

UNDERSTANDING THE ISSUES WHEN TACKLING CROSS- BORDER CHARITY FRAUD

What is cross-border charity fraud?

Cross-border charity fraud includes any fraudulent activities that occur in the context of international or cross-border charitable organisations or initiatives. It can involve the deliberate deception, misappropriation, or misuse of funds or resources intended for charitable purposes across multiple countries.

In an international context, charities face increased operational challenges due to their cross-border activities. This exposes the charity to financial abuse from fraud due to the complexity of operating across international borders. Charities tend to have less control over what happens in foreign locations and face greater risks of losing funds due to currency conversion, conversion of cash into goods and back again, and in some regions, local corruption. Additionally, the absence of a regulated banking system can increase these pitfalls, especially in high-risk jurisdictions, according to the *Compliance Toolkit report* from the Charity Commission for England and Wales dated October 2017.¹

International charities were recognized as “the perfect place for fraud to take place” due to operating in challenging environments and across several geographical locations where oversight and technical capacity might be lower than when operating domestically, according to The Royal Holloway University of London’s report on Fraud in the Charity sector dated August 2020.²

How to prevent cross-border charity fraud risk

NGOs and charities can prevent cross-border fraud by first assessing and understanding the risks they may be exposed to by taking into consideration the challenges that cross-border activities can pose. These charities often operate in war-torn and poverty-stricken countries, which can highly increase fraud-related risks. This risk assessment will allow them to implement adequate policies and procedures to prevent, detect, and ultimately mitigate these risks. Assessing and identifying risks is even more necessary for charities operating internationally when they have complex structures and operations.

When conducting a risk assessment, charities operating across borders have several risk factors to take into account, including but not limited to:

- **The complexity of the jurisdictions they are operating in** – Are these jurisdictions considered high risks from a corruption, money laundering, tax evasion, or terrorism financing perspective? Financial and corruption indexes such as those produced by Transparency International should be considered. Charities operating in less-regulated, high-risk countries may face higher risks.
- **The stability of the geopolitical landscape** – Are charities operating in an unstable region? Are they involved in territories caught up in international conflicts?

- **The reliability of financial systems across borders** – Is the financial system sufficiently regulated in the countries charities operate in?
- **The level of risk of the donators** – Are they legitimate individuals or companies?

The risk assessment should set the foundation for building effective prevention control to counter fraud and identify the organisations’ risk appetite. As such, charities will be able to have a clear understanding of their inherent and residual risks in the context of cross-border activities, in order to effectively mitigate them. Risk assessments should be done regularly to incorporate any new risks the charitable organisations may face due to changes in jurisdictions, geopolitical landscape, etc.

¹ *Compliance Toolkit: Protecting Charities from Harm, Chapter 3: Fraud and Financial Crime*, Charity Commission for England and Wales, October 2017.

² *Fraud in the Charity Sector in England and Wales: Accountability and Stakeholder Oversight*, Saffet Aras Uygur from the Royal Holloway University of London, August 2020.

Charities should also have training and awareness programmes in place that should be revisited regularly to allow existing and new trustees and staff to be up to date. A regular update on the training and awareness programmes will allow charitable organisations to include new exposures that may not have been identified in their risk assessment.

The anti-fraud policies and procedures that follow the risk assessment should be clearly laid out, including a clear purpose and scope, as well as comprehensive risk and internal control systems. The policy should also include a clear internal and external reporting process to mitigate any suspected wrongdoing that can be reported to a Counter Fraud Team. To this end, a whistleblowing programme should be considered to give comfort to staff to report any suspected activities without worrying about any retaliation. Charities can consult the whistleblowing policy recommendations made by the Charity Commission for England and Wales³. They can also outsource their

whistleblower programme to a third party that will help them address any suspicious activities.

How to implement an adequate response plan

In the case of suspected fraudulent activities, charities can either mitigate via an internal or external investigation as part of the fraud response plan. If an external investigation is to be conducted, charities need to bring professional investigators on board to help them investigate the suspected fraud. If evidence of fraudulent activities has been found, charities will have to seek disciplinary actions and/or legal actions against the perpetrators.

Actionable recommendations

From a cross-border fraud prevention perspective, charities can consult the Charity Commission for England and Wales website, which has published a range of best practices templates to protect them against Fraud⁴. Among

these best practices, charities will find guidance on how to manage risk when working internationally⁵ and more generally, on how to implement an efficient prevention policy to remediate fraudulent activities.

Charities should benchmark their anti-fraud controls against best practices and seek external verification of anti-fraud arrangements. The Charity Commission can provide the right support for that.

