

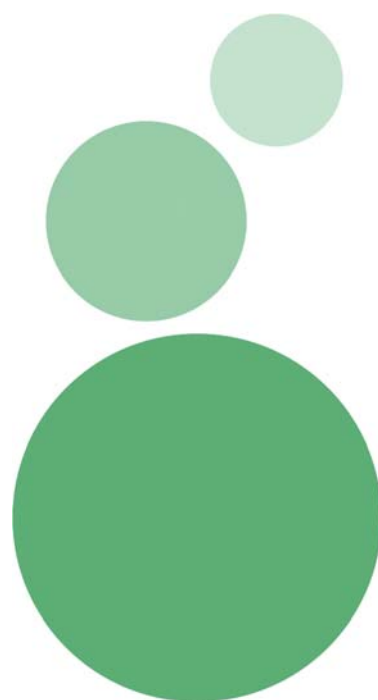


## European Commission

Directorate-General Justice, Freedom & Security

Study to Assess the Extent of Abuse of Non-Profit  
Organisations for Financial Criminal Purposes at EU  
Level

3 April 2008



This study was commissioned by the European Commission's Directorate-General Justice, Freedom and Security. This work was carried out by a team of experts from Matrix Insight in association with an independent adviser. The opinions expressed in this document represent the authors' points of view which are not necessarily shared by the European Commission.

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## List of Acronyms

AICPA	American Institute of Certified Public Accountants
AML	Anti-money laundering
CTMs	Counter-terrorism measures
CSO	Civil society organisation
DG JLS	Directorate General Justice, Freedom and Security
EC	European Commission
ECHO	European Commission's Humanitarian Aid Office
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Units
GRECO	Group of States against Corruption
IRS	Internal Revenue Service
NPO	Non-profit organisation
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
UNODC	United Nations Office on Drugs and Crime
ToR	Terms of Reference

## Executive Summary

Matrix was commissioned by the European Commission (EC) to tackle three research tasks:

- identify the most serious and frequent types of financial criminal activity affecting non-profit organisations (NPOs);
- estimate, if possible, the volume and value impact of such offences at the EU level; and
- identify policy responses that might reduce NPO vulnerability to financial criminal abuse.

After initial explorations and consultation with the EC the original project plan, which included a two-stage Delphi survey and a validation workshop, was substantially modified to a three-part data collection exercise comprising the following:

- scoping interviews with a range of stakeholders;
- an internet-based rapid literature review; and
- a one-round Delphi study.

It was agreed that a special effort should be made to capture case histories of financial abuse at all stages of the research.

Using information from the scoping interviews and from the literature review a simple system map of NPO vulnerability to financial abuse was developed and populated with a typology of threats.

Three types of vulnerability are postulated: at the input level, internally and at the output level. Threats are created by three classes of actor: outsiders; insiders (including agents and subcontractors) and collusion between insiders and others, at the origination of either party.

Although the data collection strategies used are standard for this type of inquiry, it proved difficult to contact people with both broad and deep knowledge of the field except in the limited number of Member States with highly developed systems of NPO oversight. The majority of contacts had a very limited view of the subject and acknowledged this.

There are no reliable statistical databases on NPO abuse in any EU country or across the EU as a whole; the UK is the only Member State to have benefited from a well-designed victim survey.

Responses to the Delphi questionnaire reflected this lack of data: the majority of questions generated high levels of non-response even though the questions asked were very general in nature.

The literature review highlighted the extent to which this field is dominated by journalistic and unsupported case descriptions. The case histories obtained in the study suffer from lack of detail and supporting documentation.

Nevertheless it has been possible to collate a useful, if general, picture of the NPO abuse field. It has not, however, been possible to produce accurate quantified estimates of volume, impact, incidence or prevalence.

## Conclusions

The following summary conclusions are distilled from the three evidence generating strands of this research.

- There is a daunting variation in available information about NPOs and their financial abuse across the EU.
- This variation is associated with the level of development of the sector and the nature of its position in the political economy of Member States.
- Many identified stakeholders regarded as key local knowledge holders were not able to provide the kind of policy-oriented information that the EC requires. This may account for the difficulty of securing the assistance of local stakeholders and the reticence of the Delphi survey respondents.
- Much of the available literature on NPO abuse is of relatively low quality and there is a high level of reliance on media reporting, even in the US. The current concern about terrorism has not helped to improve the quality of available information. Instead it has tended to exacerbate the problem of journalistic and sensational media accounts of particular cases leading to a plethora of unwarranted inferences and inductions in the press.
- A higher proportion of stakeholders in the Delphi survey reported obtaining their information about threat from popular media sources than from official or professional sources.
- Where information and regulation are both highly developed, as in the US and UK, there is no indication that victimisation is declining or compliance improving. For example in the UK's PKF survey less than 25 per cent of respondents said that their organisations had risk assessment and controls in place although these must be reported each year to the Charity Commission in NPOs' annual returns.
- There is a general agreement that NPO employees and volunteers are best placed to expose fraud and corrupt practices. Those involved in governance and regulation who work directly with NPOs are likely to exert control more than those with general supervisory or enforcement responsibilities. Therefore the generally low level of agreement over whether there is or is not a lead agency for managing the threat of NPO abuse in EU Member States is a matter of concern.
- If the available information is to be believed, the incidence and prevalence of NPO financial abuse in the EU are limited. Nevertheless, some level of criminal and terrorist misuse exists. The extent to which this is judged to be "a serious threat" depends on the tolerance levels of the observers. Any measures proposed to reduce abuse must be assessed against the situation that would arise if no such measures were implemented. Such a test could provide a warning of the dangers of counter-productive and disproportionate regulation. However, without better databases, reporting mechanisms and monitoring systems there is no way of knowing whether the expert group estimates are realistic or merely badly informed.

- The NPO sector is economically important and socially significant. Donors, volunteers and staff need to feel that their contributions are valued. There is a danger, expressed in the literature and during the course of the study generally, that stricter regulatory legislation could create costs that might damage the efficiency and effectiveness of the sector. A more accurate understanding of the true level of threat is therefore essential to enable a proportionate and appropriate response.
- The Delphi study, for all its limitations dictated by the scope of the research, does indicate priorities in terms of loci of threat, vulnerabilities and preferred options for threat and risk management.
- Around three-quarters (74 per cent) of stakeholders in the Delphi survey said that regulation and legislation is their country's main method of addressing the threat of NPO abuse. Thus, while there are concerns about the proportionality of formal oversight, governmental and EC regulation are very important in this context.
- The current levels of compliance with the FATF recommendations, the EU Communication 2005/620 recommendations and the proposed codes of conduct on one side and the perceived costs of compliance on the other side suggest that further regulation and legislation need to be approached with caution, especially considering the UK and US records. A low-cost, practicable regulatory and legislative regime could be supported by self-regulation through harnessing the altruism and ethical spirit of the NPO sector.

## Recommendations

The following recommendations are advanced for discussion at EU, national and local level.

- Following the examples in the US and UK, the EC should consider setting up a periodic victim survey across the EU with an adequate budget to generate an effective database to assess threat and vulnerability trends, examine the efficacy of preventive measures and monitor regulation and legislation.
- To supplement victim surveys and to promote the exchange of best practices while developing self-regulatory mechanisms and stakeholder participation, it would be helpful to create a virtual NPO college using the latest corporate reporting and information exchange internet-based software.
- Whether by this or similar means, NPO representatives and officials should be coming together at the national and **at the EU** levels to swap information and good practices and build up the expertise necessary to protect their particular areas.
- Given that the popular media are important sources of information about the threat of NPO abuse, there should be more proactive dissemination of relevant information to the media across the EU.
- In the absence of reliable information on the real level of threat, vulnerability and compliance, and **without adequate understanding of the potential benefits** of new legislation the EC should be cautious about introducing new forms of regulation and legislation. However, existing forms can and should be further developed.
- Registration and keeping accurate registers of basic details of NPOs is essential as a prerequisite for increasing the knowledge base. The accuracy and completeness of registers should be continuously improved.



- An important means of achieving progress on this front and many others is the creation of a lead agency in each Member State that is acknowledged as such by the EC, other interested national agencies and the NPOs themselves.
- Acknowledging the relative importance of NPO employees and volunteers in the self-regulation of the sector, there is a general need to promote appropriate staff training. While such training might have to be based at first on general knowledge, in due course much more local detail can be added as the relevant knowledge base grows.
- With due regard to the opinions expressed in the survey and gleaned from the literature review, means of bolstering self-regulation and ethical working cultures in NPOs should be explored, especially in those Member States where the cost of regulatory compliance is problematic. This can be done informally by the means outlined in the preceding recommendations or more formally through research exercises aimed at generating content for handbooks, training courses and internet-based tools.
- Given the extent to which international fraud experts agree that prevention depends on *“knowing your people and where the money is coming from and going to”*, it would be helpful to devise a simple model of due diligence procedures for NPOs and their major donors or disseminate best practices in this area already in use in some Member States. While applying a risk based approach in due diligence procedures, the costs and complexity of these should also be taken into account. The simplest procedures such as checking the references and CVs of prospective staff are often the most effective. These measures should add value to the general management of NPOs as well as contribute to threat reduction.
- Due diligence procedures can be greatly simplified where proper levels of transparency are maintained in the NPO sector. The promotion of transparency at all levels is therefore essential.
- The current variability in the level of development of NPO institutions across the EU should be exploited by arranging NPO-to-NPO mentoring schemes on a bilateral basis. International NPOs might prove especially adept in this field. Such schemes are based on brokering relationships between organisations that have much-needed skills and expertise and those that want them but cannot afford to provide them. Individuals who supply help and advice (usually for free) gain experience in training and articulating their personal knowledge and expertise, while the receiving organisation obtains high-value consultancy that it could not otherwise afford. In this field mentoring would provide the additional return of contact with other jurisdictions and NPO cultures.

## 1.0 Introduction

### 1.1 Background

In November 2005, following a consultation process, the EC put forward *Framework for a Code of Conduct for NPOs to Promote Transparency and Accountability Best Practices*<sup>1</sup>. The recommendations were presented as part of an EU-led design for implementation of the Financial Action Task Force (FATF) Special Recommendation VIII for regulation of Non-Profit Organisations<sup>2</sup>.

In the preamble to the 2005 recommendations, the fact that NPOs were seen to “*have been exploited for the financing of terrorism and for other kinds of criminal abuse*” was acknowledged. At the same time, the value of the sector in its contribution to the public good was heavily emphasised and the authors set out to find an approach to regulation and accountability that would demonstrate a responsible attitude towards public generosity whilst at the same time help guard against abuse without over-burdening the sector.

NPOs are defined, as they were by the FATF, as organisations, legal or natural persons, legal arrangements or other types of bodies that:

*“Engage in the raising and/or disbursing of funds for charitable, religious, cultural, educational, social or fraternal purposes or for the carrying out of other types of good works.”*

In seeking to address the vulnerabilities of the NPO sector an integrated approach is called for combining appropriate action from public authorities, donors and the NPOs themselves. The Communication (2005) 620 recommendations were intended to initiate a check by Member States on how far voluntary and statutory regulation and risk management have progressed. The proposals for research put forward in the recommendations section of the current study should be seen as an important adjunct of that overall process.

Communication (2005) 620 provides a range of recommendations some of which are directed at the Member State level while others suggest EU-level application. A third part of that document is taken up with a Framework for a Code of Conduct for NPOs.

The Member State recommendations cover the following:

- oversight mechanisms;
- compliance with a Code of Conduct;
- outreach and awareness of vulnerabilities; and

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<sup>1</sup> European Commission, *COM (2005) 620 Final, commission communication to the council, the European parliament and the European economic and social committee: the prevention of and fight against terrorist financing through enhanced national level coordination and greater transparency of the non-profit sector*, Brussels, 29.11.2005

<sup>2</sup> See Financial Action Task Force “9 Special Recommendations”; G8 Finance Ministers, “Finance Ministers’ statement of Deauville, 17 May 2003; G8 Justice and Home Affairs Ministers, “Recommendations for Enhancing the Legal Framework to Prevent Terrorist Attacks”, Washington, 11 May 2004.

- investigation of abuse.

EU-level recommendations cover the following:

- development of Europe-wide guidelines of a “European label” for NPOs;
- pan-EU cooperation for investigating abuse; and
- Europe-wide awareness-raising programmes.

The Framework for a Code of Conduct for NPOs for discussion contains the following elements:

- basic identification information document for all NPOs, including non-registered ones, to be held at the NPO premises;
- proper bookkeeping, annual reporting procedures and annual financial statements of account;
- audit trails of funds;
- use of formal channels for money transfers;
- accounting and audit history for at least five years;
- registered bank accounts; and
- adoption of the “know your beneficiaries and donors” rule<sup>3</sup>.

## 1.2 EC research context

The nature, extent and economic impact of fraud remain under intense scrutiny from a wide range of perspectives. The current sense of urgency in this field derives from the continuing concern about the financial underpinning of terrorism and the interaction between economic crime, money laundering and other forms of organised, cross-border criminal activity.

In general, the trend in EC documentation and research has been away from the theoretical and ideal towards the empirical and pragmatic. The goal is to concentrate on behaviour and to encourage forms of data recording that capture accurate, usable descriptions of the data.

The EC's Directorate-General for Research has, under the Sixth Framework Programme for research, enabled important research that examined the feasibility of a common European approach to organised crime. In November 2005 Petrus Van Duyne delivered his team's proposal for a common European approach to assess organised crime, and in December 2006 Mike Levi and Nicholas Dorn published their report entitled “Pilot Study to Examine the Feasibility of a Methodology for the EU to Measure the Amount and Impact of Organised Criminal Activities in Relation to International Fraud”<sup>4</sup>. These two studies have contributed greatly to knowledge in this area and, perhaps more significantly, they have identified the importance of maintaining a flexible approach to definition that can cope with the cultural, legal and criminological heterogeneity that complicates this field. Levi and Dorn recommend a victim-

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<sup>3</sup> NPOs may be used both to launder funds, which are obviously suspect before passing them on for terrorist or criminal use, and to divert legitimate donations for terrorist or criminal purposes.

<sup>4</sup> This was the final deliverable for WP16 OF “Project IKOC- Improving Knowledge on Organised Crime to Develop a Common European Approach”, financed by DG Research under the Sixth Framework Programme.

centred approach to fraud and a methodology for counting costs that properly recognises the distinction between bottom-up and top-down calculations. Van Duyne stresses the need to address the full range of types of cooperation and co-action rather than insisting on an artificial threshold of organisational structure below which organised crime cannot be said to exist.

So far EC-funded research in the area of organised crime has focused on:

- building general conceptual models;
- testing the feasibility of approaches; and
- building a picture of the organised crime landscape through reviewing existing databases and case histories and harnessing the expertise of specialists across Member States.

Particular types of organised crime have been investigated, such as drug-trafficking, people-smuggling and economic crime and fraud. However, the vulnerabilities of particular types of victims have not so far received particular attention.

### 1.3 Balancing state security concerns and the needs of civil society

In January 2007 the National Council for Voluntary Organisations, an EU Member State NPO umbrella organisation, published a report entitled “Security and Civil Society”, which considered the impact of counter-terrorism measures (CTMs) on civil society organisations (CSOs) (which were predominantly, but not exclusively, NPOs). The report details the negative impact that UK counter-terrorist legislation and rhetoric has had on CSOs in general and those engaged with the Muslim community in particular. The case histories available from this inquiry provide some information, albeit from only one jurisdiction, of the difficult balancing act that is required to both protect civil society and encourage the growth of social capital, self-help and philanthropy.

This balancing act can be achieved if regulatory mechanisms can be selected and implemented that, at least potentially, double as both risk controls and promoters of business excellence. If it is believed that ethical NPOs will be attracted to risk management regimes that are synonymous with their aspirations, research on the vulnerabilities of NPOs to fraud and economic crime should, at least in part, focus on the objective of promoting good business and organisational practice. This partial objective of promoting business ethics has the advantage of playing to an NPO strength, ie their level of social concern and responsibility, and turning it from a handicap (as identified by FATF) into an advantage.

There is, of course, a much more difficult general regulatory objective. It is possible that an NPO could be set up with the sole intention of pursuing criminal ends. A wholly corrupt NPO can also be engineered if criminals take over the management and governance of a once-legal entity. In a case such as this, the appeal to good business practice will be inappropriate and the need will be to ensure adequate external inspection, investigation and detection capabilities and processes based on an adequate understanding of the dynamics and indicators of corruption.

## 1.4 Overall aims and purpose of the study

The current study was commissioned by the EC to assess, as far as practicable, the extent of abuse of NPOs for financial criminal purposes at the EU level. The original Terms of Reference (ToR) involved discussing the following:

- identify and analyse the most frequent and serious types of financial criminal activity in the non-profit sector;
- analyse the volume and value of such offences where possible, and provide a general estimation of the total annual cost of financial abuse in the NPO sector at the EU level; and
- identify the policy responses that could help to reduce NPO vulnerability to financial criminal abuse.

The approach taken in the present study involved considering the types of harms that can be inflicted by criminal or terrorist abuse and the special vulnerabilities to these harms experienced by the NPO sector. The purpose of this research has been to test the current administrative and legislative measures designed to protect the NPO sector at the EU level and, as far as it is appropriate, to recommend additional steps that might be taken, or at least to direct policy-makers' attention towards specific issues. Therefore, the presentation of the findings and the drawing of conclusions are directed at this practical objective.

## 1.5 Structure of the report

In addition to this introduction, the report is structured into four overall sections. These are:

- Section 2. Summary of methodology and tasks
- Section 3. Findings
- Section 4. High-level synthesis and review of the research questions
- Section 5. Conclusions and recommendations

Section 2 summarises the main approaches and methods used to collect and analyse relevant evidence. Section 3, which discusses the main findings, is structured around the three main strands of the data collection process. While it is possible to present these in other ways, it was felt important to enable readers the ability to compare and contrast the outputs from different data collection methods and activities. Section 4 synthesises the main findings according to the three main research questions. This section also factors in the relative strengths and weaknesses of the findings generated through each of the data collection methods described in Section 2. Some additional information is provided in Appendix 1, which includes the Delphi survey questionnaire.

## 2.0 Summary of methodology and tasks

It was known from the outset that research on NPO abuse would be largely exploratory and that the research team could not rely on finding a wide range of pre-existing quantitative data on the subject across the EU. While there is a quantitative element to the methodology, much of the work has been qualitative.

The research centred on the following main activities:

- scoping interviews with a range of stakeholders to refine the methodology and tools, including:
  - government officials (including tax, NPO oversight authorities);
  - law-enforcement officers (including anti-terrorist finance and economic crime officers); and
  - NPO representatives (from umbrella or individual organisations).
- an internet-based survey of experts, known as a Delphi survey, to collect information from a wide range of perceived knowledge-holders, which included:
  - one round of Delphi surveys;
  - follow-up interviews with Delphi respondents that provided examples of cases, mainly UK Government officials and EC officials; and
  - synthesis and analysis of findings.
- literature searches to assess the extent of the existing evidence base, including:
  - major academic literature databases,
  - grey literature databases and sources, and
  - internet-based media in a number of languages including English, German, French, Spanish, Polish, and Bulgarian.
- identification of existing cases of abuse.

The work was envisaged to be carried out in seven phases. These were:

- phase 1: project inception and start-up;
- phase 2: initial data collection;
- phase 3: identification of sample countries for in-depth study;
- phase 4: identification of data sources in sample sites;
- phase 5: development of Delphi study and data collection tools;
- phase 6: validation workshop; and
- phase 7: production of final report.

Following initial consultations with the EC, and at different points in the execution of the research, amendments to the original plan were agreed with the EC as reasons for modifying these plans emerged.

