

New Charity Fraud Awareness Survey 2023 is Out

11.30.23 | Linda J. Rosenthal, JD



We continue with our coverage of the 2023 Charity Fraud Awareness Week, which kicked off on Monday, November 27th, in London. Our two most recent posts set the stage for this discussion: [*Charity Fraud Awareness Week Begins November 27th*](#) (November 21, 2023) and [*Charity-Fraud Learning Opportunities This Week and Beyond*](#) (November 27, 2023).

On Day 2 of this year's event – Tuesday, November 28th – sponsors [BDO UK](#) and the [Fraud Advisory Panel](#) released the results of the [2023 Charity Fraud Survey](#).

The report reveals crucial current data about the broad scope and all-too-common instances of deception, misappropriation, and other wrongdoing by bad actors – by strangers as well as by insiders. It also presents year-over-year comparisons, predictions for the next twelve months, and valuable advice on how to guard against these dangers or catch perpetrators and recover losses.

Included in this year's release are some intriguing – and unexpected! – nuggets on this critical topic.

A Global Effort

While this anti-fraud education project began in the U.K. eight years ago, it has since expanded globally and now counts among its supporters and participants many lawmakers, regulators, and other government officials from the Commonwealth nations and the United States. After all, there are many similarities in charity operations around the world and – indeed – with so many recent disasters and conflict zones, many organizations operate across borders.

The respondents in the 2023 survey were, as before, from U.K. charities only, but their answers and observations appear to be easily transferable and relevant on a broader scale.

Case in Point: One of the “key findings” relates to the continuing fallout to the nonprofit sector from 2022’s fiscal turmoil spurred in large part by spiking inflation. While the “economic landscape” (in the U.K.) has eased considerably “due to a narrowly missed recession and slowly falling inflation rates, the cost-of-living crisis remains severe, and those in need are turning to charities more than ever, at a time when charities are also feeling the crunch.” Sound familiar?

However, according to the survey data, “those in need are not the only ones turning to charities; ... more and more fraudsters are targeting charities. The results show that the prevalence and total value of fraud losses suffered by charities has grown in the past 12 months.”

Sixty-seven percent “of charities continue to identify the economic downturn and cost-of-living crisis as potential catalysts for an increased risk of fraud, as demand for their services spikes and more individuals and organisations come under financial pressure.”

On top of that, the preexisting staffing-shortage crisis in the nonprofit sector is not limited to the U.K. or the U.S. And the economic turmoil has made it worse. In their responses, participating charity leaders and financial decision-makers “... recognised a more significant internal impact of fraud than in prior years, reporting a loss of staff or volunteer morale as the most common non-financial impact of fraud. This is a worrying finding when the very existence of a charity depends heavily on the commitment of its staff and volunteers.” It’s also troublesome because an organization needs adequate and trained staff to set up and monitor anti-fraud systems.

Rapidly Evolving Threats

The annual Charity Fraud Awareness campaign (#StopCharityFraud) highlights the urgent need for charitable organizations to recognize and understand the myriad fraudulent scams and schemes that can harm them, their donors and funders, their charitable beneficiaries, and the community.

A particularly insidious factor in today’s high-tech world is that as soon as the intended victims identify and uncover the intrusions (or – better still – deter and thwart them in advance), the fraudsters adapt and figure out new ways to continue their nefarious activities without getting caught. And they share those ideas.

Case in point: During COVID-19, when so many organizations switched to remote operations (which provided abundant opportunities for the unintentional deterioration of anti-fraud controls), clever con artists quickly devised ways to penetrate systems and take advantage of these vulnerabilities.

“This year’s Charity Fraud Report underlines the need for charities of all sizes to cooperate in the fight against the threats posed by fraud,” explains Sir David Green CB KC, the Chair of the Fraud Advisory Panel. “The 2023 survey clearly identifies those threats and highlights the need for collaboration across the private, public, and third sectors, so that the strength and effectiveness of our counter-fraud defences are maximised.”

And, according to Rui Domingues, Director of Finance and Operations, Charity Finance Group: “The 2023 Charity Fraud Report shows that we are now looking at the issue of fraud through new and increasingly complex lenses....”

More Questions and Answers

Researchers posed many provocative questions, including – for example:

- “What will be the biggest fraud risk in the next twelve months?”
- “What types of fraud did your charity suffer in the last 12 months?” and
- “What relationship did the (main) alleged fraudster have to your charity?”

The responses collide in several perplexing ways.

On the one hand, respondents queried about their predictions for upcoming fraud trouble spots, “cited cyber-related fraud (including phishing) and cybersecurity most often, consistent with 2022 results, suggesting a continued concern about the threat of digital attacks. This is undoubtedly linked to charities’ increasing use of online platforms to complete their work.”

On the other hand, though, those answers about “perceived risk” don’t “correlate with the types of fraud experienced.” While “... the majority of charities perceive cyber-related fraud to be the biggest risk over the next 12 months,” it is “... only the third most common overall fraud.”

“Conversely, only 7% of charities considered misappropriation of assets or cash to be a significant risk in the future, yet this is by far the most common type of fraud in the past year.” For 2023, some “42% of respondents reported misappropriation of cash or assets as the most common type of fraud experienced over the year, followed by staff expenses fraud, with 35% of respondents.”

And, in answer to a later question about the identity of fraudsters, the respondents reported that “...the top four most common perpetrators (staff members, volunteers and trustees; beneficiaries; those with no connection to the charity; and suppliers) remain consistent year-on-year. This year, 50% of detected frauds were perpetrated by staff members, volunteers, or trustees, demonstrating that the internal risk is still the most prevalent.” That’s more than double the number – 23% – of frauds “... perpetrated by a person with no connection to the charity.”

An intriguing observation by the report authors suggests a connection between the high level – 50% – of detected frauds that were carried out by insiders and the earlier discussion about the “effects of the current climate of economic hardship, and desperation of staff and volunteers.”

Conclusion

Perhaps the key takeaway of the 2023 Charity Fraud Survey is the need for increasing and consistent diligence in averting fraud.

The “key messages” are to “raise awareness amongst staff, volunteers and trustees. Be proactive and continually monitor new trends and your responses to them so you know what you are up against. And finally, have a plan so that you are prepared, should the worst happen.”

Each organization should perform a fraud-risk assessment at regular intervals; it’s not a “one and done” type of task. To that end, the authors include at the end of the report several pages of advice including “Top tips for preventing fraud.”

We’ll discuss that helpful information in the next post.

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