

GETTING TO KNOW YOUR DONORS

Criminals try to use legitimate organisations, including charities, to facilitate their crimes. Every charity needs appropriate safeguards to make sure its resources cannot be misused for financial crime. Due diligence checks on your donors can help you to understand where your charity's money is coming from.

What is due diligence?

This refers to the practical checks you make to confirm the identity, credentials and good standing of the individuals and organisations who give money to your charity. It is important to get to know your donors in this way because otherwise you cannot:

- assess the risks arising from accepting a particular donation (or type of donation);
- be reasonably confident that a donation is not from an illegal or inappropriate source;
- assess whether any conditions attached to a donation are appropriate and acceptable; and, ultimately
- be confident that it really is safe to accept money from a given source.

Common risks

Anonymous or unsolicited donations

Be alert to any unusual or unsolicited donations from a source which cannot be identified or verified. Donations from unknown bodies or foreign

locations in which the regulatory and legal frameworks are not as rigorous as the UK's may also require closer attention.

Donations with special conditions

Special conditions can bring considerable risk. Consider carefully the wisdom and lawfulness of conditions that require your charity to act as a conduit for transferring money from one individual/organisation to another.

A number of other high-risk conditions are also commonly-found red flags.

- The charity is told it can keep the donation only for a limited (often short) time before returning it in full but keeping any interest earned.
- As above but the donation is received in one foreign currency and must be returned in another.
- Particular individuals or organisations (about whom your trustees have concerns) are expected to do the project work funded by the donation.
- Your charity is expected to provide services or benefits on favourable terms to the donor or someone he or she nominates.

Basic questions

About the donor

- Who are they and what do we know about them?
- Are they based outside the UK? If so, does that country/area pose any particular risks?
- Do we have a well-established relationship with them?
- Are additional checks needed?
- Have any public concerns been raised about them or their activities?
- Would any adverse publicity about them also damage us?

About the donation

- How big is the donation? Is it a oneoff, one in a regular series or the first of several? Was it expected?
- Is it in cash, a cheque, or a bank transfer? In which currency?
- Are any conditions attached? Are they reasonable?
- Does the money originate from outside the UK? If so, does that country/area pose any particular risks?
- Is there anything else unusual or strange about the donation?

PERFORMING DUE DILIGENCE

does not mean questioning every donation or gathering lots of personal details about every donor. The amount of due diligence depends on the risks involved, including the size and nature of the donation and whether it has any suspicious characteristics. Extra steps may also be needed for donations from outside the UK.

Warning signs

You are probably familiar with the source and typical characteristics of most donations you receive. The key to identifying suspicious ones is, therefore, to look for anomalies and peculiarities with regard to factors like timing, country of origin, amount and frequency.

These might include:

- an unusually large (or small) amount;
- strange, inappropriate or illegal conditions;
- complex banking or transfer arrangements; or
- the donation is unsolicited or from an anonymous source.

None of these are clear-cut evidence of fraud, but might point to the need for further investigation.

It is good practice to keep records of all suspicious donations.

Include:

- the name of the donor;
- the key features of the donation – date received, amount, how it was received, currency – and any conditions;

- the nature of your suspicions;
- details of previous donations from the same source; and
- what you did about it – for example, was it reported (police, regulator, HMRC) and/or refused?

Taking action

If you are unsure about the legitimacy of a donation it is perfectly acceptable to refuse it. You might also want to seek the advice and/or agreement of your regulator.

If you suspect fraud act promptly.

- Report the incident to your relevant national law enforcement agency. In the UK this is Action Fraud (England, Wales and Northern Ireland) or Police Scotland (Scotland).
- Report matters promptly to your charity regulator. For reports to the Charity Commission for England and Wales treat it as a serious incident. Use the **online form** to make your report, stating what happened and how you're dealing with it.

OTHER RESOURCES

The Charity Commission for England and Wales has produced a range of resources covering this area as part of its compliance toolkit. See chapter two, '**Due diligence, monitoring and verifying the end use of charitable funds**'.

Preventing Charity Fraud contains resources to help charities prevent, detect and respond to fraud.

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DISCLAIMER

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CHECKLIST

BUILDING YOUR CHARITY'S DEFENCES

ASK YOURSELF:

- Are the risks relating to donors and donations regularly assessed and do we have the due diligence policies and procedures to address them?
- Are appropriate financial records kept for the receipt/use of funds, along with audit trails for the decisions taken?
- Are records kept for any donations refused and high-risk donations accepted?
- Are staff and volunteers sufficiently well-trained to recognise a suspicious donation and know what to do about it?
- Are trustees and/or senior staff made aware of any suspicious donations received?

FOR SUBSTANTIAL DONORS

- Do we identify and verify substantial donors and assess the risks?
- If an organisation – what do we do to understand its business and make sure it would be appropriate for us to be involved or linked with it? (Check its website and/or check online what others are saying about it.)
- If a charity – do we check its registration and other details with the relevant charity regulator?
- If a company – do we check its registration and other details with the relevant company registrar (in the UK that would be Companies House)?
- Where there is cause for concern do we then check against the consolidated lists of financial sanctions targets and proscribed organisations?