The main changes occurred in phases 5 and 6. With regard to the Delphi survey, additional feedback and the second survey were dropped because of a limited response rate from the “snowballing” process<sup>5</sup>. In response, rather than carrying out a second round of the Delphi survey, interviews were conducted with a small number of experts to validate information on existing cases and gather data on additional cases. Moreover, a validation workshop was not held and is now planned to take place after completion of the study. It also emerged during phase 1 that the EC were particularly interested in obtaining case histories of evidence of abuse of NPOs. While this did not constitute a change in the methodology, it provided a particular emphasis that is reflected in the findings.

Overall four deliverables were compiled as part of the study: an inception report, an interim report, and a Draft Final Report. Based on feedback from the EC and the Steering Group, a fourth deliverable – the Final Report – was produced. The following sections provide an overview of specific elements of the methodology and Matrix’s approach to the analysis of the data collected.

## 2.1 Delphi survey

Delphi surveys are a useful method when a research question cannot be easily answered with objective statistical data but when there is a good supply of expert subjective judgements that can be pooled or averaged to obtain reliable estimates. In essence, the Delphi method is a structured process for collecting and distilling knowledge from a group of experts or professionals. The classic Delphi process obtains first estimates from the sample of experts, pools the results and feeds a synthesis back to respondents who then produce new estimates. This process can be repeated until estimates stabilise.

The aim with the Delphi survey used for this project was to identify a pool of experts from the Member State stakeholders identified early in the research process. The following extensive list of appropriate stakeholders was used as a starting point:

- **Government** – respondents who are employed either in central, regional or local governmental bodies. These respondents are unlikely to have direct enforcement responsibility for NPO crime but rather would have a strategic or preventative role.
- **Enforcement** – respondents who belong to organisations make enforcement responses to NPO crime. These respondents are likely to include the police, government agencies and financial regulatory bodies.
- **Legal** – respondents who have a legal involvement with NPO crime. These respondents are likely to include prosecutors, lawyers and judges.
- **Academic** – respondents who are involved in researching and discussing issues of crime with a particular specialism in financial and white-collar crime. These are likely to be made up of criminologists and social science lecturers and writers.

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<sup>5</sup> It was envisaged that it would be possible to ‘snowball’ new contacts with an active knowledge and interest in the size and nature of NPO criminal activities for the Delphi survey from the original contacts identified for the survey. However, this proved less effective than anticipated.

- **Victims** – respondents who belong to organisations that are either victims of NPO crime or that operate within the NPO sector and are aware of the key issues impacting the potential vulnerabilities to become of victim of such crimes. These respondents are likely to be from large NPOs and representatives of umbrella organisations.

Approximately 170 contacts from 24 EU member states received the Delphi survey. About 50 of these responded<sup>6</sup>.

## 2.2 Literature review

A wide range of literature was reviewed. This included:

- academic publications;
- government documents and reports;
- media articles;
- publications of international and non-governmental organisations; and
- specialist publications by accounting firms.

The search involved official journal article databases, library research, and internet search. Literature in English, German, French, Spanish, Finnish, Slovenian and Bulgarian was covered. However, the overwhelming majority of publications were in English, either because they were published in Anglophone countries or because they were published by international bodies (EC, FATF, Council of Europe, UN).

## 2.3 Case studies

Initially, the focus of the research was on cases that had already received a court verdict. After some preliminary investigation covering several countries the research team found that this was not going to be feasible for the following reasons.

- **Very few experts** (respondents to the Delphi survey or interviewees) **were able to provide court-specific information** (such as names of court cases or reference numbers to identify data in courts). This was due to the following:
  - In the case of criminal abuse, interviewees indicated that only local police forces (most often economic police) were able to provide case-specific information. In the cases where tax fraud was involved there were usually administrative rather than judicial proceedings. Language barriers and time limitations prevented the team from contacting local economic police units in a systematic way to obtain data. At the central level, data on NPO abuse were not aggregated.

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<sup>6</sup> No further contacts were obtained for Cyprus and preliminary contacts stated that there were no cases in Cyprus. Further, there were no respondents from Latvia and Luxembourg.



- In the case of terrorist abuse, the financial investigation points of contact initially approached were either not able or not willing to provide contact information for central investigation units. This is common with terrorist investigations. In most countries these units are highly secretive and usually unavailable to researchers. Only two interviews with representatives of such units were achieved.
- **Barriers to accessing court records exist.** The initial analysis showed that in many Member States case files and court records are accessible only to qualified lawyers. This was therefore outside of the scope of the original methodology and budget.

As a result of the above, the types of cases included were:

- open-source cases that had been reported in media or other reports;
- sanitized cases submitted in writing by law-enforcement respondents; and
- cases described by interviewee/survey respondents.

The Delphi survey and the initial search for cases studies asked respondents to identify cases. In both instances, the responses often included only the name of the NPO involved. Therefore, additional research had to be undertaken through media searches and interviews to establish the details. Wherever possible, all cases cited were validated with various sources.

Interviewees were asked about two general types of NPO abuse: abuse to provide support for terrorism and abuse in pursuit of criminal purposes. Respondents and interviewees were asked to share any cases of which they were aware. The intention was to create a typology based on cases that were considered the most common or representative by these respondents.

The basic information collected about each case included:

- who was involved;
- what type of non-profit activity they were involved in;
- what the value of the fraud/abuse was;
- what the fraud was –exactly how it happened;
- what the government response (if any) was; and
- whether a trial was pending or the case had been resolved.

Throughout this report sources of cases have been identified and footnoted. On some occasions, the source asked to remain anonymous.

## 2.4 Caveats and clarifications

The research focused on gathering and synthesising existing, ie secondary, data from a wide range of publicly available sources. In some instances, the researchers consulted the original data sources to verify the quality and authenticity of the data. This was not practicable in all

instances. The authors therefore cannot be held responsible for the quality of the secondary data quoted in the findings. Moreover, during the implementation of the study the researchers were made aware by some stakeholders that more information, outside the public domain, exists but that it would not be possible for the research team to access it due to its confidential nature, eg classified information or information used as part of ongoing investigations.

It must also be highlighted that the Delphi findings presented in this report reflect the opinions and the knowledge of a minority of respondents, ie only those who were surveyed and interviewed. Due to the qualitative nature of the Delphi methodology and the nature of the respondents, the survey findings cannot be said to be statistically representative of these stakeholder groups in the EU27. In aggregation, however, the Delphi findings provide an indication of the overall situation and trends across EU Member States as reported by a wide range of stakeholders who might reasonably be expected, given their roles, to be well informed about the issues with which the research dealt.

Similarly, the cases described in the findings section must be considered examples that illustrate the nature and types of abuse. The pattern of cases described is no indicator of the prevalence of these types of abuse in the EU 27.

## 2.5 Development of concepts and analysis

Different concepts and models were developed to guide and direct the analysis of findings from the range of activities undertaken. The two main concepts used are explained in more detail below.

### 2.5.1 Concept map

The process of generating definitions and concept maps of the NPO abuse field started with the preparation of the proposal for the study. Throughout the process, initial ideas have been augmented and refined by phases 1 and 2 of the work. Definitions and concept maps are essential for organising data, planning analysis and synthesising research outputs prior to reaching conclusions.

This field of study lends itself to legalistic definition. However with so many legal systems incorporated within the EU, to take that road is to enter a complex maze. The authors have therefore kept strictly to definitions with a high order of generality as it is believed that these will translate relatively easily across the EU legal map.

### 2.5.2 Simple system map of NPO vulnerabilities to abuse

NPOs, regardless of their mission and organisation, share generic system characteristics both with each other and with profit-making organisations. All productive organisations have a range of inputs that are subject to transformational processes to generate outputs. However for NPOs the following relevant details can be added:

- inputs and input-generating processes, including ***fund-raising*** from ***donors***, national and international government funding in the form of ***grants***, and other income from ***charitable enterprises***;
- internal organisational processes and procedures geared to achieving the NPOs' objectives, particularly those involving (either directly or through subcontractors) the administration of ***donor, grant and charitable enterprise*** inputs; and
- outputs and output processes, including ***charitable grant payments, direct and indirect provision of charitable goods and services***.

For the purposes of this study, it is important to distinguish three different types of actors within this system:

- **outsiders** (non-employees, non-agents, non-subcontractors, non-affiliates/volunteers);
- **insiders** (employees, agents, subcontractors, affiliates, volunteers); and
- **collusive groups** formed of one or more of the above.

The simple system map and the three types of actors produce a useful matrix classification, as shown in Table 1, in which various types of abusive behaviour to which NPOs are potentially vulnerable can be located. No distinction is made here between abusive and criminal behaviours. This is to avoid the juridical maze.

Actor Process	Outsiders	Insiders	Collusive groups
<b>Input</b>	<ul style="list-style-type: none"> <li>• Fraudulent impersonation of legitimate fund-raising/grant application</li> <li>• Misrepresentation and fraud by commercial enterprises claiming to be raising funds</li> <li>• Misrepresentation by donors for money laundering or undue influence purposes</li> </ul>	<ul style="list-style-type: none"> <li>• Dishonesty and fraud by staff and subcontractors in the fund-raising process</li> <li>• Fraud by staff and subcontractors/agents managing charitable enterprises</li> <li>• Use of the NPO for tax evasion</li> </ul>	<ul style="list-style-type: none"> <li>• Collusion between legitimate fund-raisers and outsiders or agents</li> <li>• Collusion between internal charitable enterprise managers and outside commercial enterprise managers</li> </ul>

Actor Process	Outsiders	Insiders	Collusive groups
			<ul style="list-style-type: none"> <li>Tax evasion scams</li> </ul>
<b>Internal</b>	<ul style="list-style-type: none"> <li>Cyber attacks</li> <li>Impersonation of critical NPO role holders</li> <li>Identity theft</li> </ul>	<ul style="list-style-type: none"> <li>Manual overriding of internal controls to permit fraud</li> <li>False documenting/ invoicing</li> <li>Petty cash, credit card and expense fraud</li> <li>NPO cheque fraud</li> <li>Purchase ledger fraud<sup>7</sup></li> <li>Misuse/misappropriation of assets</li> </ul>	<ul style="list-style-type: none"> <li>Fraudulent collusion re outsourcing, purchasing and invoicing</li> <li>Collusive creation of false documents</li> <li>Collusive cyber attacks</li> </ul>
<b>Output</b>	<ul style="list-style-type: none"> <li>False/misleading applications for financial support</li> <li>Secondary internal NPO abuse (where NPO A gives aid to NPO B and that aid is misappropriated internally or collusively)</li> </ul>	<ul style="list-style-type: none"> <li>False/misleading accounts of charitable disbursements</li> </ul>	<ul style="list-style-type: none"> <li>Collusion to falsify or mislead over charitable disbursements</li> </ul>

Table 1: Classification of financial abuses in NPOs

<sup>7</sup> "Purchase ledger" refers to accounting records of the purchase of services and equipment by a company or an organisation.

## 3.0 Findings

The findings presented in this section are structured around the three main strands of the data collection process. While it is possible to integrate them or present them in other ways, it was felt important to enable readers the ability to compare and contrast the outputs from different data collection methods and activities. It is also the case that each method has its own strengths and weaknesses and these were factored in to the process of synthesis and drawing conclusions. This is much more difficult if different types of evidence are bundled together.

The three principal strands of evidence reviewed derive from:

- review of the existing evidence-base;
- truncated Delphi-style survey of experts; and
- archive of case histories and anecdotes collected throughout the study.

### 3.1 Review of the existing evidence base

All references to the literature quoted in the following section can be found in the Bibliography at the end of the report.

#### 3.1.1 Overview of the literature

The following overview discusses the approach taken to the review of literature and the main sources consulted.

##### **Analytical research on fraud in NPOs**

The literature search focused on the issue of NPO financial abuse. While broader issues such as the transparency and governance of NPOs would have generated a considerable number of publications, on examination these publications were generally found to be irrelevant to the key questions at the heart of this study. Only two major published works dedicated to the issue and specifically focused on financial abuse were found. The most useful is Zach (2003). The author is a US fraud examiner specialising in NPOs but his database is still largely drawn from the for-profit sector.

Only one academic journal article was found, again from the US, Greenlee et al (2007) where the focus was seeking to answer questions about the types and extent of NPO abuse in the US. This paper drew largely on a database maintained by the Association of Certified Fraud Examiners (ACFE). Greenlee et al produced an in-depth statistical analysis of NPO fraud in the US, but the work was based on a sample of only 50 cases. It is also interesting to note that the extensive US literature cited in the article demonstrates the extent to which this area of study depends on journalistic accounts. Lastly, a report by Kohlmann (2006) for the Danish Institute of International Studies relied for the most part on unsupported media reports or cases that did not concern EU-based NPOs. It was judged, therefore, that it would not be helpful to include conclusions drawn in this study.

### Surveys and statistics

Two key surveys were identified during the search. PKF Accountants (2006, 2007) provide the only NPO victims' survey currently available. It provides the only statistical evidence about the extent of abuse in non-profits but is limited to the UK. The second key study is the biannual survey of the US Association of Certified Fraud Examiners (ACFE 2002, 2004, 2006). For comparative purposes the PwC surveys (2005, 2007, 2007a) of economic crime in the private sector are also referred to. Other surveys, such as the KPMG Advisory survey (2005) on transparency of NPOs in France and the Ernst & Young survey (2006) on fraud in emerging economies, were also reviewed but were found not be relevant.

To support the search statistical sources containing criminal-related data held within the Member States were explored. These included crime statistical reports from Spain, France, UK and Bulgaria to confirm information from exploratory interviews. In general NPO financial abuse cases are not identified in official crime statistics or not publicly available across the EU. More generally, international law-enforcement statistical data on fraud were taken from the UNODC "Eighth United Nations Survey on Crime Trends and the Operations of Criminal Justice Systems (2002)" and used for comparative purposes

Lastly a Europol report (2007) was the only EU analytical research report that contained statistical information on arrests for and types of terrorist abuse. However, the report does not provide specific information on terrorist abuse of NPOs.

### Reports of government and international organisations

Two types of reports were identified. The first set of reports is related to a key initiative in fighting financial abuse: the "Nine Special Recommendations on Terrorist Financing" developed by the FATF<sup>8</sup>. The team analysed 18 assessment reports produced by FATF and Moneyval<sup>9</sup> in 2006–07. These reports evaluate a country's compliance with the FATF recommendations<sup>10</sup>. Each report also contains a section analysing the country's compliance with the "Special Recommendation VIII", regarding the introduction of measures to prevent money laundering and terrorist abuse of the NPO sector. The level of detail in these reports varies considerably and was greater for countries where the legislation and measures were more highly developed. These reports provide information on the current regulation of NPOs and the abuse of the NPO sector in general. They do not quote specific cases. A review of the FATF report (2006e) on misuse of corporate vehicles and trusts showed that there were no listed cases of misuse of charitable trusts.

The second type of report is government and international organisation work that focuses on regulatory issues and recommendations. The US and UK Treasury (2007) have also produced reports on the risks for non-profits from terrorist abuse. Both reports provide information on cases and guidance on risk factors and risk-reduction measures. Further government reports and online resources, such as the UK Charity Commission (2007, 2007a), ONLUS in Italy and

<sup>8</sup> FATF (22 October 2004) *Nine Special Recommendations (SR) on Terrorist Financing*, [http://www.fatf-gafi.org/document/9/0,3343,en\\_32250379\\_32236920\\_34032073\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/document/9/0,3343,en_32250379_32236920_34032073_1_1_1_1,00.html)

<sup>9</sup> New Member States are evaluated via Moneyval, while old Member States are evaluated via FATF.

<sup>10</sup> The reports also evaluate the compliance with the FATF 40 Recommendations against money laundering (see <http://www.fatf-gafi.org>).

the Cours des Comptes (2005) in France, have been used to shape the understanding of regulatory issues and to obtain information on specific cases and investigations. The UK Charity Commission website maintains an extensive database of cases of financial abuse. No other Member State has a similar facility.

The USAID Annual NGO Sustainability Index (2006) provide an overview of the non-profit sector and state of regulation in New Member States. These were used to increase the understanding of regulatory and financial transparency issues. For some Member States, these reports provide the only systematic review of the non-profit sector available. EU documents, such as publications of the EC Directorate-General Justice, Freedom, and Security (2004, 2005, 2006, and 2007), were also consulted as some of them (EC 2005) provide important regulatory guidance.

### 3.1.2 Analytic approach

From the literature database created by its search, Matrix has extracted a number of facts and figures as well as descriptions and arguments that are relevant to the research questions to which answers are being sought. As far as possible, repetition and redundancy have been removed and an effort has been made to maintain a focus on NPO abuse in the EU, although the majority of the literature is concentrated elsewhere or on only few Member States.

Wherever descriptions of relevant cases were found, these have been added to the case history archive and reported in Sections 3.3.5 to 3.3.7 of this report. For reasons of balance, reporting of UK cases from the Charity Commission database has been restricted.

The key points extracted from the literature review are classified for reporting purposes under the following headings:

- Definitions and concepts;
- Statistical information;
- Qualitative descriptions of threats and vulnerabilities; and
- Prevention and detection strategies, legal, regulatory and administrative controls

### 3.1.3 Definitions and concepts

#### Defining an NPO

There is no internationally accepted definition (legal or otherwise) of what constitutes an NPO, although in the EU there are a variety of legal forms. The UN, for instance, limits the scope of NPOs to CSOs and non-governmental organisations (NGOs), eg. organisations financed primarily by “dues and contributions”. Such a definition ignores numerous NPOs that are financed primarily from government funds (educational, sports, cultural institutions). Others, such as the World Bank, limit the definition of NPOs even further to NGOs. Across Europe there are a variety of NPO legal forms: associations, foundations, political parties, cooperatives, professional associations, boards of religions communities, religious organisations (churches), trusts, charities, etc. The two main legal categories, however, are associations and foundations. NGOs or CSOs have no legal definitions in most EU Member States. In addition, if one uses the legal definitions of associations and foundations, the overwhelming majority of NPOs are not typical NGOs, but associations with religious, health, cultural or sports activity objectives. These include hospitals, universities, museums, libraries, sports clubs, trade unions, etc.<sup>11</sup>

The definition of NPOs in this report is not limited to NGOs and CSOs. Moreover, survey respondents were not presented with a particular definition of NPO. They were encouraged to reply on the basis of their country-specific understandings of the NPO sector. These definitions have been derived from a variety of sources.

#### Defining abuse and fraud

This report refers often to “fraud”. The dictionary legal definition is:

“False representation by means of a statement or conduct made knowingly or recklessly in order to gain material advantage.” (Gooch & Williams 2007)

The UN’s definition is:

*“The acquisition of another person’s property by deception.”* (UNODC 2002)

The most common type of fraud is embezzlement. United Nations Office on Drugs and Crime (UNODC 2002) defines *embezzlement* as “*the wrongful appropriation of another person’s property that is already in the possession of the person doing the appropriating*” (UNODC 2002). The essential difference between these crimes is that fraud also requires *deceit*: a lie or a deliberate failure to say something relevant. The distinction between fraud and embezzlement in the NPO sector is less clear, because the source of funds at any NPO will be donors, most of whom do not monitor the spending of their donations. Therefore, they are defrauded whenever their donations are spent on work outside the mandate of the NPO. One helpful typology of

<sup>11</sup> Sources: “Johns Hopkins Comparative Non-Profit Sector Project; Interviews”; Morris, S.(2000), “Defining the Non-profit Sector: Some Lessons from History, London School of Economic, Civil Society Working Paper 3”, [http://www.lse.ac.uk/collections/CCS/publications/cswp/cswp3\\_abstract.htm](http://www.lse.ac.uk/collections/CCS/publications/cswp/cswp3_abstract.htm)



NPO-related fraud was developed by the UK accountancy firm PKF, which, as a part of its survey of NPO fraud victimisation, has laid out a typology of criminal activities in this area as follows.