In terms of remediation, charities need to have an effective fraud response plan and should not hesitate to rely on third parties to help mitigate potential suspicious activities.

Finally, charities should learn and adapt to be aware of any new fraudulent trends. Post-fraud investigation findings should also be used as a learning lesson to further strengthen the controls.

A four P's approach to establishing a response plan is attached in Appendix 1

3 <https://www.gov.uk/guidance/report-serious-wrongdoing-at-a-charity-as-a-worker-or-volunteer>

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

5 <https://www.gov.uk/guidance/charities-how-to-manage-risks-when-working-internationally>



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DISCLAIMER

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APPENDIX 1

Understanding the issues when tackling cross-border charity fraud

The four P's

PREPARE

1. Identify, understand, and mitigate the risks posed by fraudsters to charity operations across international borders.
2. Keep a risk register, assign ownership of it, and assign owners to actions.
3. Regularly review the risk assessment in line with policy and regulatory requirements and any changes in the geopolitical landscape.
4. Know where the charity operates and be conscious of who the charity receives donations and works with.
5. Dealing with multiple jurisdictions: Charities operating internationally may face several legal, cultural, language barriers, and regulatory differences that can often create additional opportunities for fraudsters.
6. Vulnerable sectors: Fraud risks in charities often concentrate around cash handling, import/export, procurement, payroll, and risky business partners.
7. Continuous learning and adaptation: Post-fraud investigation findings should be used for learning lessons, closing the vulnerabilities, and further strengthening the controls.
8. Keep abreast of emerging fraud trends: The charity should ensure it maintains an understanding of new and emerging fraud risks and scams that could impact its operations.
9. Regular audits: Undergo regular internal and external audits to assess and improve the control environment continually.
10. Undertake tests of processes to a simulated fraud or attempt and implement learning. This could include cyber exercising, for instance, to "socially engineer" staff to open a link/report a suspicion, etc.

PREVENT

1. Building effective prevention control to make counter fraud everyone's business.
2. Promote a culture of honesty and strong ethics from the top down. Board members, senior management, and employees should demonstrate the importance of running the charity to high ethical standards.
3. Implement appropriate financial controls such as segregation of duties, independent checks, and monitoring mechanisms.
4. Develop a risk-based international anti-fraud strategy. This strategy should consider all fraud risks relevant to the charity's operations, locations, and features.
5. Institute strong due diligence processes to understand who you are dealing with before entering into relationships or transactions with staff, partners, and other third parties.
6. Review and control access to assets (both physical and digital), periodically checking to ensure they exist and are being used for the intended purpose.
7. Training and awareness: Employees and volunteers should be made aware of the common fraud risks that the charity faces, how they might spot them, and who they should report to.
8. Training and awareness programmes should be mandatory, refreshed, and current to methodologies being used by fraudsters. Training and awareness programmes should have a component on the threat of insider risk.

PROTECT

1. **Complex operational structures:** An international charity organization might be structured in a complex way with multiple subsidiary bodies throughout different countries. This complexity can make it easier for fraudulent activities to go unnoticed. Understanding these complexities is key to identifying and mitigating fraud.
2. **High-risk countries:** Regularly review financial and corruption indexes such as those produced by Transparency International. Charities operating in less-regulated, high-risk countries may face higher risks.
3. **Benchmark:** The charity should benchmark its anti-fraud controls against best practice, seek external verification of anti-fraud arrangements, and learn from others in the sector.
4. **Fraudsters are known to share best practices and vulnerabilities;** so share information with other charities to protect one another.
5. **Whistle-blowing mechanisms:** Effective, confidential whistle-blowing mechanisms should be put in place since they are proven routes for fraud detection. Maintaining transparency; reducing local silos and opening information to more scrutiny, can greatly reduce the risk of charity fraud on an international scale.

PURSUE

1. Set up response plans to fraud or suspected fraud.
2. Implement a gold-silver-bronze command structure to respond effectively to significant frauds or attempted fraud.
3. These plans must be effective across time zones, to ensure a timely response.
4. Have a clear communication plan in place to respond proactively and reactively.
5. Have a plan to guide the initial reaction to suspicions or allegations of fraud including securing evidence, deciding whether to involve the authorities and when to inform trustees or the charity regulator.
6. **Engaging professional investigators:** In some cases, it may be necessary to bring on board professional investigators to establish facts and collect evidence.
7. Understand how to secure and preserve evidence to common standards in the country or remotely.
8. Understanding legislative differences across international operating boundaries is particularly important if legal advice is sought to recover funds through civil or criminal courts.