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CHARTERED ACCOUNTANTS

The Trustees, The Fraudster and the role of the auditor

Cara Turtington and Liz Hazell

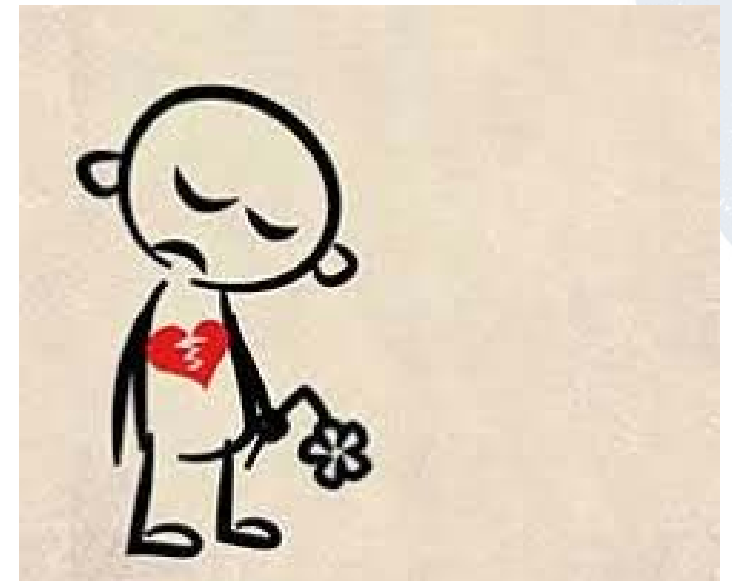
Fraud!

“An intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage.”



Why does this matter now?

- Fraud is on the increase
- Fraud impacts not only the charity's finances but causes wider harm to the charity's reputation and morale amongst staff and volunteers



Types of financial fraud

- Theft
- Banking fraud
- Supply chain fraud
- Investor fraud

Annual cost of fraud in 2016 could be as high as £193bn, equal to more than £3,000 per adult in the UK!

But that's not the whole cost...





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Scale of fraud

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- Charity sector is hit with fraud costs of £2billion per year

KPMG and Experian Plc

In 2015 to 16 concerns about fraud, theft or misapplication of funds featured in:

- 10 new statutory enquiries and 4 closed statutory enquiries
- 267 new operational compliance cases and 279 completed operational compliance cases
- 69 new monitoring cases
- 472 disclosures between CCEW and other agencies
- 496 reports of serious incidents
- 18 whistleblowing cases



CASE CLOSED

Who is responsible for preventing/detecting fraud?



6 key duties of Trustees

- Ensure your charity is carrying out its purposes for the public benefit
- Comply with your charity's governing document and the law
- Act in your charity's best interests
- Manage your charity's resources responsibly
- Act with reasonable care and skill
- Ensure your charity is accountable

Are charities at higher risk?

- Is your culture too trusting?
- Frauds committed for the good of the cause - a victimless crime?



Risk factors

- Change in personal circumstances
- Sense of being wronged
- Boredom
- Changes in finance team
- Loss of skills
- No long holidays





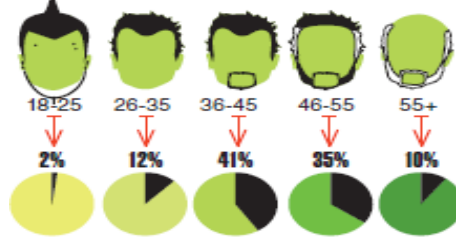
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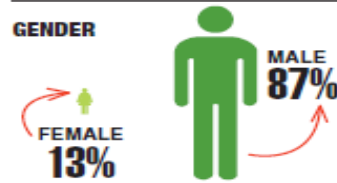
CHARTERED ACCOUNTANTS

HOW OLD ARE THEY?

Most are middle-aged, with 41% between 36 to 45 and 35% between 46 to 55.