<p><b><i>NPO fraud in the UK:</i></b></p> <p><b>External Fraud</b></p> <ul style="list-style-type: none"><li>• money laundering</li><li>• dependence on outsourcing</li><li>• use of agency/ temporary staff</li><li>• cyber crime</li><li>• phishing</li></ul> <p><b>Internal Fraud</b></p> <ul style="list-style-type: none"><li>• manual overriding of internal controls</li><li>• false invoicing</li><li>• creation of false documents</li><li>• misappropriation of company assets</li><li>• over-claiming of entitlements, allowances or reimbursements</li><li>• petty cash expenditure not accounted for / incorrectly logged</li><li>• misuse of company credit cards</li><li>• purchase-ledger fraud</li><li>• use of company cheques to pay for personal expenditure</li><li>• alteration of cheque amounts</li></ul> <p><b>Collusive Fraud</b></p> <ul style="list-style-type: none"><li>• use of particular firms when outsourcing / subcontracting</li><li>• purchase-ledger fraud</li><li>• over-invoicing for supplies</li><li>• creation of false documents</li></ul> <p>Source: PKF Accountants 2006</p>
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### Defining terrorist financing

Just as there is little agreement over the definition of “terrorism”, there is no universally accepted definition as to what constitute the ‘financing of terrorism’. In the United States, the National Commission on Terrorist Attacks upon the United States (the 9/11 Commission) (2004) has described a range of activities that it considered terrorism financing. These included the financing of:

- terrorist operations (such as terrorist attacks)
- training (including training camps)
- recruitment and evaluation
- military apparatus
- supportive governments (such as the Taliban)
- operatives and their families (including jihadists, suicide-bomber)
- propaganda materials or activities
- proselytizing materials or activities

While paying the costs of such activities are clearly a form of direct financing, a more controversial situation arises where the direct beneficiaries are ordinary citizens. For example an NGO might fund a social project in exchange for government support. Even more controversial are the delivery of social projects in areas controlled by groups or governments that are associated with terrorism. While some governments go to the extent of associating such humanitarian or development activities with terrorist financing, others, including some NPOs disagree.

The present report has not adopted a clear cut definition and has looked for evidence and cases where governments and law-enforcement authorities have alleged

### 3.1.4 Studies with a statistical base or focus

On average across the EU, the NPO sector employs around 4.4 per cent of the working population. This rises to over 10 per cent in countries such as Ireland, Belgium and the Netherlands where the sector is highly developed. As economic development in this sector is correlated with per capita GDP it seems safe to forecast that the economic significance of the NPO sector, which is already considerable, will rise in the EU as newer Member States develop relevant institutions<sup>12</sup>.

NPOs typically benefit from tax advantages. It is therefore natural that tax authorities are interested in any abuse of NPO tax status. This is particularly the case in the US and UK where donors reap considerable tax rebates and NPOs are largely tax exempt. The US Internal Revenue Service (IRS) has raised the issue of NPO abuse and published relevant statistics, claiming that “tax abuse is increasingly present” in the non-profit sector and that it costs the government between \$15 and \$18 billion per year<sup>13</sup>. The two main abuses highlighted by the IRS and investigated by the US Senate’s Finance Committee are *donor-advised funds* and *supporting organisations*. The Congressional Research Service found that one in five donors who claimed to have funded NPOs did not in fact distribute any money to charity during the fiscal year surveyed, and that about two-thirds of donors distributed less than five per cent of the money they claimed for<sup>14</sup>. Instead the money was being invested, and in recent years an increasing number of mutual funds started to sell *donor advised funds*<sup>15</sup>.

In Europe there have been no similar large-scale investigations reported, although certainly NPOs are used as vehicles for legal tax-optimisation<sup>16</sup>. For instance, in Austria the recent

<sup>12</sup> Johns Hopkins Comparative Non-Profit Sector Project,

<http://ec.europa.eu/enterprise/entrepreneurship/coop/conferences/doc/salamon-ppt2-en.pdf>

<sup>13</sup> Wolverton, B. (2005) ‘Nonprofit Abuses Cost Federal Government Billions of Dollars, IRS Chief Tells Senators’, *The Chronicle of Philanthropy*, <http://www.philanthropy.com/free/update/2005/04/2005040501.htm>.; Crenshaw, A. (2005) ‘Tax Abuse Rampant in Nonprofits, IRS Says’, *Washington Post*, 5 April 2005

<sup>14</sup> “Donor-advised funds allow people to donate cash, stock, or other assets to special accounts, claim a charitable deduction on their federal income taxes, and then recommend how, when, and to which charities the money in the account should be distributed.” Op. cit. Wolverton.

<sup>15</sup> Wolverton, Op.cit

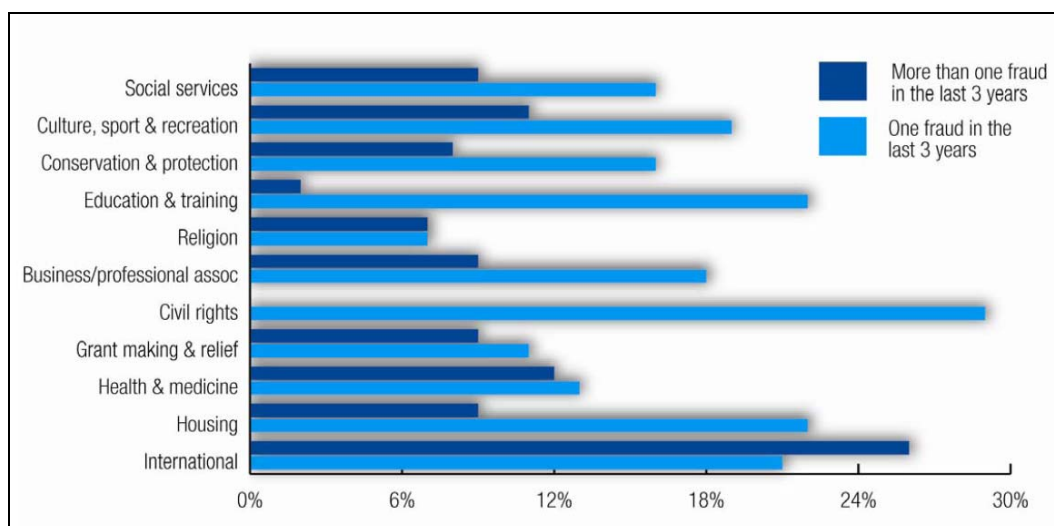
<sup>16</sup> Tax avoidance is different from tax evasion as it refers to tactics to reduce tax-payment taking advantage of legal means.

foundations law has generated 250 foundations established for public benefit and 2,400 foundations “solely for tax-efficient asset management purposes”<sup>17</sup>.

A survey of international business attitudes to corruption, carried out by the Control Risks Group, revealed that approximately two-thirds of respondents believed that companies in their own country either “regularly” or “occasionally” seek to gain a business advantage by making donations to NPOs favoured by decision-makers. In most cases these were foundations or associations that were closely related to political parties or individual politicians. NPOs can in this way be used as legal means of avoiding limits place on donations to political parties<sup>18</sup>.

### PKF surveys (UK sample)

There is little statistical evidence as to whether specific characteristics of NPOs make them more vulnerable to fraud than their profit-making counterparts. The PKF 2006 survey identified that charities with international operations are more likely to become victims of fraud. The PKF survey also identified that larger charities have a higher than average incidence of victimisation, with 34 per cent experiencing fraud once and 14 per cent on a number of occasions.



Source: PKF 2006

**Figure 1: Experiences of fraud by NPO sector (UK)**

On the prevention front the 2007 PKF survey found that smaller charities (with an annual turnover of less than £1 million sterling) were less likely to have fraud policies, risk assessments and control assessments in place. Furthermore, less than 25 per cent of respondent NPOs of all sizes reported having fraud control assessments in place<sup>19</sup>. All of these countermeasures are regularly advised by the UK Charity Commission and charities are meant to report on these activities annually to the Charity Commission.

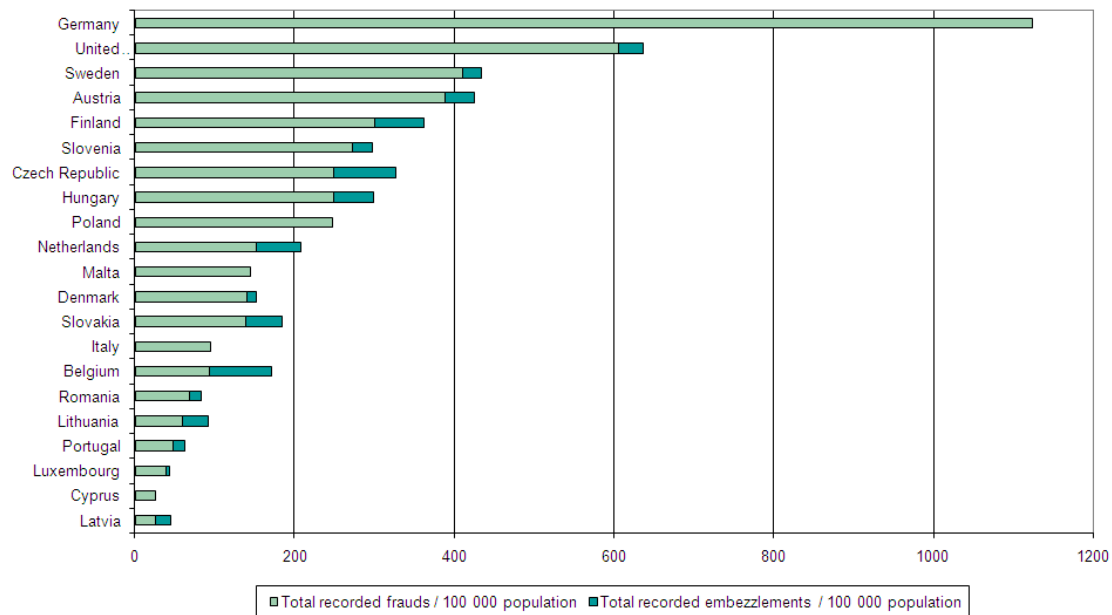
<sup>17</sup> Representation of Austrian Non-Profit Organisations (2005), *Comment on the Open Consultation: 26 August 2005*, [http://ec.europa.eu/justice\\_home/news/consulting\\_public/code\\_conduct\\_npo/contributions/contribution\\_iogv\\_en.pdf](http://ec.europa.eu/justice_home/news/consulting_public/code_conduct_npo/contributions/contribution_iogv_en.pdf).

<sup>18</sup> Control Risks, *International business attitudes to corruption – survey 2006*, p.13

<sup>19</sup> PKF Accountants (2007) *Managing Risks, Protecting Your Assets: PKF Charities Risk Survey 2007* <http://www.cfdg.org.uk/cfdg/surveys.asp>

### Official background statistics

This study has established that most EU law enforcement and judicial statistics do not include specific data on financial abuse of NPOs. Moreover, there is also no agreed or uniform standard for recording financial crimes. As Figure 2 shows, victimisation rates in Member States appear to vary considerably, but this could be the result of variability in legal definitions or rates of detection and reporting.



Source: UNODC 8<sup>th</sup> Survey<sup>20</sup>

**Figure 2: Recorded fraud and embezzlement per 100,000 in EU Member States**

The idea of using these figures and the PKF NPO victimisation rate to estimate the NPO victimisation rates in EU Member States was considered and rejected as this would require applying a large number of unvalidated and risky assumptions.

### Abuse of NPOs for terrorist financing purposes

It might be expected that the recent terrorist attacks in Europe would encourage data collection in this area, but the study identified that the availability of official statistics is limited. The Europol 2007 report states that of the 706 individuals arrested on terrorism-related charges, only eight per cent (56 individuals) across Europe of those charges are related to terrorism financing. Ten Member States reported no arrests related to terrorism.

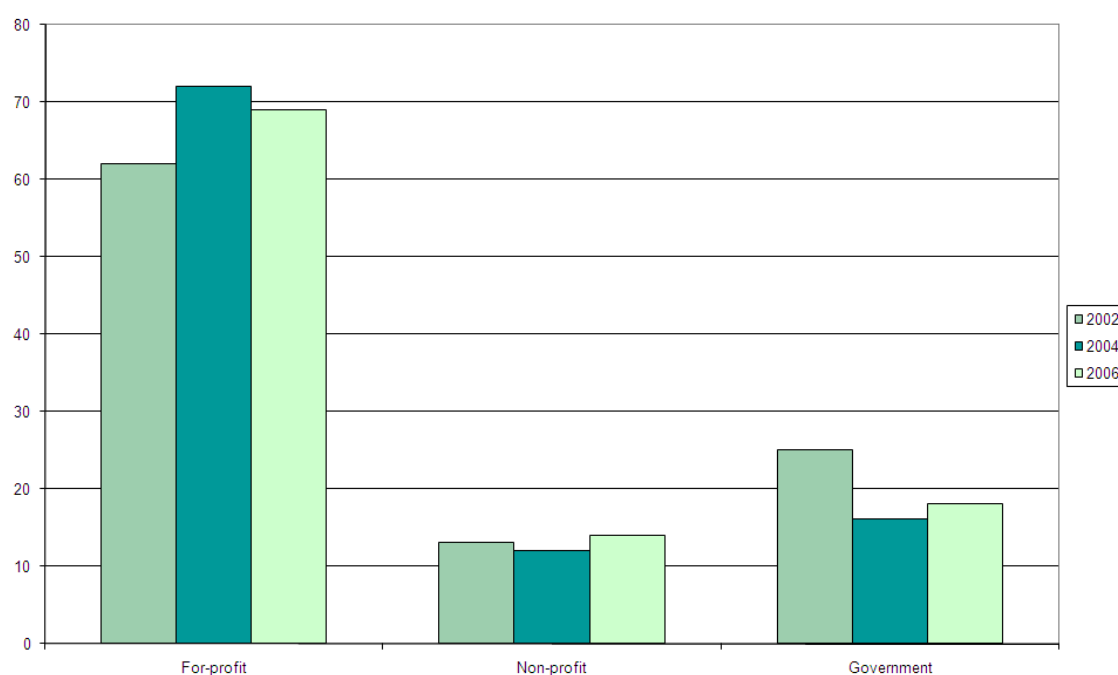
In terms of court trials, in 2005–06 a total of 303 persons across Europe were tried on terrorism charges (the majority, 205, in Spain) and a further 136 court proceedings were reported as ongoing. No information was available either formally or informally about the involvement of NPOs in these cases. Fourteen Member States reported having no court cases related to

<sup>20</sup> UNODC (2002) *The Eighth United Nations Survey on Crime Trends and the Operations of Criminal Justice Systems (2001 - 2002)*.

terrorist activity. The only relevant Member State information that was obtained supports to an extent the limited amount of ongoing investigations across Europe. In the UK, the Home Office reported that during 2006 financial services providers filed 48 reports of suspicious NPO activities, although only 34 merited further investigation<sup>21</sup>. In Austria during 2007, there were only two ongoing investigations involving investigations of NPOs financing terrorism<sup>22</sup>.

### Surveys of expert practitioners: estimating victimisation and impact rates

US fraud examiners were surveyed by the ACFE<sup>23</sup>, which quoted figures, backed by findings from other authors (Greenlee et al. 2007; Zack 2003), indicating that financial fraud among NPOs in the US is considerably less likely than in the for-profit sector<sup>24</sup>.



Source: ACFE (2002; 2004; 2006)

**Figure 3: Fraud investigations in the United States (share of cases reported by CFEs)**

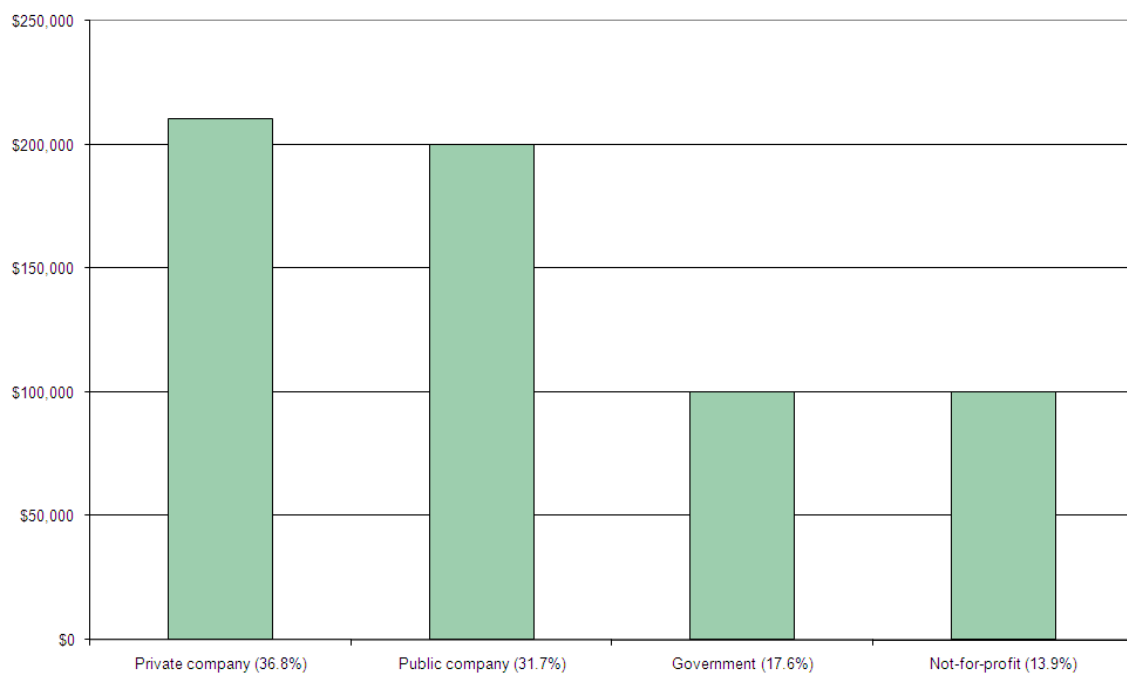
The only impact figures relating to the NPO sector that we discovered in our literature search are as follows

<sup>21</sup> Home Office (2007), p.17

<sup>22</sup> Bundesministerium für Inneres (2007) *Verfassungsschutz Bericht 2007*, p.114

<sup>23</sup> Although ACFE has chapters in Europe, no similar surveys have been undertaken in EU member states.

