (employee, agent or subsidiary). If an organisation does not have 'reasonable fraud prevention procedures', unlimited fines can be applied.

The guidance sets out the requirement for a fraud prevention framework based on the following six principles:

- | | | |
|----------------------------------|--|--|
| 1
Top level commitment | 2
Risk assessment | 3
Proportionate risk-based prevention procedures |
| 4
Due diligence | 5
Communication (including training) | 6
Monitoring and review |

Fraud risk assessments need to be tailored to each organisation, as their risk profiles will differ. These procedures should be proportionate to the risk environment and outcome-focused.

The offence will come into effect in September 2025.



Fraud-related Resources:

Helpful links

The following resources are available for reporting fraud, providing information about fraud including prevention and detection advice:

Police – reporting and fraud prevention:

Action Fraud (England and Wales): <https://www.actionfraud.police.uk/>

Police Scotland: <https://www.scotland.police.uk/>

Police Service of Northern Ireland: <https://www.psni.police.uk/>

Metropolitan Police (fraud and Cyber advice): <https://www.met.police.uk/advice/advice-and-information/fa/fraud/>

Metropolitan Police (Little Book of Big Scams): <https://www.met.police.uk/police-forces/metropolitan-police/areas/campaigns/2019/little-guide-preventing-fraud/>

Regulator – reporting and fraud prevention:

The Charity Commission for England and Wales: <https://www.gov.uk/government/organisations/charity-commission>

OSCR – Scotland: <https://www.oscr.org.uk/>

The Charity Commission for Northern Ireland: <https://www.charitycommissionni.org.uk/>

Charity Fraud advice (UK Government):

<https://www.gov.uk/guidance/protect-your-charity-from-fraud>

<https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8/protect-your-charity-from-fraud>

https://assets.publishing.service.gov.uk/media/5bd706d9ed915d789dcd63ef/RSI_guidance_what_to_do_if_something_goes_wrong_Examples_table_deciding_what_to_report.pdf

Fraud and fraud prevention advice:

Fraud Advisory Panel: <https://www.fraudadvisorypanel.org/>

Preventing Charity Fraud: <https://preventcharityfraud.org.uk/>

Preventing Charity Fraud ECCTA help sheet: <https://preventcharityfraud.org.uk/document/economic-crime-corporate-transparency-act/>

BDO LLP Fraud hub: <https://www.bdo.co.uk/en-gb/insights/advisory/forensic-services/fraud-hub>

EMM Legal – Free fraud clinic delivered by Ashley Fairbrother, Partner: <https://www.emmlegal.com/prosecution-areas/charity-fraud/>

Charity Finance Group: <https://www.cfg.org.uk/>

Association of Chief Executives of Voluntary Organisations: <https://www.acevo.org.uk/>

National Trading Standards: <https://www.nationaltradingstandards.uk/>

Payment Systems regulator (APP fraud reimbursement): <https://www.psr.org.uk/information-for-consumers/our-new-app-fraud-reimbursement-protections/>

National fraud campaign led by UK Finance (Take Five – Stop Fraud): <https://www.takefive-stopfraud.org.uk/>

The National Cyber Security Centre (NCSC): <https://www.ncsc.gov.uk/>

Get Safe Online: <https://www.getsafeonline.org/>

Credit Industry Fraud Avoidance Service (CIFAS): <https://www.cifas.org.uk/>

Victim Support: <https://www.victimsupport.org.uk/>

Citizen's Advice: <https://www.citizensadvice.org.uk/>

The Financial Ombudsman Service: <https://www.financial-ombudsman.org.uk/>

Association of Certified Fraud Examiners (this is a paid for resource): <https://www.acfe.com/fraud-resources/fraud-risk-tools---coso/fraud-risk-management-guide>

NHS Counter Fraud Authority: <https://cfa.nhs.uk/about-nhscfa>

NHS Scotland Counter Fraud Service: <https://www.nss.nhs.scot/departments/counter-fraud-services/>

NHS Counter Fraud Service Wales: <https://nwssp.nhs.wales/ourservices/counter-fraud-service/>

Counter Fraud and Probity Office (Northern Ireland): <https://cfps.hscni.net/>

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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.

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