GENDER

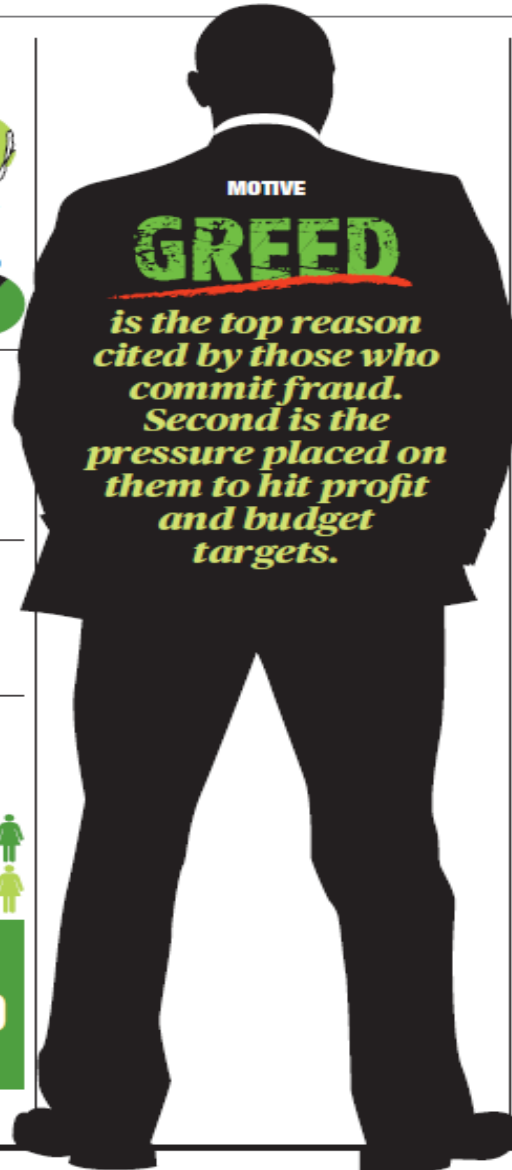
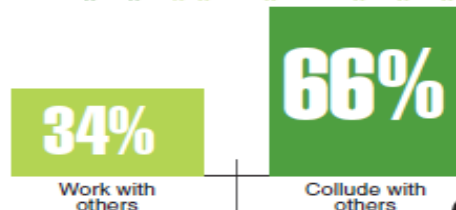


WAS IT THE FIRST TIME?

96% of perpetrators defraud their victims repeatedly

DID THEY WORK ALONE?

Although the vast majority (90%) of fraudsters work for the organization they're cheating, they usually have help.



TIME ON JOB

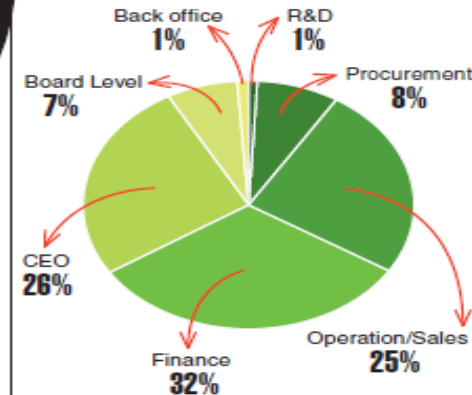
33% of fraudsters were at the organization for more than 10 years

WARNING SIGNS

56% of cases had 'red flags' that should have led to earlier detection

WHERE DO THEY WORK?

Those with access to corporate assets, credit lines and financial reporting face greater temptation to defraud the company



HOW SENIOR ARE THEY?

Employees with access to sensitive information, and those able to override controls, are more likely to commit fraud.