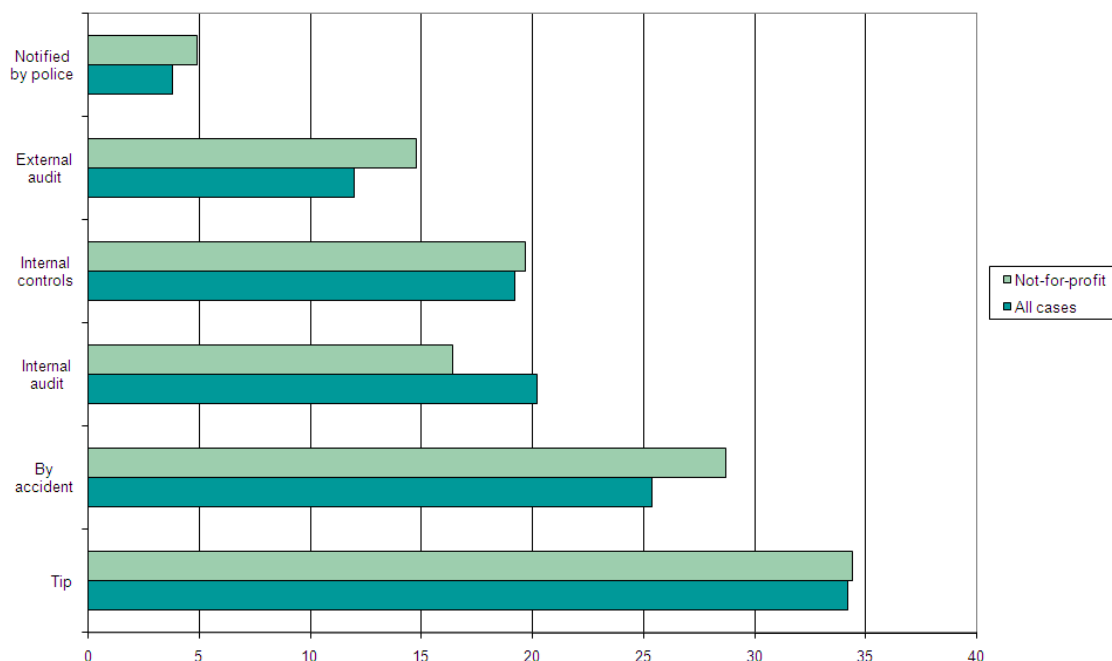
<sup>24</sup> This conclusion is based on the ACFE data shown in Figure 5. Companies seem to be 5.8 times more likely than NPOs to be investigated, which corresponds to the fact there are 5.98 times more firms than NPOs.



Source: ACFE 2006

**Figure 4: Size of financial loss of NPOs vs others in the United States**

Various studies have indicated that fraud and financial crimes are often discovered by internal controls and audits. The data from the UK show that smaller NPOs, with revenues of under £1 million pounds sterling (€1.35 million) were less likely to implement anti-fraud policies, as only 24 per cent of them had fraud policies and 43 per cent conducted fraud-risk assessment. In comparison 75 per cent of NPOs with incomes of £1-10 million (€1.4-14 million) had fraud policies, and 59 per cent conducted fraud-risk assessments. A comparative study in the US reveals that NPOs and companies have similar patterns of fraud detection.



Source: ACFE<sup>25</sup>

**Figure 5: Comparing fraud detection of NPOs and others in the US**

In addition, the PWC (2007) report demonstrates that companies with strong anti-fraud controls detect more instances of fraud. Therefore, comparing data between NPOs and private-sector fraud experiences needs to take into account the levels of anti-fraud measures to estimate the actual levels of fraud. The lack of such data for EU Member States makes an overall criminal abuse assessment difficult.

### 3.1.5 Qualitative descriptions and speculations

The most common mechanisms used to commit fraud tend to involve some type of manipulation of accounting and financial statements. According to the American Institute of Certified Public Accountants (AICPA), accounting manipulation in NPOs may involve acts such as:

- manipulation, falsification, or alteration of accounting records or supporting documents from which the financial statements are prepared;
- misrepresentation in, or intentional omission from, the financial statements of events, transactions, or other significant information; and
- intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosures<sup>26</sup>.

<sup>25</sup> The Association of Certified Fraud Examiners is a global, 35,000 member professional association whose members are dedicated to fighting fraud. Headquartered in Austin, Texas, USA ([www.acfe.org](http://www.acfe.org))

<sup>26</sup> Assessing Potential Accounting Manipulation: The Financial Characteristics of Charitable Organizations With Higher Than Expected Program-Spending Ratios, John Trussel, The Pennsylvania State University at Harrisburg.

The annual “Report to the Nation of the Association of Certified Fraud Examiners” contains a detailed typology of the schemes used to carry out embezzlement. These include a wide range of fraudulent disbursements of cash, through billing, expense reimbursement, cheque-tampering, payroll and wire transfers, with wire-transfers having the greatest impact<sup>27</sup>. Schemes were also identified that involved non-cash misappropriations involving inventory, information, securities, etc.

In addition to the abuses identified above, research on terrorist financing in the United States describes the following types of NPO abuses as most common:

- establishing front organizations or using charities to *raise funds* in support of terrorist organizations;
- establishing or using charities to *transfer funds, other resources, and operatives* across geographical boundaries;
- defrauding charities through branch offices or aid workers to *divert funds* to support terrorist organizations; and
- leveraging charitable funds, resources, and services to *recruit members and foster support* for terrorist organizations and their ideology<sup>28</sup>.

Lastly, it has been identified that international NPOs may, on occasion, have to divert assets to pay bribes or “facilitation payments” in order to carry out their work<sup>29</sup>. For example, rebels who control areas may demand payment before they will allow the NPO to enter or exit, or officials who work in customs may demand payment before they will permit the passage of relief goods.

### 3.1.6 Prevention and detection strategies

#### Codes of conduct and best practice guidelines

A number of codes of conduct and best practice guidelines have been issued, most notably the European Framework and the Financial Action Task Force’s guidelines on Special Recommendation VIII. The simplest form of regulation, adopted in some Member States, is the requirement that NPOs register with the state. This facilitates statistical analysis and research, and helps prevent fraudulent fund-raising and the diversion of legitimately raised funds. Registration systems commonly include the requirement to provide information about membership, purpose and use of funds and some monitoring procedures, for example submitting annual reports.

The level at which any database or registry is held varies. For example, the UK and Romania have national registries of not-for-profit entities, and Slovakia and Austria maintain a Central Register at their interior ministries, while Estonia maintains registries at county and city courts.

<sup>27</sup> ACFE 2006, p.14

<sup>28</sup> United States Treasury, *Typologies and Open Source Reporting On Terrorist Abuse Of Charitable Operations In Post-Earthquake Pakistan And India*. [http://www.treas.gov/offices/enforcement/key-issues/protecting/docs/charities\\_post-earthquake.pdf](http://www.treas.gov/offices/enforcement/key-issues/protecting/docs/charities_post-earthquake.pdf)

<sup>29</sup> Skimming Assets: Fraud threats for international charities, Gary Mitchell, Oxfam GB, in a presentation to the Charity Finance Directors’ Group, Risk Conference 2006.



Germany, Spain and France also have non-centralized regional registration systems. Bulgaria, the Czech Republic and Estonia have made their registries available on the internet<sup>30</sup>.

A informal review of the relevant legislation of Old Member States showed that national laws of a number of countries have provisions for detailed information, including name, address, purpose, planned activities, membership, accounting period/modalities, procurement rules, notification to certified public accountants and rules governing liquidation<sup>31</sup>. Detailed registrations as well as the public availability of NPO registers, imply that the registration requirements in the countries are generally comprehensive. Other Member States gather significantly less detailed information requirements upon registration or do not register charities at all<sup>32</sup>.

The need for greater levels of fraud prevention and protection within the NPO sector needs to be considered holistically<sup>33</sup> and should involve key stakeholders. Implementing regulations should take into account the varied economies of Member States and the types of crime that are causing concern locally. The UK Charity Commission encourages a risk-based approach to regulation, applying proportionately more resources to areas of greatest risk; small, local organisations that do not raise significant amounts of money from public sources may not require enhanced oversight from government or regulatory bodies<sup>34</sup>. Any prevention, detection or risk-management strategy has a cost of implementation. These costs and their effects on the likelihood of compliance need to be carefully considered<sup>35</sup>.

In politically challenging environments governments may perceive CSOs as a threat and use regulation as a means to shrink the space in which they operate<sup>36</sup>. There are a number of expressions of concern about proportionality in the management of prevention and detection in the literature. The National Council for Voluntary Organisations, an EU Member State NPO umbrella organisation, published a report in 2007 examining the impact of CTMs on CSOs (predominantly but not exclusively NPOs). The report details the negative impact that UK counter-terrorism legislation and rhetoric has had on CSOs in general and those engaged with the Muslim community in particular. The case histories available from this inquiry provide some information, albeit from only one jurisdiction, of the difficult balancing act that is required both to protect civil society and to encourage the growth of social capital, self-help and philanthropy<sup>37</sup>. The implications of unintentional violation of CTMs have also been well documented by

<sup>30</sup> Rutzen, D., Durham, M. and Moore, D. 2004 'NPO Legislation in Central and East Europe' International Centre of Not-for-Profit Law.

<sup>31</sup> NPO legislation in Austria, Belgium, Finland, Germany, Italy, Luxembourg, Netherlands, Portugal, Spain, UK

<sup>32</sup> NPO legislation in Denmark, France, Ireland, and Sweden.

<sup>33</sup> Bowron, M. and Shaw, O. (2007) 'Fighting Financial Crime: A UK Perspective', *Economic Affairs*, Volume 27 Issue 1, pp. 6-9

<sup>34</sup> Charity Commission (2007) A Risk And Proportionality Framework For The Commission's Compliance And Support Work

<sup>35</sup> Levi, M and Dorn, N. (2006) 'Regulation and Corporate Crime: Managers and Auditors', *European Journal on Criminal Policy and Research*, (12), pp. 229-255

<sup>36</sup> 'Safeguarding Civil Society in Politically Complex Environments', International Journal of Not for Profit Law Vol. 9 (3) [http://www.icnl.org/knowledge/ijnl/vol9iss3/special\\_1.htm](http://www.icnl.org/knowledge/ijnl/vol9iss3/special_1.htm) accessed 17th January 2008

<sup>37</sup> Quigley, N. and Pratten, B. (2007) *Security and Civil Society: the impact of counter-terrorism measures in civil society organisations* London: National Council for Voluntary Organisations

INTRAC, and it is likely that the burden of mitigating this risk has led to scaling back of humanitarian work in some areas.

### Self-regulation

In a number of countries the NPO sector is self-regulating through accreditation organisations, watchdogs and vigilance on the part of employees. Self-regulation plays a significant role in protecting the sector from abuse with or without the support of more formal controls. Self-regulation is endorsed in discussions of best practices<sup>38</sup>. Self-regulation, as a form of accountability, is a process that seeks to balance the sometimes conflicting demands and needs of a variety of NPO stakeholders<sup>39</sup>. Public awareness of the role of NPOs is necessary to ensure continued funding and support. Those involved in NPOs are aware of this dynamic and this awareness increases the effectiveness of self-regulation. Following a Romanian media campaign in 1998-99 that exposed the financial crimes of “fake NPOs”, organisations in that region have worked hard to repair their damaged reputation. Similarly in Hungary the poor image of NGOs has improved following the introduction of more stringent controls<sup>40</sup>. It is important that organisations engage with criminal justice agencies when a crime is suspected or uncovered. Although the exposure of economic crime can damage the public image of NPOs, prosecution of the individuals concerned does not increase this harm. On the contrary it appears to mitigate it as well as reinforcing the morale of staff<sup>41</sup>.

### Financial systems auditing and reporting

The keeping of proper accounting records is a prerequisite in any organisation, including NPOs. Published or registered annual accounts provide a paper trail that can be used as evidence in criminal investigations and regular monitoring procedures. Some countries, including Poland, Bulgaria and the UK, issue fines when reports are not filed as required<sup>42</sup>. However, considering the complexity of the sector – its variety of aims and multiplicity of stakeholders – it is not surprising that a single international standard has not yet been established<sup>43</sup>. Furthermore, annual accounts do not provide a sufficient degree of granularity to reassure that no NPO abuses (eg the supply of funds or materials to terrorists) has occurred<sup>44</sup>.

Auditing is recommended to ensure correct accounting procedures are followed, though there is much debate around the integrity of auditing in instances where the audit firm also provides other business services to the entity being audited. This is referenced in Article 23 of the 2004 EC directive on improving accounting and audit procedures. That directive suggests that the

<sup>38</sup> FATF (2002) Combating the Abuse of Non-Profit Organisations: International Best Practices

<sup>39</sup> CIVICUS World Assembly 2006 Workshop ‘Civil society Making International Government Organisations Accountable’ <http://www.civicassembly.org/upload/file/ConsolidatedWorkshopsReport.pdf>

<sup>40</sup> Rutzen, D., Durham, M. and Moore, D. (2004) *NPO Legislation In Central And East Europe*, International Centre of Not-for-Profit Law

<sup>41</sup> PwC Investigations and Forensic Services (2007) *Economic crime: people, culture and controls – the 4<sup>th</sup> biennial Global Economic Crime Survey*

<sup>42</sup> Op. cit. Rutzen, D., Durham, M. and Moore, D. (2004)

<sup>43</sup> Goddard, A. and Assad, M.J. (2006) ‘Accounting and navigating legitimacy in Tanzanian NGOs Accounting’, *Auditing & Accountability Journal*, Volume: 19 Issue: 3 Page: 377 - 404

<sup>44</sup> Ibid.

responsibility for distinguishing acceptable and unacceptable relationships between organisations and their auditors is to be drawn at the national, rather than EU, level<sup>45</sup>.

A further audit role is performed by boards of trustees. Boards to oversee delivery of funds should be independently nominated and selected on the basis of merit. A board's role in running an organisation is to advise and monitor management, though it can also serve in a self-regulatory capacity in some organisations. Monitoring the appointment and scrutiny of such independent trustees, however, would be burdensome and is very patchily done within the EU.

### Employees

Whilst robust financial controls are a necessary tool in combating crime, ensuring staff understand the risks and how to minimise them is an essential part of protecting NPOs. An organisation that does not engender commitment from its members and is lacking in clearly stated ethics is vulnerable to exploitation since the lack of a supportive corporate culture will inevitably create gaps in any control system. The consistently high rates of fraud reported via internal tip offs or calls to whistle-blowing hotlines – estimates are as high as 40 per cent – are evidence that strong controls are fostered through organisational culture rather than structure and that empowerment of employees is a useful mechanism for detection.

Those best placed to understand the complexities of fraud-prevention delivery are those most closely involved. Formal regulation should build on the discretion and understanding of employees.

### Monitoring

Though regulation may be adopted as a matter of best practice, it is likely to be most effective when supported by some degree of enforcement. The level of domestic monitoring varies considerably from state to state; Greece, for example, does not have a central repository of information on NGOs operating there<sup>46</sup>. A number of organisations play a role in preventing corruption and financial crime and combating terrorist financing, among them the FATF, Organisation for Economic Co-operation and Development (OECD), Council of Europe's Moneyval and Group of States against Corruption (GRECO). Regular peer-review monitoring is carried out by the FATF and Moneyval Member States. So far, two rounds of mutual evaluations have been completed. The FATF emphasises the need to bring law enforcement and regulatory authorities together and involve the relevant authorities in establishing financial transaction reporting systems, record-keeping standards and a means of verifying compliance<sup>47</sup>.

Table 2 summarizes data from the Mutual Evaluation reports of 18 Member States. These reports (based on interviews with key officials and on legal analyses) evaluate a country's compliance with FATF's recommendations on anti-money laundering and anti-terrorist financing regulation. Number 8 of FATF's Nine Special Recommendations concerns the regulation of the

<sup>45</sup> Proposal for a directive of the European Parliament and of the Council on statutory audit of annual accounts and consolidated accounts [http://europa.eu.int/eur-lex/en/com/pdf/2004/com2004\\_0177en01.pdf](http://europa.eu.int/eur-lex/en/com/pdf/2004/com2004_0177en01.pdf)

<sup>46</sup> FATF (2007) Third Mutual Evaluation On Anti-Money Laundering And Combating The Financing Of Terrorism: Greece, June 2007

<sup>47</sup> FATF (2007) *Money Laundering FAQ* Accessed 3<sup>rd</sup> December 2007 [http://www.fatf.gafi.org/document/29/0,3343,en\\_32250379\\_32235720\\_33659613\\_1\\_1\\_1\\_1,00.html](http://www.fatf.gafi.org/document/29/0,3343,en_32250379_32235720_33659613_1_1_1_1,00.html)

non-profit sector to prevent its abuse by terrorists. This Recommendation consists of the following elements:

- jurisdictions should review the legal regime of NPOs to prevent their misuse for terrorist financing purposes; and
- jurisdictions should ensure that NPOs are not used to disguise or facilitate terrorist financing activities, to escape asset-freezing measures or to conceal diversions of legitimate funds to terrorist organisations (FATF (27 March 2002)).

Country	Level of compliance
Poland, Malta, Slovakia, Greece	Not compliant
Lithuania, Slovenia, Cyprus, Finland, Ireland, Sweden, Czech Republic	Partially compliant
Denmark, Italy, Portugal, Spain, UK	Largely compliant
Latvia, Belgium	Compliant

Source: FATF, Moneyval

**Table 2: Levels of compliance with SR 8 of FATF's Nine Special Recommendations**

Although the criteria used to assign the level of compliance in the evaluation reports sometimes do not appear to be consistent, generally the FATF reports seem to imply that most Member States had not undergone a review of their non-profit sectors, and very few have introduced anti-terrorist finance measures fully compliant with FATF recommendations. (FATF 2005, 2006, 2006a, 2006b, 2006c, 2006d, 2006f, 2007, 2007a, 2007b; Moneyval 2005, 2006, 2006a, 2006b, 2007, 2007a, 2007b, 2007c)

## 3.2 Delphi survey findings

### 3.2.1 Methodological issues

A Delphi survey seeks to aggregate expert opinion. The absolute number of experts is not as important as the breadth and depth of the group's knowledge and experience. In this survey contact details for 170 known authorities working in appropriate fields across the EU were collected. They all received copies of the questionnaire reproduced in Appendix 1.

Fifty completed questionnaires were received, which equated to a 30 per cent response rate. At least one response was received from each Member State except Latvia, Luxembourg and Cyprus. In the cases of Cyprus and Latvia, law-enforcement respondents provided written answers indicating that they had no knowledge of cases of NPO abuse, nor did they consider it an issue of concern. In the case of Luxembourg the team experienced difficulty in obtaining responses from experts. Notwithstanding the small sample size, the research team attempted to extract the maximum amount of useful information from the data generated. Where caution is needed in interpreting the results, appropriate warnings are provided.

The questionnaire was developed on the basis of knowledge and experience gained in the preceding phases of the work. The precise format of the questions is reproduced in Appendix 1.

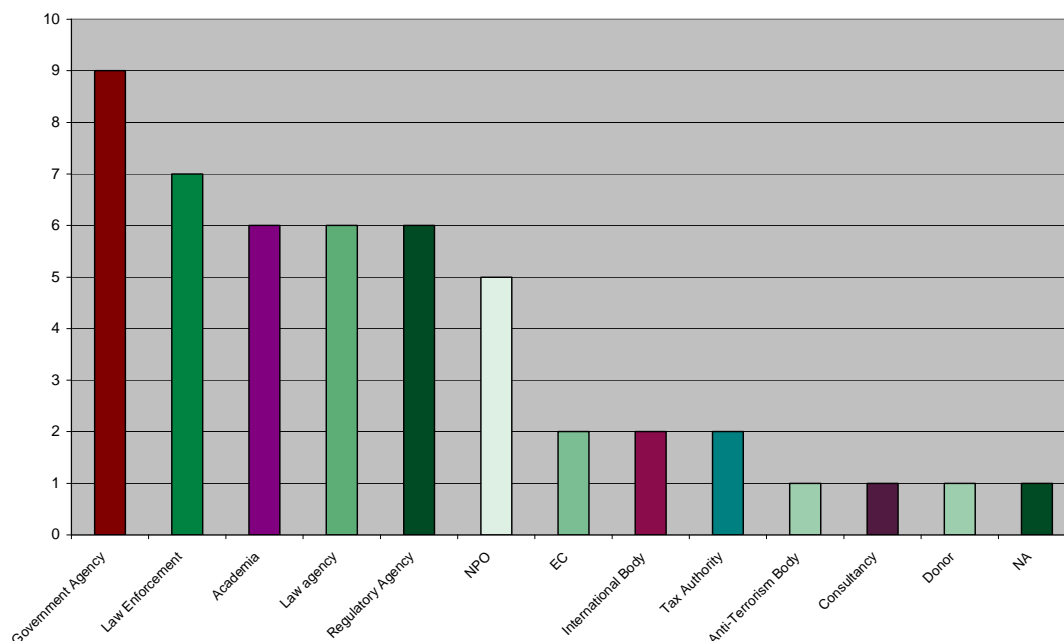
### 3.2.2 Respondents to the Delphi survey

Replies were received from at least one respondent in each of the countries shown in Table 3.

<b>Old Member States</b>	Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom
<b>New Member States</b>	Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia
<b>Other</b>	Norway

Table 3: List of countries represented in the Delphi survey

The experts from whom replies were received described their roles/organisations as shown in Figure 6.



**Figure 6: Delphi survey respondents' organisations (number of respondents)**

Approximately half the sample worked directly with NPOs. New Member State respondents were less likely to work directly with NPOs than Old Member State respondents (33 per cent versus 55 per cent).

Despite the somewhat disappointing overall response rate, the level of coverage achieved and represented in Table 3 is wide. It is also commensurate with the investment of resources indicated in the original proposal. Given that the Delphi survey is a qualitative exercise, the response rate is not a critical factor to the validity of the findings presented in the following sections.

### 3.2.3 Structure of the Delphi survey findings

In Section 3.2.4, the findings are presented in a way that allows the responses of those from New Member States to be contrasted with those from Old Member States<sup>48</sup>. There are, of course, many comparisons that could be made. This one was chosen because in much of the discourse about regulation and governance in the EU, it is this distinction that is often cited as an important predictor of observed differences in administrative and political behaviour. Also, in Old Member States, the NPO sector is better funded and more developed than in the majority of New Member States. Therefore, the New and Old Member States variable could be seen as a proxy for other factors and characteristics of the NPO sector in the EU.

<sup>48</sup> New Member States represented in the survey include: Bulgaria, Czech, Republic, Estonia, Hungary, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia. Old Member States include: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, and United Kingdom. Norway, although not an EU Member State was included for analytical purposes in the category Old Member States.

A comparison was also made between respondents who work directly with NPOs and those who do not because those working directly with NPOs would be expected to have a more intimate knowledge of the subject of this research. All other graphs, where no specific groups are identified, represent aggregate findings for the group of respondents as a whole.

Findings have been organised under the following headings to facilitate overview:

- Level of concern, examples and estimates of impact;
- Examples of abuse;
- Threats;
- Sources of vulnerability in NPOs;
- Agencies dealing with NPO matters;
- Approaches to addressing financial abuse of NPOs; and
- Effectiveness in dealing with financial abuse of NPOs.

Tables and graphs have been condensed to capture essential information and summary captions used to simplify presentation. Readers are referred to the questionnaire, shown in Appendix 1, for more accurate descriptions of questions and answer categories. In presenting comparisons, appropriately based percentages are used rather than absolute numbers. This is to facilitate visual comparison and to avoid mistakes in interpretation that can occur when such an exercise is conducted with raw numbers.

All of the graphs in the next section are based on the answers of 50 respondents (n=50). To avoid additional complexity, and due to the fact that some results are presented in absolute numbers (rather than share of respondents), the number of respondents (n) is not provided under each graph, as it is traditionally done

### 3.2.4 Delphi survey findings

#### Level of concern, examples and estimates of impact

At the most general level respondents were asked to report on their level of concern about the financial abuse of NPOs in their countries:

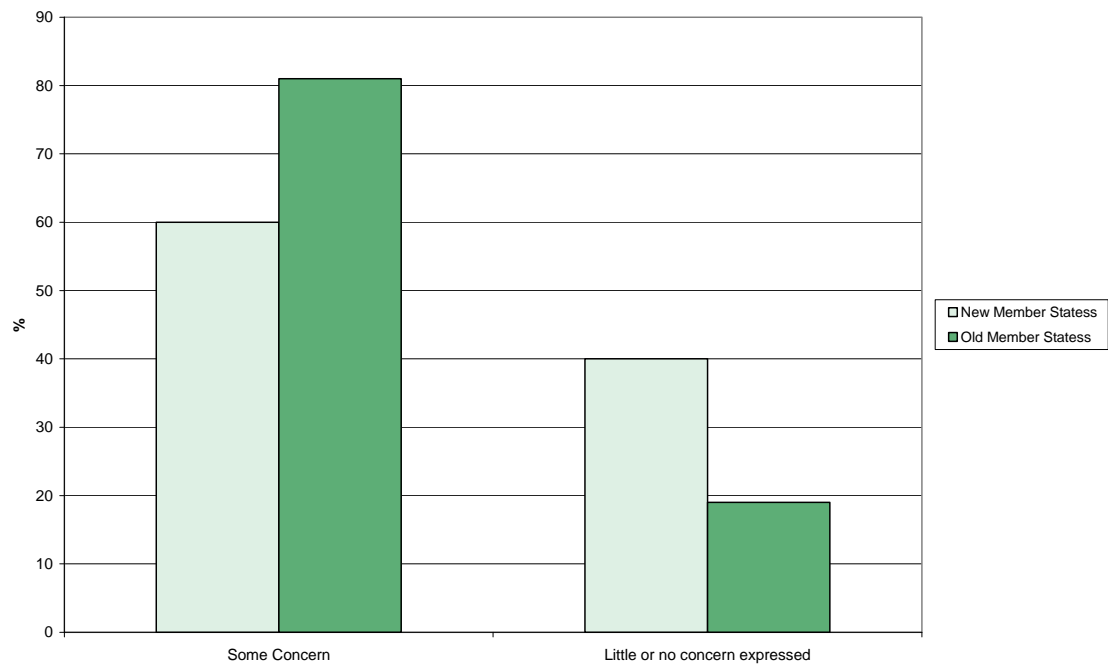


Figure 7: Expression of concern about NPO abuse

Old Member States were more likely to express concern but as already noted more respondents from the Old Member States have direct contact with NPOs and closer contact is associated with concern.

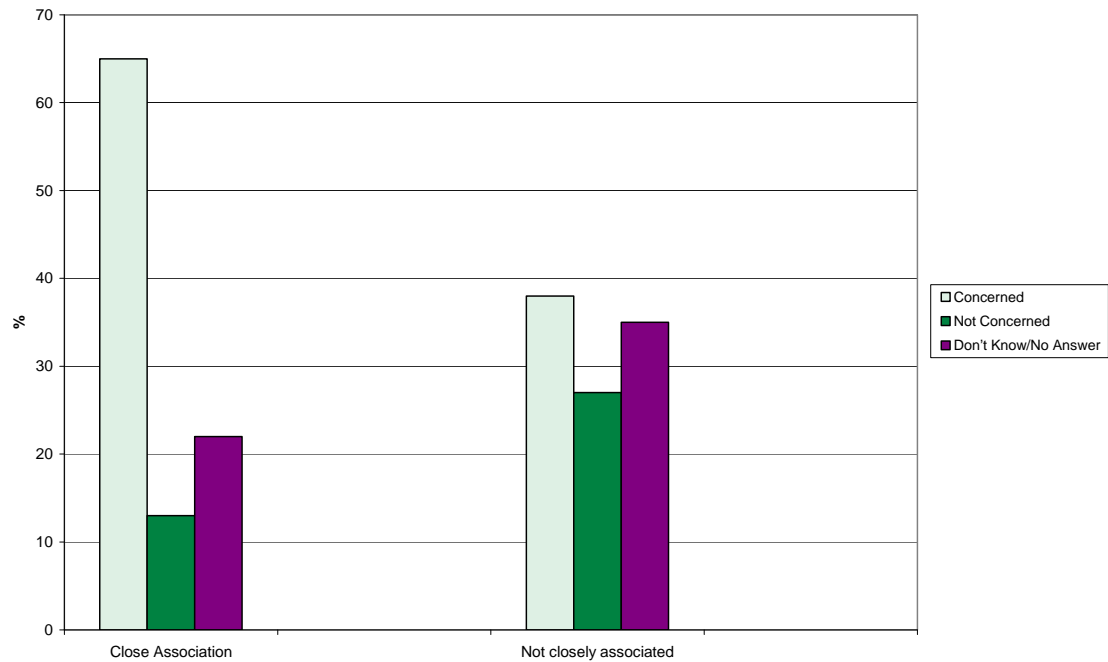
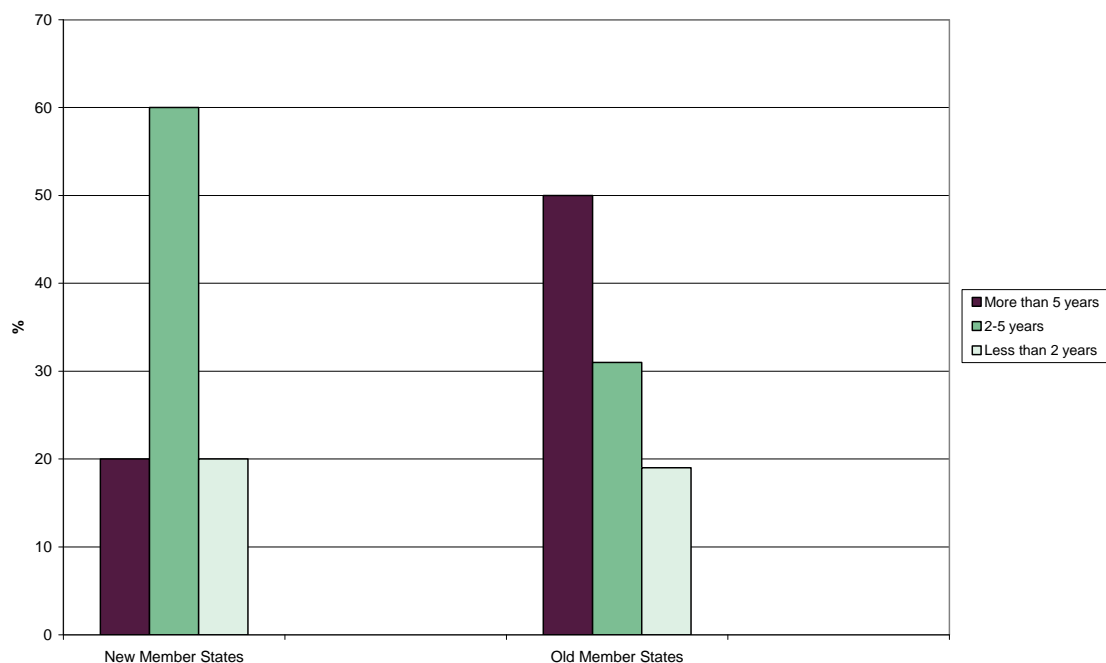


Figure 8: Concern about abuse and association with NPOs



It should also be noted that respondents whose work does not bring them into direct contact with NPOs tended to answer “Don’t Know” or give no answer at all to the question in Figure 8.

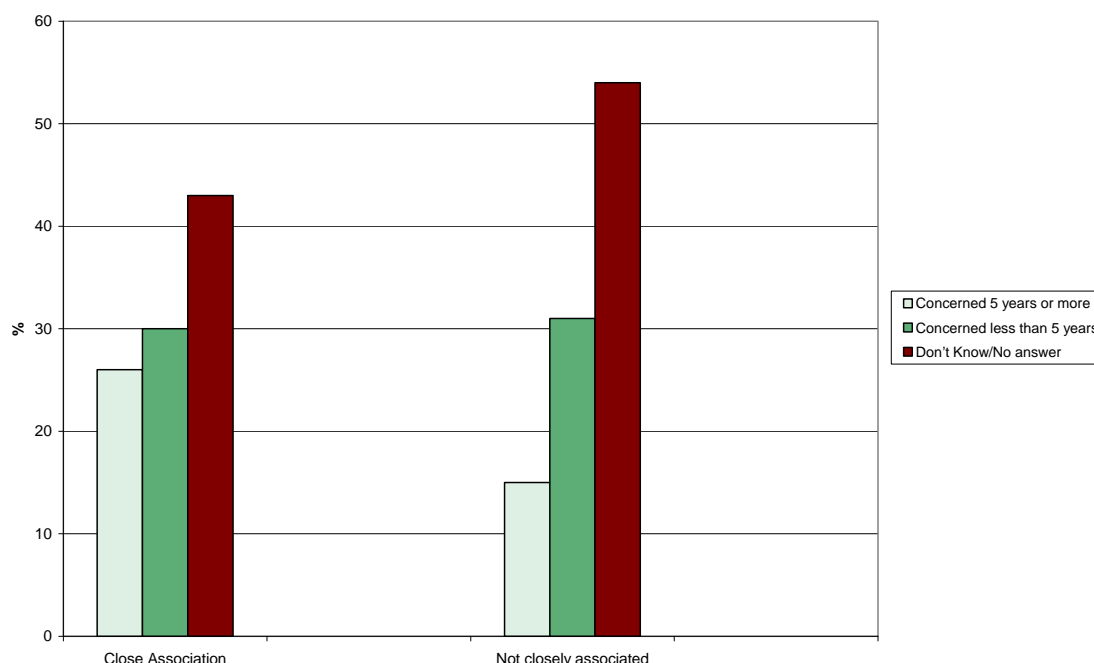
The question of how recent or long-standing concerns are for those who expressed them was also addressed. For those who expressed concern, the results shown in Figure 9 were obtained.



**Figure 9: For those concerned, frequency of threat**

Joining the EU has probably had an effect on newer entrants’ awareness of the problems associated with financial abuse of NPOs.

Direct contact with NPOs also had an effect on the length of time that respondents have been aware of their concerns, as shown in Figure 10. While one-third of all respondents said that their concerns about abuse were less than five years old, those directly involved with NPOs were more likely to have had their concerns for longer. There was a particularly striking level of non-response from respondents not directly involved with NPOs, suggesting that these individuals have a perception that they were not qualified to judge.



**Figure 10: Duration of concern and association with NPOs**

### Examples of abuse

While the majority of respondents were reluctant to cite examples or quote estimates of the financial impact involved in the examples of abuse that they quoted, there were some intriguing differences between the sub-samples.

Only 16 per cent of all respondents said that they knew of either “quite a few” or “many” examples of abuse. However, this is 50 per cent of those saying that they knew of an example. In other words, where respondents have personal evidence of abuse their estimates of incidence are higher<sup>49</sup>.

Of those who stated that they knew of examples of abuse (23 out of 50, ie 46 per cent) 10 were willing to provide an estimate of financial impact. Half said the impact was €1-5 million; the remainder said less than €1million. Those from Old Member States were more likely to know of higher impact abuse examples.

All those answering the question thought that the incidence of abuse had either stayed the same or marginally increased. The sense of an increase was greater among New Member State respondents.

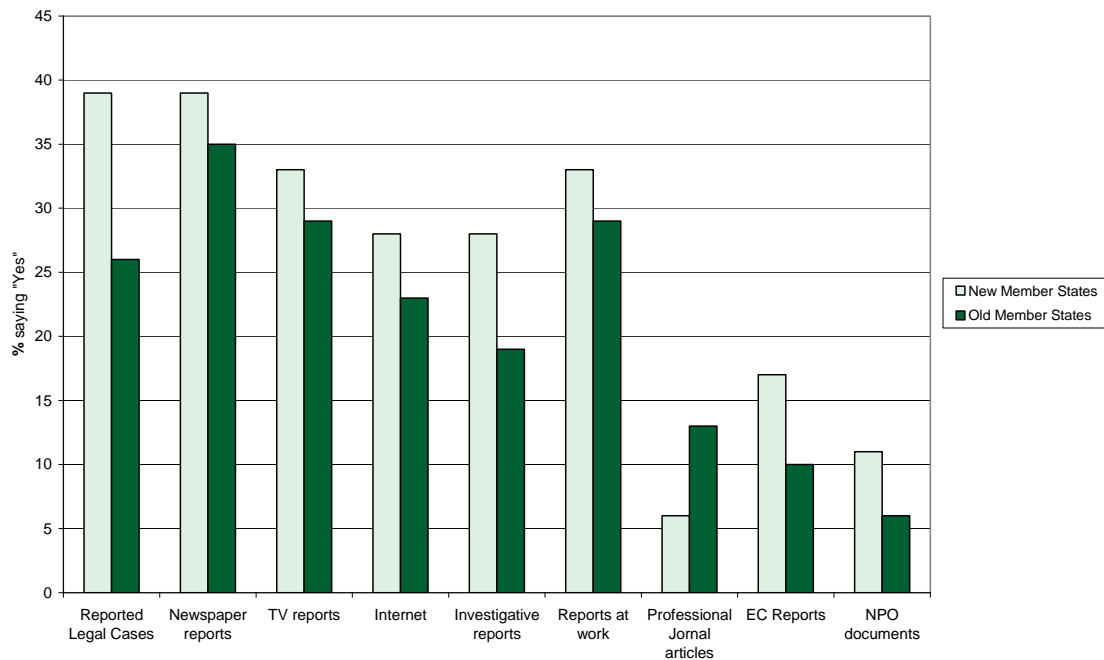
While it would have been helpful to use these answers to construct an estimate of the financial impact of NPO abuse across the EU, the level of non-response is too high to make that

<sup>49</sup> Though we cannot infer that all countries would have high estimates if they had personal evidence that at least one abuse occurred, it could equally be argued that experiencing abuse makes people overestimate incidence.

scientifically defensible. For the same reason, it is difficult to make any reliable qualitative interpretation of these results.

### Sources of information about NPO abuse

Respondents were asked to indicate where they obtained their information about NPO abuse, and their answers are summarised in Figure 11.

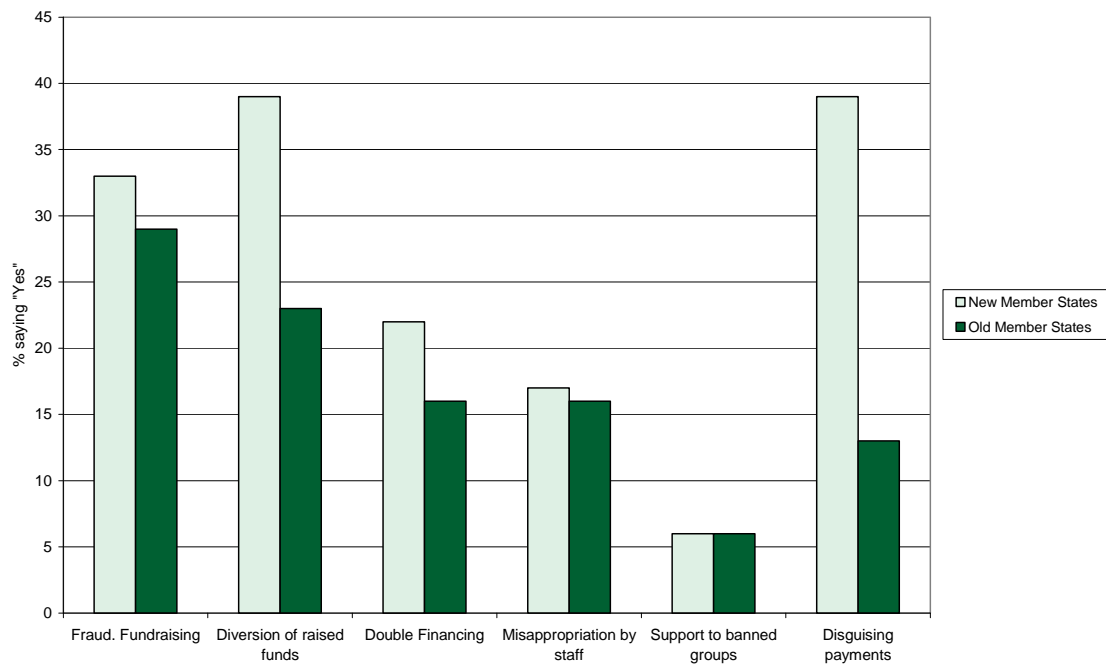


**Figure 11: Sources of information about abuse**

Media sources and legal case reports were most frequently cited. However, reports obtained at work were also cited by one-third of respondents. The most frequently cited sources were popular rather than professional in character. As with other questions, respondents from New Member States were more likely to provide answers and so appear to cite all the response categories more frequently. The opinions of those directly involved with NPOs do not differ from the rest.