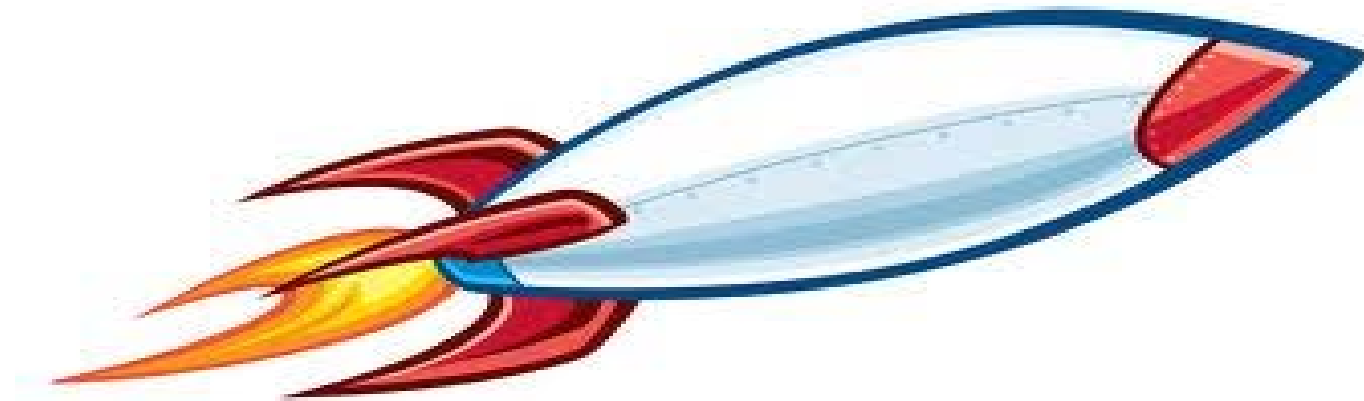
Key financial systems

- Expenditure limits
- Banking controls
- Division of duties
- Limit access to key systems
- Authorised officials
- Asset registers
- Regular review of information
- Transparent reporting



Tools to help with risk management

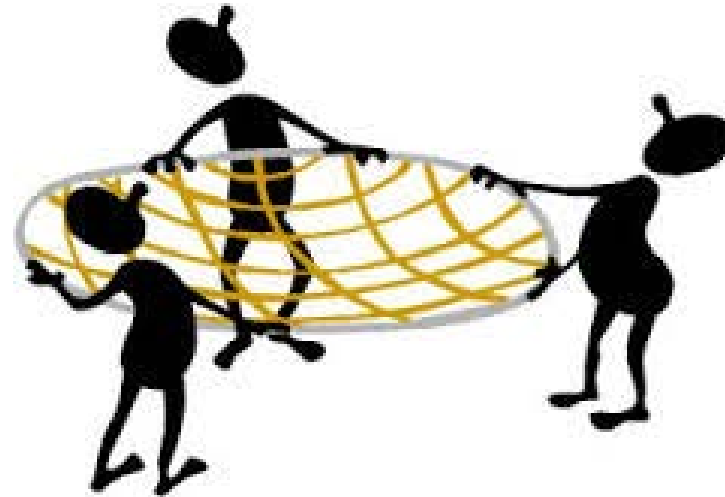
- Information that can be understood
- A common sense approach
- Systems proportionate to the size of the charity and the risks they face



It's not rocket science!

When might a fraud be missed

- Weak governance
- Poor financial controls
- Overly complex controls
- Excessive trust





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Factors contributing to the facilitation of the fraud



The auditor

- Will your auditor find a fraud?

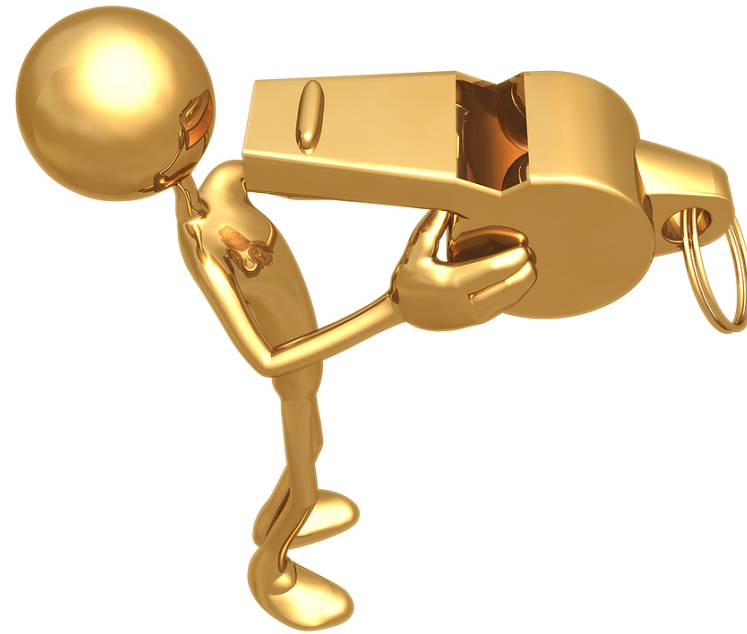


Auditors' responsibilities

- Perform a risk assessment
- Consider the risk of material misstatement due to fraud
- Plan procedures to reduce those perceived risks
- Remain professionally skeptical
- Responsibility to alert the relevant people



Reporting matters of material significance



If you suspect a fraud?

- Who do you ask to investigate
- How do you manage the situation internally
- Onward reporting
- Have a whistle blowing policy



In conclusion

- Create a strong culture from the top
- Keep up to date
- Create clear lines of communication
- Don't be afraid to seek help

Contacts



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