### Threats

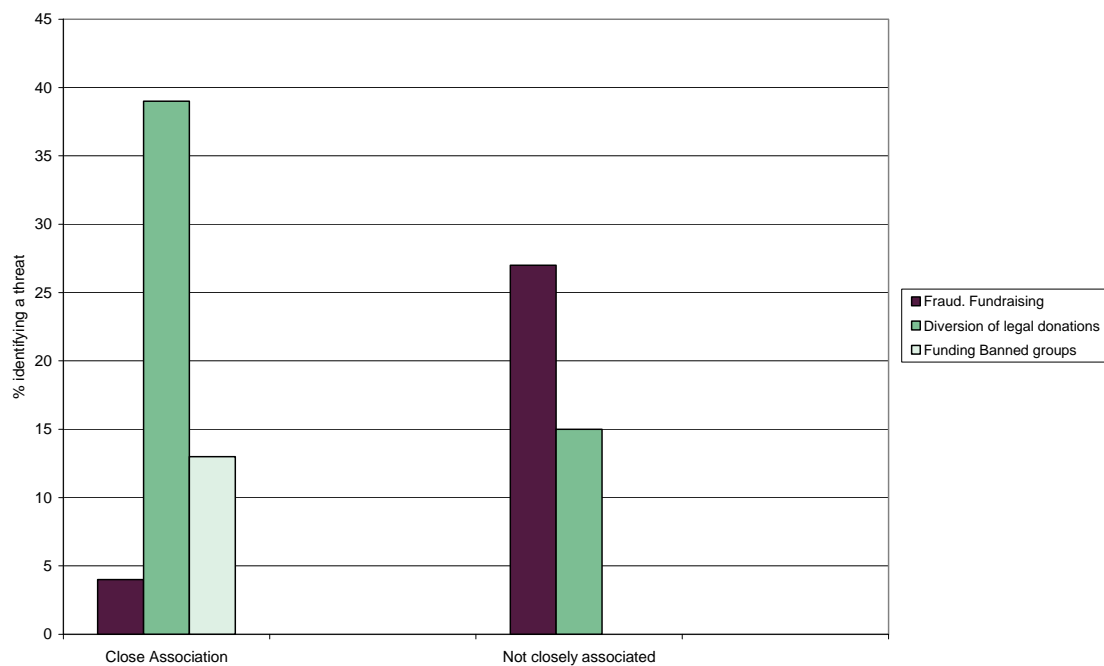
One of the most important tasks that the expert group was expected to perform in this study was to estimate the relative importance of the various generic sources of threat affecting NPOs. A set of threat categories (shown in Figure 12) was compiled from Matrix's analysis of the literature and interviews with stakeholders.



**Figure 12: Source of threat**

One-third of respondents cited fraudulent fund-raising, diversion of legitimately raised funds and the disguising of payments as threats. New Member State respondents cited diversion of legitimately raised funds and disguising payments to third parties significantly more frequently than respondents from Old Member States. If these judgments correctly reflect underlying behaviours, the pattern of threat may therefore be related to political and economic context.

Direct involvement with NPOs also affects the perception of threat as shown in Figure 13.

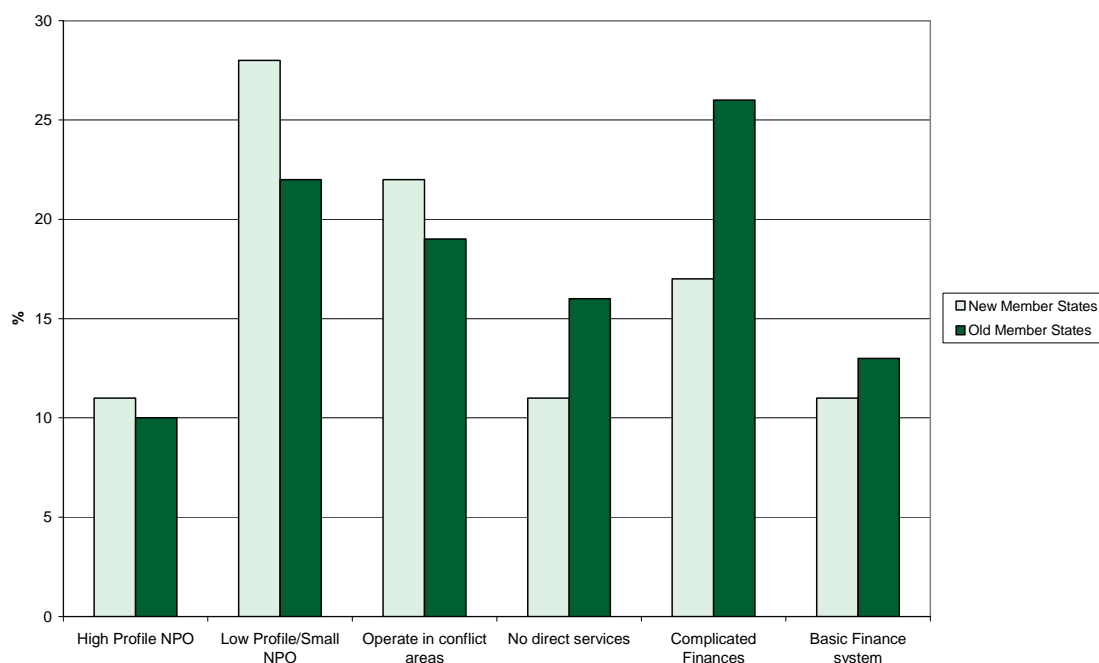


**Figure 13: Association with NPOs and threat perception**

A higher proportion of those working directly with NPOs cited diversion of legitimately raised funds as a threat. Those who are not closely involved tended to cite fraudulent fund-raising more frequently. While this difference is something that can only be speculated about, the literature survey and some of the stakeholder interviews suggested that fraudulent fund-raising comes more readily to the notice of the legal authorities whereas those more in touch with NPO work appreciate how much legitimate fund-raising takes place, and this would tend to put cases of fraud in this area into perspective for them.

### Sources of vulnerability to threat in NPOs

There are a number of theories extant about what makes an NPO particularly vulnerable to financial abuse. Ideas gleaned from interviews and the literature review were used to test these theories with the perceptions of respondents, as shown in Figure 14.



**Figure 14: NPO vulnerabilities: % saying characteristic likely to create vulnerability**

Taking the sample as a whole, three categories of NPOs were cited by respondents as being “at risk”:

- small and not well-known NPOs (“low profile” NPOs);
- NPOs that operate in conflict areas; and
- NPOs with complex financial systems.

However there is no strong consensus. These threats are each cited by around 20 per cent of the sample.

New Member States’ respondents cited “low profile” more frequently than did Old Member States’ respondents. That trend was reversed in respect of financial system complexity. This might be expected, given the relative development of the sector in the two groups of countries concerned. Small, low profile NPOs (similarly, for instance, to small firms of solicitors who are most likely to become embroiled in fraud in the UK) tend to be trust-based, and therefore open to exploitation if staff or management are not trustworthy<sup>50</sup>.

Those who are in direct contact with NPOs have similar perceptions of the causes of vulnerability as those who are not.

### Agencies dealing with NPO matters

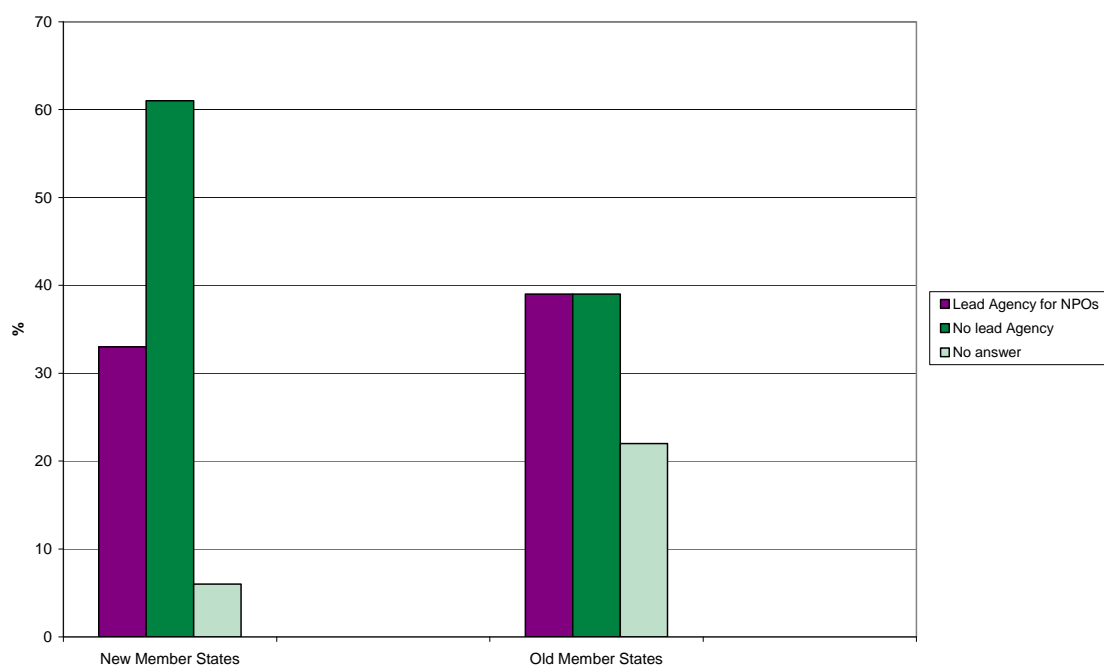
Detecting and preventing financial abuse of NPOs can theoretically be the responsibility of a number of different agencies. This is a field in which tax authorities, law enforcement agencies,

<sup>50</sup> Contrariwise, one might argue that if they have not been abused, they have saved the “unnecessary” cost of regulation.

specialist departments of government and financial regulators can all become involved. The presence or absence of a lead agency may be crucial to managing the threat faced by NPOs.

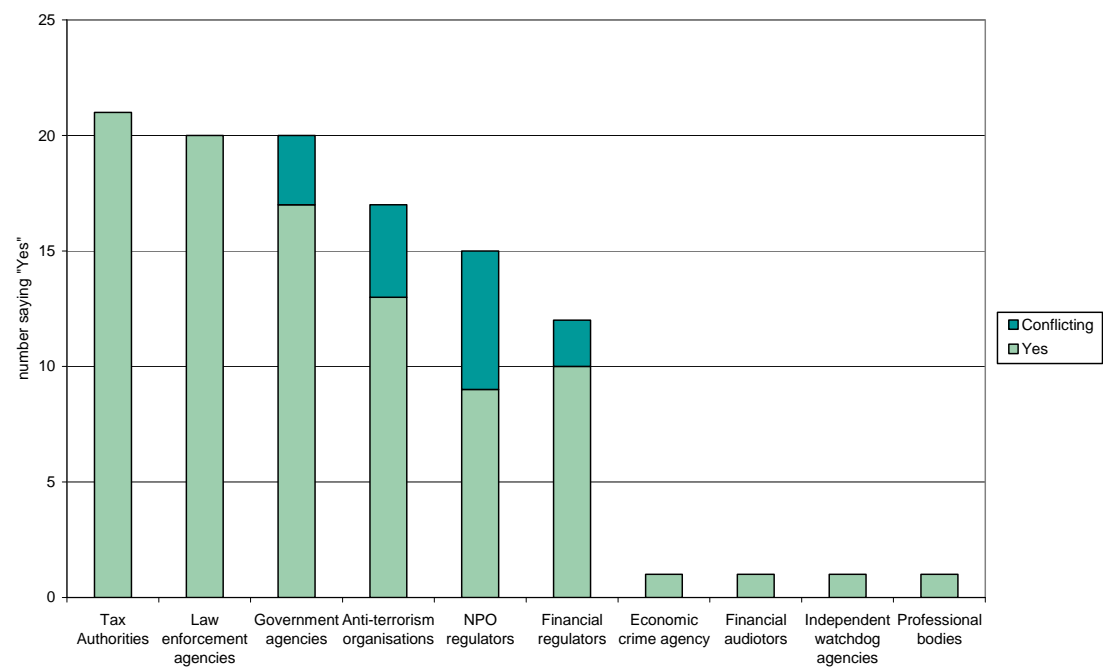
In fact, as shown in Figure 15, 48 per cent of the sample stated that there was no lead agency in their country and several respondents managed to contradict colleagues from the same Member State. It is safe to conclude on this basis that the administrative picture in this area is not clear.

A significantly greater proportion of new Member State respondents believe that there is no lead agency in their country. As would be expected, those directly involved with NPOs believe that there is a lead agency more frequently than those who are not, adding to the sense of confusion.



**Figure 15: Existence of a lead agency (%)**

Figure 16 indicates which agencies are perceived to be involved in the prevention and detection of NPO financial abuse. Where respondents from the same Member State disagree with each other, the proportion of conflicting responses is indicated by darker shading.



**Figure 16: Types of organisations involved in regulation in EU Member States (frequencies)**

As shown in Figure 17, there is consensus about the involvement of tax authorities and law enforcement agencies (78 per cent and 72 per cent, respectively, of the sample) but the remainder of the picture is less clear.

New and Old Member State respondents produce much the same pattern of response. However, more New Member State respondents answered the question, pushing up the percentage citing each category.



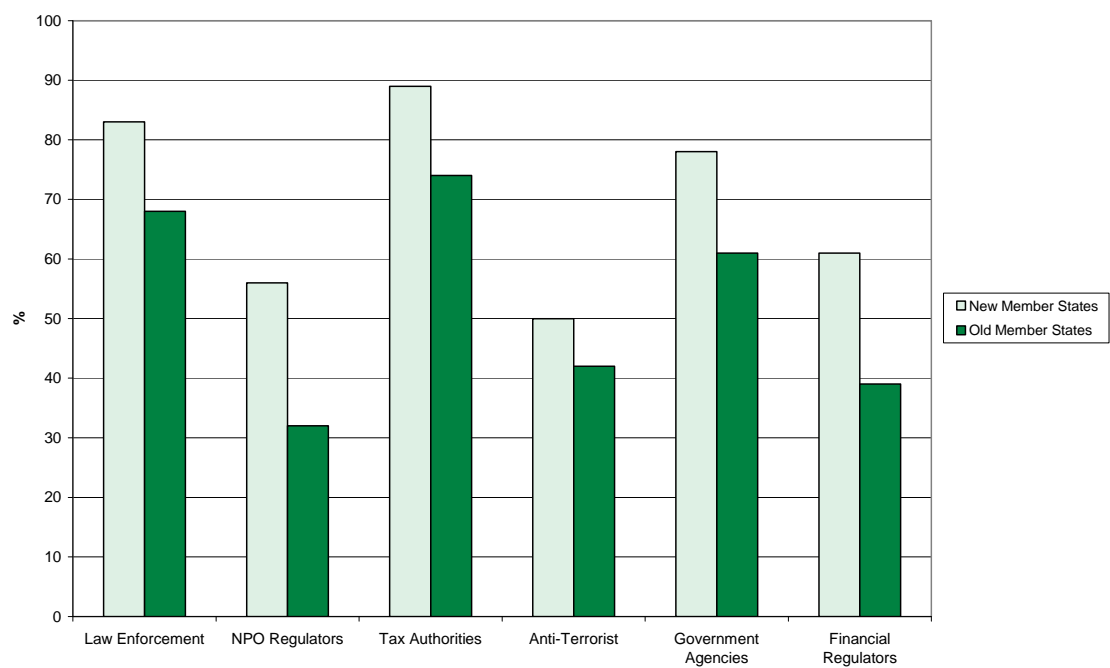


Figure 17: Agency involvement in NPO abuse prevention

Those directly involved with NPOs differ from those not directly involved in the extent to which they nominate the agencies shown in Figure 18.

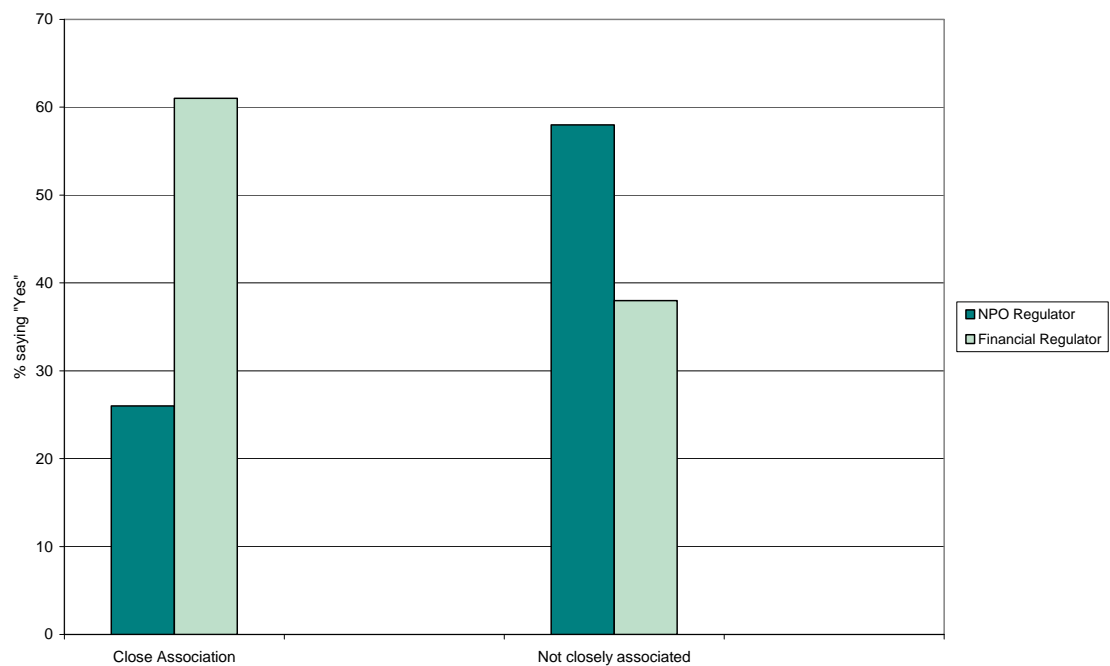


Figure 18: Association with NPOs and perception of involvement in NPO abuse prevention

It is expected that those most directly involved with NPOs would have the clearer picture of NPO regulation and administration. If this is the case then there are special regulatory bodies that are not as well known as they might be at work in this field in a number of countries.

### Approaches to addressing financial abuse of NPOs

Seventy-four per cent of the sample cited “Regulation/legislation” as their country’s main way of addressing NPO abuse. The percentage endorsing a criminal justice strategy dropped to 66 per cent. It should be noted, however, that 53 per cent of the sample say that sharing information is their primary strategy.

New Member States appear to be more dependent on legislation and regulation and slightly less dependent on a criminal-law approach.

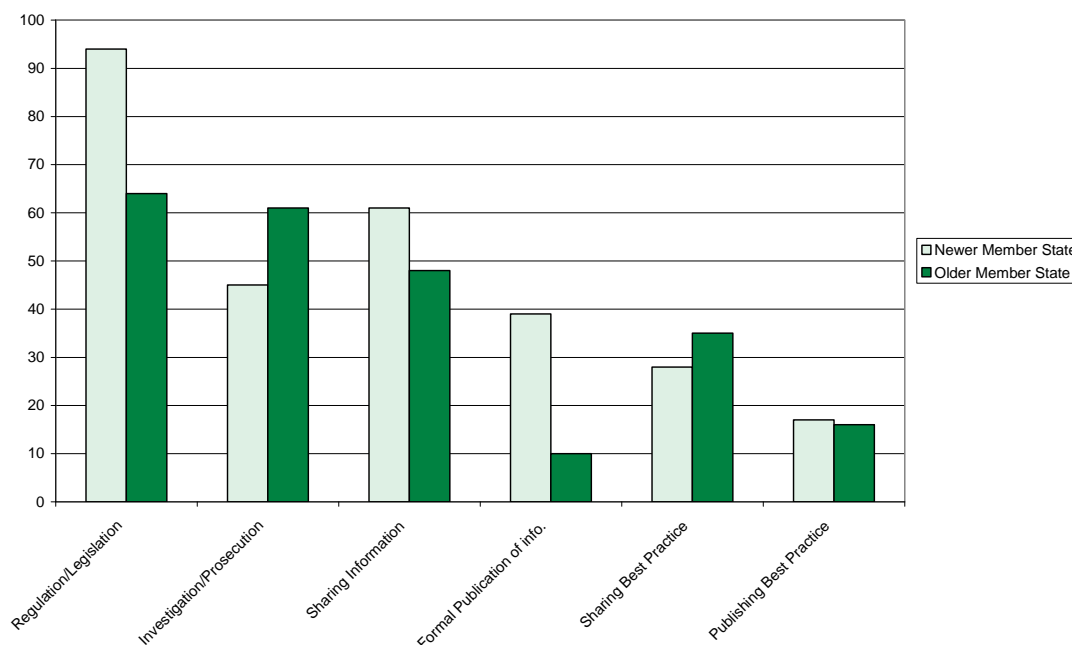
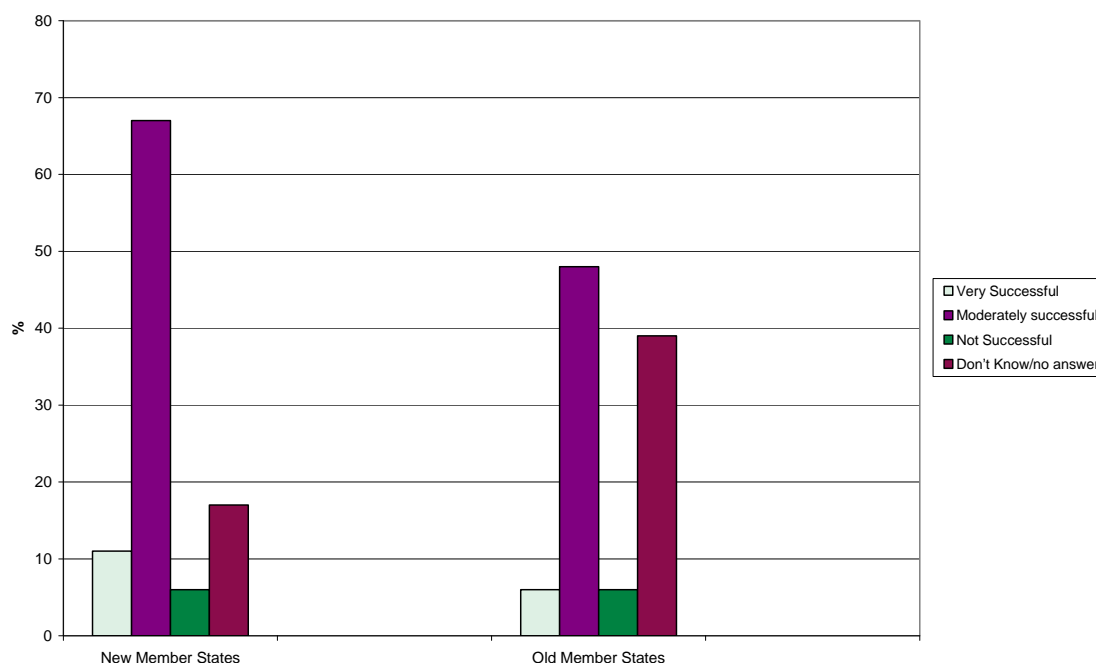


Figure 19: Addressing NPO abuse: main approach (% saying yes)

Those who work directly with NPOs have the same pattern of views in response to this question as those who do not.

### Effectiveness in dealing with financial abuse of NPOs

In summary, 62 per cent of the expert group thought that their countries were doing a moderately successful job in dealing with abuse. However, 30 per cent failed to provide any opinion and non-response was more prevalent among those from Old Member States than from New Member States. This is shown in Figure 20.



**Figure 20: Effectiveness in dealing with abuse (%)**

New Member State respondents are marginally more optimistic than their Old State Member colleagues. Those who are closely involved with NPOs and those who are not do not differ in their patterns of response to this question. These assessments are highly equivocal and they should probably be treated with caution.

### 3.3 Case history archive

The archive of case histories, generated from the various phases of the research, has been classified according to the system model of NPOs and their vulnerabilities as outlined in the methodology section. The cases are presented under the following headings:

- Input abuse;
- Internal abuse; and
- Output abuse.

#### 3.3.1 Input abuse

NPOs are vulnerable to fraudulent fund-raising by the full range of means available including the internet and media-based appeals. Fraudulent fund-raisers can either attach themselves to a legitimate NPO and siphon off funds, or they can create plausible but essentially false NPO-like front organisations to engage in fund-raising activities. Fraudulent fund-raising can also be managed by impersonating legitimate fund-raisers or stealing their identity either directly or via the internet. Where the object of fund-raising is self-evidently worthy, donors are less likely to

question the integrity of the organisation's infrastructure or the real identity and purpose of fund-raisers they encounter either in person or in cyberspace.

Apparent donors can misrepresent their motives for providing financial assistance or depositing funds with NPOs. The true aim may be to launder funds obtained by criminal activity. Money laundering – “the process by which criminal proceeds are sanitized to disguise their illicit origins”<sup>51</sup> – requires the initial deception to be coupled with a fraudulent means of recovering money or assets from the NPO once the laundering process has been completed. Engineering the recovery process can involve complex manoeuvres. Alternatively, terrorist financing can involve simply distributing the proceeds of any crime (as well as legally obtained income) via the NPO, and the “recovery” is the overall aim of the group.

From the Delphi survey, it has already been established that this is perceived to be the most common form of abuse by the sample of experts (mentioned by 30 per cent of respondents as a threat or significant threat). However, money laundering was perceived to be a rare threat in the UK victim survey carried out by PKF (2007). The survey does not make it clear whether this perception of money laundering as a large risk was merely a conventional wisdom accepted without independent evidence. This possibility cannot be excluded. But unless the proceeds of abuses are all immediately consumed (in the economist's sense), they will be laundered in the legal sense of “concealed and disposed of”.

### 3.3.2 Internal abuse

NPO employees, volunteers with privileged access to records and documents, contract staff and agents may all abuse their position of trust to create pecuniary advantage for themselves or associates (including family). Internal financial abuse of NPOs, whether perpetrated by outsiders masquerading as persons in trust positions, insiders, or collusive groups, has much in common with all other forms of fraud and embezzlement.

As observed from the Delphi survey data, the diversion of legitimately raised funds is seen as a particular threat to NPOs. Those who work closely with NPOs are more likely than others to cite this as a significant threat. The financial controls of smaller NPOs tend not to be highly developed. Many smaller charitable organisations engaged in fund-raising deal with cash in such a way that the trail from donor to legitimate organisational expenditure is not properly recorded or monitored. Small donors do not expect to make such checks and many NPOs will not want to expend the effort necessary to maintain high standards of accounting and governance. Moreover there is an acknowledged sense in which NPO staff and associates are “to be trusted” because they are working in an ethical environment motivated by a degree of altruism.

Many NPOs are run with small staffs and significant roles operate with a high level of discretion and a low level of close oversight. Registration, publication of accounts and similar monitoring and transparency devices are relatively new across the EU and compliance with regulations is not yet at optimum levels.

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<sup>51</sup> Oxford Dictionary of Law Enforcement, p.244

Synthesising the results of the literature review, the research team has identified the following internal abuse threats as particularly relevant to this study:

- abusing trust to manually override systems of internal control;
- creating false documents, particularly false invoices;
- manipulating petty cash, checking accounts, credit card arrangements and expenses for personal gain or gain through a third party; and
- using the NPO's assets, the employment itself, the organisation's credit or goodwill for personal benefit including arranging for the payment of excessive salaries or the provision of inappropriate personal loans.

It has been noted that either by cyber-means or by identity theft, outsiders can masquerade as persons of trust within an NPO and benefit thereby. For example a person with criminal intent and no connection with an NPO can steal identity papers, forge details obtained illegally or hack into a secure computer system as if they were a trusted official of the organisation.

To complete the picture, there are a number of important collusive relationships between insiders and others that can create the potential for fraud. Collusions between insiders and the following are particularly important:

- third-party companies and individual service-providers: to facilitate false invoicing and overcharging;
- individuals: to curry political favour or for other corrupt purposes; and
- officials: for corrupt purposes or to create political advantage.

Staff and associates may act collusively through third parties who may themselves use agents or impersonate others by identity theft or by hacking into secure IT systems.

### 3.3.3 Output abuse

Charitable disbursements are quite different from other forms of contract. The goods and services being provided are free at the point of delivery. While there is a clear obligation to show donors that the objects of the NPO for which the donations have been made are being attained, there is rarely a simple quantitative relationship between donation, charitable activity and value of the end product, as there would be for an investor in a limited liability company or a public company. This is largely but not exclusively because the objectives of many NPOs are couched in non-material terms (relieving poverty and suffering, furthering religion, enriching the quality of life, etc). The lack of a quantifiable relationship between inputs and outputs is likely to be especially obvious where the emotional appeal of the object is compelling and difficult to attain. As already noted, this type of NPO object provides an effective disguise for criminality at several stages in the NPO business process.

NPOs can be either set up initially or suborned later into promoting or otherwise supporting terrorist and criminal objects. Existing NPOs can be re-engineered for these purposes by being suborned as a part or branch of an otherwise ethical organisation. NPOs could also be taken

over or infiltrated by an organisation that exists in a suitable location or has particular characteristics that make it appropriate for such corruption. Where local conditions permit it and even where the regulatory climate is harsh, NPOs can be created with ambiguous objects that fulfil the letter of the regulatory law while offering ample opportunity for the diversion of outputs in a way that will give support to terrorist or criminal causes.

The United States Treasury research on terrorist financing already describes the following types of abuses as the most common:

- establishing front organizations or using charities to *raise funds* in support of terrorist organizations;
- establishing or using charities to *transfer funds, other resources, and operatives* across geographical boundaries;
- defrauding charities through branch offices or aid workers to *divert funds* to support terrorist organizations; and
- leveraging charitable funds, resources, and services to *recruit members and foster support* for terrorist organizations and their ideology<sup>52</sup>.

Given the small amount of money required to finance a single terrorist attack, the prevention of financing of a particular attack – once planned – appears to be an unrealistic goal, hence priority is given to financial investigations into the money trail left by terrorists (Europol 2007). UK law enforcement officials distinguish between four key ways that terrorists can abuse the non-profit sector:

- raising money;
- storing money;
- moving money; and
- spending money<sup>53</sup>.

Their operational efforts focus on preventing fraud along these lines. Monitoring and controlling fraudulent spending is seen as the most challenging of the four tasks as it often takes place beyond the jurisdictional boundaries of law enforcement officers. There is therefore a pragmatic emphasis on the first three forms of abuse.

This analysis is similar to that published by the United States General Accounting Office (2003).

The link between NPO outputs and terrorism can arise in a number of ways, including the following:

- terrorist organisations active in hostile environments may charge NPOs fees to allow them to operate or to pass by certain routes;

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<sup>52</sup> United States Treasury, *Typologies and Open Source Reporting On Terrorist Abuse of Charitable Operations In Post-Earthquake Pakistan And India*. [http://www.treas.gov/offices/enforcement/key-issues/protecting/docs/charities\\_post-earthquake.pdf](http://www.treas.gov/offices/enforcement/key-issues/protecting/docs/charities_post-earthquake.pdf)

<sup>53</sup> Interviews with representatives of a law enforcement agency, November 2007.

- trustees of small NPOs may misappropriate funds or even capture a legitimate charity for their own concealed criminal or terrorist ends;
- where there are lax controls, sham NPOs can be created to collect money directly to finance terrorism, or where controls are more effective, the nature of the NPO can be disguised behind actual or sham legitimate NPO business; and
- NPOs can be used to conceal terrorist education behind similar or congruent legitimate charitable activities<sup>54</sup>.

### 3.3.4 Case histories

The case histories that have been collected from the literature review, from interviews with stakeholders and from written correspondence with experts are exemplars of the classes of abuse in the typology. Table 4 shows the classification of case histories identified throughout the research. The numbers listed after each type of fraud correspond to relevant case studies.

Actor Process	Outsiders	Insiders	Collusive groups
<b>Input</b>	<ul style="list-style-type: none"> <li>• Fraudulent impersonation of legitimate fund-raising/grant application (1,2,8)</li> <li>• Misrepresentation and fraud by commercial enterprises claiming to be raising funds (3,4)</li> <li>• Misrepresentation by donors for money laundering or undue influence purposes (9,10)</li> </ul>	<ul style="list-style-type: none"> <li>• Dishonesty and fraud by staff and subcontractors in the fund-raising process</li> <li>• Fraud by staff and subcontractors/agents managing charitable enterprises</li> <li>• Use of the NPO for tax evasion (5,11,12)</li> </ul>	<ul style="list-style-type: none"> <li>• Collusion between legitimate fundraisers and outsiders or agents (7)</li> <li>• Collusion between internal charitable enterprise managers and outside commercial enterprise managers (6)</li> <li>• Tax evasion scams</li> </ul>
<b>Internal</b>	<ul style="list-style-type: none"> <li>• Cyber attacks</li> <li>• Impersonation of critical NPO role holders</li> <li>• Identity theft</li> </ul>	<ul style="list-style-type: none"> <li>• Manual overriding of internal controls to permit fraud (13)</li> <li>• False documenting/ invoicing (14,17)</li> <li>• Petty cash, credit card and expense fraud (15)</li> <li>• NPO cheque fraud</li> <li>• Purchase ledger fraud</li> <li>• Misuse/misappropriation of assets (12, 18)</li> </ul>	<ul style="list-style-type: none"> <li>• Fraudulent collusion re outsourcing, purchasing invoicing (16)</li> <li>• Collusive creation of false documents (19)</li> <li>• Collusive cyber attacks</li> </ul>
<b>Output</b>	<ul style="list-style-type: none"> <li>• False/misleading applications for financial support</li> <li>• Secondary internal NPO abuse (where NPO A gives aid to NPO B and that aid is</li> </ul>	<ul style="list-style-type: none"> <li>• False/misleading accounts of charitable disbursements (20, 22)</li> </ul>	<ul style="list-style-type: none"> <li>• Collusion to falsify or mislead over charitable disbursements (21)</li> </ul>

<sup>54</sup> UK Government official.

Actor Process	Outsiders	Insiders	Collusive groups
	misappropriated internally or collusively)		

**Table 4: Classification of the case archive of financial abuses in NPOs**

The archive of cases provides satisfactory examples of most of the classes of abuse postulated in the typology. However among the classes of input abuse, there are no examples involving fraudulent behaviour by commercial enterprises used to raise funds (such as charity shops, sporting event promoters, etc) and no examples of fund-raising fraud by NPO staff acting alone or with others. This tends to confirm the view of those Delphi respondents who work directly with NPOs that diversion of funds (which is classed as an internal abuse) is more of a threat than fraudulent fund-raising is.

There is no prime example of a collusive tax scam but the tax abuse examples involving insiders have may have revealed a collusive element if more detail had been available for analysis. At the internal level, there are no examples of cyber attack or identity theft but all other classes are well represented.

With respect to output abuse there are good examples of diversion to banned or suspect groups and false accounting. There is no example of financial abuse involving a corrupt chain of NPOs. However this form of fraud could emerge in conflict areas or inaccessible locations where EU-based charities collaborate with local organisations for which it is impossible to perform due-diligence investigations.

### 3.3.5 Case histories: examples of input abuse

#### Case 1. UK: Bogus charities involved in tsunami reconstruction

Bogus charities distributed misleading leaflets in the Midlands and the south of England, asking for clothing and cash. According to the UK Charity Commission, similar scams amounting to more than £1 million sterling were reported last year by two genuine charities, one of which lost 10 per cent of its potential revenue through clothes allegedly collected on its behalf and then diverted. The commission provided the *Financial Times* with a copy of what it described as a misleading fund-raising leaflet from an organisation calling itself Global Concern being distributed in London, Lincolnshire, East Anglia, Leicestershire and Essex. The leaflet appeals for "clothes, linen, shoes, blankets - any item you feel might assist" the victims. It pledges to donate £100 per ton to the "Appeal Fund" in the case of unsuitable items. There is no record of Global Concern being registered as a charity or as a company at Companies House<sup>55</sup>.

#### Case 2. Belgium: Use of religious appeal to raise funds

<sup>55</sup> Burns, J., Fraudsters alleged to be cashing in on tsunami gifts, *Financial Times*, 7 Jan, 2005.



Within one week the account opened in the name of the NPO SAINT, on which Mr. BONI held power of attorney, was credited by cash deposits totalling a considerable amount. The money deposited in cash was used by the NPO SAINT to purchase property. Police sources revealed that Mr. BONI was known for fraud and breach of trust, to be involved in religious activities and to influence his followers like a sectarian guru. His activities yielded a substantial amount of money. Given these elements the money deposited in cash on the account of the NPO SAINT might have originated from the breach of trust and fraud committed by Mr. BONI, possibly involving his followers given his influence on them. The money was laundered by investing in property<sup>56</sup>.

### Case 3. Germany: Use of NPOs to generate income for related companies

Some publishing and advertising companies in Germany have aimed to increase their revenues through relationships with charities. Some of these companies or related individuals establish NPOs with the secret intent to increase their revenues and with a stated purpose to provide a charitable service, eg child protection awareness programmes. The association then attracts corporate sponsorship from local companies. Instead of implementing its programmes, the charity solely focuses on publications, such as quarterly brochures, usually of very low quality, and with little distribution. All the publishing contracts are over-priced and go to the related ("mother") company that has established the association in the first place. Therefore the association becomes simply a vehicle to generate company profits.

In a similar scheme, an association hires professional fundraisers who raise money door-to-door for good causes (e.g. for orphans or needy children). Donors are signed up to pay an annual donation, thus creating a steady flow of membership fees. The audit of the financial statements of such fraudulent associations typically show that 70-80 per cent of the budget goes back either to the advertising or fund-raising company that founded it, or to the individuals that carry out the fund-raising<sup>57</sup>.

### Case 4. Finland: Advertising company establishes fraudulent NPO

Fifty-six thousand, or one per cent, of the Finnish population donated money to a charity that was supposed to channel the money for the benefit of child cancer patients. The charity, Cancer Patients' Support, collected €2.5 million I. The fund-raising was managed through a company called Solia, which sold calendars via telephone sales to support the charity. The owner of Solia also was the head of Cancer Patients' Support. The funds were collected between 2002 and 2005. According to the prosecutor only one per cent (€26,000) of the funds were actually applied to supporting the child cancer patients. Solia made €2.1 million profit before tax. The man behind Solia and his business partner have been charged with serious fraud. Police started to investigate the story in January 2005 when a programme on TV criticised the fund-raising. The company had branches in many cities in Finland. Many members of the foundation claimed in court that they did not know the nature of the company's activity<sup>58</sup>.

<sup>56</sup> Belgium written submissions.

<sup>57</sup> Interview with German regulatory official, 18 Jan 2008

<sup>58</sup> Delphi survey respondent; Kerkelä, L. (16.10.2006). Syytetyt kiistivät syylistyneensä rikoksiin syöpätukikeräyksessä, *Helsingin Sanomat*.

#### Case 5. Hungary: Abuse of funds raised through public tax schemes

In Hungary taxpayers can designate one per cent of their annual tax dues for the benefit of a qualifying NPO. The NPO has to “raise” the funding from the taxpayers, who name the NPO in their tax returns. The tax authority then transfers the already collected funds to the NPO. Therefore, NPOs spend significant amounts of money advertising their causes to the public. The Gyermekrák Alapítvány [Children Cancer Foundation] was accused of purposefully using the tax scheme to raise and divert large sums. An audit showed that it could not account for significant amounts raised. No final verdicts have been issued yet on this case<sup>59</sup>.

#### Case 6. France: Diversion of funds via related companies

An audit of Cour des Comptes in France showed that one of France's largest charities, the Association for Cancer Research, with a 458millionfrancbudget (£60 million) in 1993, spent only 27 per cent of its budget on research. The rest went mostly to fund-raising and publicity. The auditors said that this was not what donors were led to believe when they gave to the charity. The auditors also criticised the ARC's relationship with a group of companies called International Development Communication, which produced the charity's brochures and magazines. They were paid almost 200 million francs in 1993. Evidence was found of massive overbilling, especially for paper. According to Libération, a related company set up in New York paid Crozemarie between 600 000 and 700 000 francs per year from 1990 to 1993.<sup>60</sup>

#### Case 7. Italy: Diversion of funds via double financing

In April 2003 an Italian public prosecutor launched an investigation into a NPO whose aims were to assist developing countries in cooperation with local NGOs and national or regional institutions. In this context, the organisation had received financing of almost €17 million from the national budget for 23 projects, and of €11 million from the EC for 28 projects. The judicial authorities seized a large number of documents during the investigation. They requested OLAF's assistance to examine details of the projects funded from both the Italian and EC budgets, since dual financing can only be demonstrated by an investigative process that involves both donors.

Investigations indicated that bank statements showing proof of payment for projects had been at times duplicated and falsified, especially where projects were being financed by different bodies in the same third country. Sometimes only half the sum was actually transferred. Other anomalies were identified such as references in the accounts presented to the donor agencies to fictitious supporting documents, duplication of supporting documentation for more than one project, unsigned invoices and procurement of goods through a commercial firm owned by the legal representatives of the non-profit making body<sup>61</sup>.

#### Case 8. UK: Bogus fund-raising using a highly emotive appeal

<sup>59</sup> European Centre for Not-for-Profit Law, Hungary: <http://www.ecnl.org.hu>

<sup>60</sup> Cours de Comptes, L'Association pour la recherche sur le cancer – Février 2005 – Dossier Presse. <http://www.ccomptes.fr/cc/documents/Fiches/DossierArc.pdf>, pp. 10-11.

<sup>61</sup> Report of the European Anti-Fraud Office, Fifth Activity Report for the Year Ending July 2004

The Dream Foundation (UK) was a charity set up to fulfil the wishes of dying children. It raised about £1.2 million over six years but only £320,000 of this was spent on its charitable purpose. A founder, with 17 years' charity experience, nominated his partner to become a trustee in the charity as he (the founder) was already bankrupt. Together they diverted money into personal and business accounts and used it to pay for trips to the United States, mortgage repayments and credit card bills. The judge found that they did not hold proper meetings, take proper minutes or keep proper records. They were convicted of conspiring to defraud the charity and theft, and were sentenced to imprisonment<sup>62</sup>.

#### Case 9. Belgium: Collusive misrepresentation of inputs for money-laundering purposes

A bank disclosed suspicious transactions, mainly consisting of substantial foreign transfers to several accounts held by the Belgian foundation (FOUNDATION) from various companies in Asia. This money was used for considerable expenses, substantial cash withdrawals and transfers to the personal account of Mr. SMO, who was employed by the FOUNDATION. Another personal account held by Mr. SMO with another bank was credited with various cash deposits in foreign currency (USD). The money credited to Mr. SMO's personal account was used for personal payments to various luxury goods shops. Mr. SMO also carried out cash withdrawals in Asia. These transactions, which totalled up to almost €1million, did not correspond in nature or scope to the normal activities of an NPO. In addition, the level of Mr. SMO's private expenditure did not seem to correspond to his socio-economic profile. Police sources revealed that under cover of the activities of the FOUNDATION, Mr. RICH smuggled Chinese nationals to Belgium to employ them in the EU. Mr. RICH was said to be the head of the trafficking enterprise and was advised by Mr. SMO. The company BELG, managed by Mr. RICH, was also used. The transactions could therefore be linked to the illegal activities (trafficking in illegal workforce) for which Mr. RICH and Mr. SMO were known and in which the FOUNDATION and the company BELG were involved<sup>63</sup>.

#### Case 10. UK: Donations used for money-laundering purposes

In the UK, law enforcement agencies began investigations when a missing bank cheque from a company chequebook was discovered to have been stolen and then reproduced nine times to pay different amounts to different payees. The highest value cheque, for £29,803, was payable to Z Hope International Charity Trust. A series of deposits and immediate withdrawals from the charity's account were tracked for the next few months. The deposits consisted of various amounts of money that were obtained through four main types of fraud: counterfeit or stolen cheques, advance fees or overpayments, cloned accounts, and lottery scams. When the bank asked the signatory to close this account, the defendant set up two further accounts in the charity's name, with two different banks. An estimated £40,000 was laundered through the charity account, and an arrest was made when the defendant attempted to withdraw £42,000 in cash. He was sentenced to 16 months imprisonment<sup>64</sup>.

<sup>62</sup> UK Charity Commission: <http://www.charity-commission.gov.uk/investigations/inquiryreports/dream.asp>

<sup>63</sup> Written submissions Belgian government.

<sup>64</sup> De Pablo, M., Sentencing in worldwide money laundering case, City of London Police, 10 November 2006. <http://www.cityoflondon.police.uk/CityPolice/Media/News/NewsArchive/2006/moneylaundering.htm>

### Case 11. Hungary: Using an NPO to avoid import tariffs

The Együtt Egymásért [Together for Each Other] Foundation was, according to the prosecution, set up to avoid customs obligations on various goods. It made duty-free food imports supposedly to help the poor. In fact it merely sold them to food wholesalers and retailers at below-market prices<sup>65</sup>.

### Case 12: Germany: Abusing non-profit tax status to disguise commercial activities

In Germany, a former university official and a scientist at Fachhochschule (FH) Gelsenkirchen were accused of corruption and subsidy and tax fraud. The Incubator Centre, a business start-up entity of the higher education body, had apparently been used since 2002 by professors and other scientists for misappropriation of public funds. Preferential tax treatment was obtained despite profit-making activities. The government's losses were estimated at €30 million. The Bochum public prosecutors investigated the case and this led to the arrest of several professors and research assistants, who have been on remand since March 2007<sup>66</sup>.

## 3.3.6 Case histories: examples of internal abuse

### Case 13. UK: Internal abuse of assets

The Risk Advisory Group, an investigation and intelligence consultancy, recalls working with an NPO: "We found three guys in the information technology department. One was running a property letting business, another was downloading counterfeit software and using the company's facilities to package it, and a third spent most of his time running a website devoted to sci-fi in the 1950s"<sup>67</sup>.

### Case 14. EU (OLAF): Investigation in development aid-related fraud

NPOs operating internationally are more vulnerable to fraud because oversight and monitoring are more difficult. OLAF recently investigated an NGO that was active in Central and South America. Amongst the findings were conflicts of interest, false declarations and control and accounting procedures that were not properly followed. OLAF informed the responsible EC service of the irregularities at an early stage of the investigation, thereby ensuring that timely safeguard measures could be put in place to prevent the loss of assets, as the beneficiary was in the process of dissolution. The EC service involved has issued recovery orders for an amount in excess of €720,000<sup>68</sup>.

<sup>65</sup> European Centre for Not-for-Profit Law, Hungary: <http://www.ecnl.org.hu>

<sup>66</sup> Subventionsbetrug. Anklage im Hochschulschandal, Arno Heissmeyer, Focus, 10 October 2007. [http://www.focus.de/finanzen/news/subventionsbetrug\\_aid\\_135480.html](http://www.focus.de/finanzen/news/subventionsbetrug_aid_135480.html); Landes-Beamter in U-Haft, Wilfried Goebels, Kölnische Rundschau, 3 May 2007 <http://www.rundschau-online.de/html/artikel/1178170574359.shtml>; Der Knast füllt sich. Betrugsskandal an der FH Gelsenkirchen, *Spiegel Online*, 27. March 2007. <http://www.spiegel.de/unispiegel/studium/0,1518,474270,00.html>; Skandal an FH Gelsenkirchen weitet sich aus, Der Tagesspiegel, 23 March 2007 <http://www.tagesspiegel.de/weltspiegel/Welt-FH-Gelsenkirchen-Veruntreuung;art118,1881046>

<sup>67</sup> Rigby, R., Menace of the cuckoo workers, *Financial Times*, 2 September, 2004.

<sup>68</sup> Report of the European Anti-Fraud Office, Sixth Activity Report for the Period 1 July 2004 to 31 December 2005.

#### Case 15. EU (OLAF): Investigation in development aid-related fraud

An OLAF investigation team operating in Italy uncovered a case where NPOs working in the field of international development had been submitting false expense claims over a 15-year period under an EU-financed programme and were acting for private profit<sup>69</sup>.

#### Case 16. UK: Use of bogus subcontractors in a collusive scam

A company subsidiary was set up to fund a charity and covenanted 90 per cent of its profits to the charity, Barnsley College Educational Trust. The secretary of the company conspired to defraud the company over a seven-year period using several bogus subcontractors. These subcontractors provided little or no service of any benefit to the company. Their purpose was to provide false invoices. The secretary obtained payment for work and services knowing that no such work had been done or services provided. He was ordered to pay a £470,053 confiscation order within three months or serve four years in prison<sup>70</sup>.

#### Case 17. Bulgaria: Diversion of funds via document fraud

In Bulgaria the former Muslim Religious Lead (Chief Mufti) was detained on suspicion of being involved in illegally withdrawing large sums from the accounts of the Chief Mufti Office. According to the Ministry of Interior, the son of the mufti presented a fraudulent power of attorney to the bank, allowing him to transfer approximately €300,000 from an account of the Chief Mufti Office to a charity, the International Philanthropic Foundation for the Development of Islamic Culture. The foundation was headed by the former mufti. The mufti's son, as well as the head of the Plovdiv Regional Mufti Office, denied the allegations, claiming that the arrest was politically motivated as the former Chief Mufti was about to announce various frauds in the current Chief Mufti Office. These revelations would have exposed corruption in one of the parties in the government coalition, the Movement for Rights and Freedoms. The present Chief Mufti, Selim Mehmed, also accused the former Chief Mufti Nedim Gendjev of having used the Chief Mufti Office carry out illegal import of poultry and defrauding the Chief Mufti Office of a further €100,000<sup>71</sup>.

#### Case 18. Slovenia: Payment of excessive salaries and soft loans

In 2002 the prosecution started an investigation into the Slovenian Red Cross, alleging that in 1998 its CEO signed fictitious sales contracts with a company of a former Red Cross associate, from which the company profited by about €330,000. In addition there were allegations that the Red Cross gave out low-interest loans to companies related to the CEO. The media also published a report of the management's excessive salaries and severance packages. The Red Cross CEO was acquitted after a prolonged lawsuit but the investigation and allegations severely undermined the public trust in the Red Cross<sup>72</sup>.

<sup>69</sup> Written submission, Agenzia per Onlus (The Agency for Socially Responsible Non-Profit Organizations).

<sup>70</sup> Serious Fraud Office, Cases of the Serious Fraud Office, UK: <http://www.sfo.gov.uk/>

<sup>71</sup> Sofia News Agency: [http://www.novinite.com/view\\_news.php?id=59271](http://www.novinite.com/view_news.php?id=59271); The Former Mufti Nadim Gendjev Detained, *Darik News*, 15 February 2006.; Arrest of the Former Chief Mufti Gendjev, *Sega Daily*, 15.02.2006

<sup>72</sup> Jakopec, M., "Mirko Jelenic is paid 137 000 euros", *Delo.si*, 12.09.2007  
[http://www.delo.si/index.php?sv\\_path=41.35.238835](http://www.delo.si/index.php?sv_path=41.35.238835); Corruption File, (2005) Shocking but expected end of the Red Cross affair, <http://www.dossierkorupcija.com/clanek.asp?NewsID=437>

### Case 19. Spain: Diversion of funds using accounting fraud

In Spain, Fundación Intervida, one of Spain's largest NPOs, is being investigated for the alleged embezzlement of €45 million meant for poor children in developing countries. Between 1999 and 2001, the accounts of the organisation showed expenses for "child sponsorship", while the investigators claimed that the money went to companies in Peru and Guatemala, called Asociación Solaris Perú, Edpyme Raiz, El Roure Construcciones, Argentina Inmobiliaria, Genéricos Farma-ahorro or Enriquecidos Lácteos' most of them related to the property business<sup>73</sup>.

### 3.3.7 Case histories: examples of output abuse

#### Case 20. UK: Disguising payments to terrorist organisations

A UK-based charity raised funds from local charitable donations and by receiving funds from other reputable charitable organisations and businesses. It is believed that this charity also raised funds from wealthy individuals in the Middle East. These funds were then transferred to country A through multiple jurisdictions via the traditional banking system, *hawala*, and by using cash couriers. These funds were destined to support attacks on UK or US interests in country A<sup>74</sup>.

#### Case 21. Belgium: Collusive arrangement to disguise support for an organisation having terrorist links

Charitable organisation A, established in Belgium, held several accounts on which its founder held power of attorney. The credit transactions consisted primarily of multiple transfers and cash deposits made by donors. The amounts involved in each transaction were small. The transfers included the same reference to donations from a Middle Eastern country. The debit transactions were substantial transfers to a charitable organisation B, established in Western Europe. The total amount of funds transferred was several hundred thousand euros. The information gathered showed that charitable organisation B was the parent organisation of organisation A and that organisation B was suspected of having links with a terrorist network. Furthermore, one of the contacts of organisation B appeared on the list issued by the United Nations Sanctions Committee<sup>75</sup>.

#### Case 22. Sweden: Development aid funding to Palestine

In Sweden a case involving collection of money to finance would-be suicide bombers concluded with a sentence B2965-04 of Stockholm court and B3687-05 of Svea court of appeal<sup>76</sup>. An Israeli prosecutor named similar charges against a number of other EU-based NPOs, including Human Appeal International and Interpal from the UK, the French CBST, the Italian ABSPT and

<sup>73</sup> Crawford, L. (2007), Spain's NGOs in turmoil over embezzlement claims, *Financial Times*, 10 April 2007.; El Pais (2007) Anticorrupción investiga a Intervida por desviar fondos del apadrinamiento de niños, *El Pais*, 03 April 2007

<sup>74</sup> UK Home Office and Treasury (2007), *Review of Safeguards to Protect the Charitable Sector (England and Wales) from Terrorist Abuse: A Consultation Document*. UK Home Office and Treasury, May 2007.

<sup>75</sup> Written submissions Belgian government.

<sup>76</sup> Written submission, Ministry of Finance, Sweden.

the Al-Aqsa Foundation, which operates in Austria, Belgium, Denmark and Sweden, all of which went to support various activities in Palestine<sup>77</sup>.

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<sup>77</sup> Silver, E. (2005) 'Charity cash for Palestinian poor was siphoned to suicide bombers', *The Independent*, 28 November 2005. <http://www.independent.co.uk/news/world/middle-east/charity-cash-for-palestinian-poor-was-siphoned-to-suicide-bombers-517209.html>



## 4.0 General view of the evidence in relation to the research questions

In accordance with the ToR, this research has attempted the following basic tasks in relation to the financial abuse of NPOs in the EU:

- identify and analyse the most frequent and serious types of financial criminal activity in the non-profit sector;
- analyse the volume and value of such offences where possible, and provide a general estimation of the total annual cost of financial abuse in the NPO sector at the EU level; and
- identify the policy responses that could help to reduce NPO vulnerability to financial criminal abuse.

In setting out to tackle these tasks Matrix has used an array of well-established methodologies that in other similar contexts have produced highly satisfactory results. The rapid review of literature has been comprehensive; stakeholder interviews have been completed and a Delphi survey has been carried out attracting respondents from across the EU holding appropriate roles to qualify them as knowledgeable and experienced in this field.

It is now possible to summarise the current state of knowledge and assess the extent of available expertise in relation to the research questions that have guided this work. The following conclusions have been reached, and these will be helpful in guiding the way forward in this area of the EC's work.

- The subjects relevant to this inquiry have not been studied in any depth, particularly in non-Anglophone countries. The available literature, such as it is, is biased towards a very limited number of jurisdictions. This makes it difficult to generalise for the EU as a whole. The literature search has been a useful means of generating hypotheses for testing but it does not in itself advance the causes of this research.
- National databases describing the incidence and prevalence of NPO abuse are not available. Statistical databases compiled on the basis of registration returns from NPOs are very rare. Estimating the scope of the NPO abuse problem is therefore currently beyond the reach of empirical research with a corresponding reliance on media reporting and anecdote.
- Throughout this research it has been apparent that its subject matter is sensitive and many stakeholders are unwilling to come forward to provide information or if they do come forward they are then selective in the questions they answer. It could be that this reticence is in part the result of lack of relevant knowledge. However in some instances the research team has been made aware that the reluctance is the product of particular sensitivities. The sensitivities of the question have been already underlined in EC Communication of 2005. They revolve around the need to nurture the NPO sector especially in Member States where it is only just taking root and the fear that regulation will deter donors and volunteer workers and stifle development of the sector.



- With no developed literature and few databases, NPO stakeholders are unlikely to have a broad and deep view of the subjects dealt with in this research. The stakeholders that were expected to be expert are often knowledgeable only about their own roles and therefore non-response to the survey and interview questions was frequent.

This has been a valuable scoping exercise. It has demonstrated that the knowledge required for empirically based policy-making in this field is not yet available even to many of those stakeholders who this research might have relied on for guidance. The main aim for future action must therefore be to build the requisite knowledge base. This can be done in the following ways:

- encouraging the exchange of information between knowledgeable practitioners and between practitioners and researchers;
- conducting further research properly informed by the results of this study; and
- encouraging the generation of official statistical databases beginning with the most basic information and building upwards.

## 5.0 Conclusions and recommendations

The following summary conclusions are distilled from the three evidence generating strands of this research.

- There is a daunting variation in available information about NPOs and their financial abuse across the EU.
- This variation is associated with the level of development of the sector and the nature of its position in the political economy of Member States.
- Many identified stakeholders regarded as key local knowledge holders were not able to provide the kind of policy-oriented information that the EC requires. This may account for the difficulty of securing the assistance of local stakeholders and the reticence of the Delphi survey respondents.
- Much of the available literature on NPO abuse is of relatively low quality and there is a high level of reliance on media reporting, even in the US. The current concern about terrorism has not helped to improve the quality of available information. Instead it has tended to exacerbate the problem of journalistic and sensational media accounts of particular cases leading to a plethora of unwarranted inferences and inductions in the press.
- A higher proportion of stakeholders in the Delphi survey reported obtaining their information about threat from popular media sources than from official or professional sources.
- Where information and regulation are both highly developed, as in the US and UK, there is no indication that victimisation is declining or compliance improving. For example in the UK's PKF survey less than 25 per cent of respondents said that their organisations had risk assessment and controls in place although these must be reported each year to the Charity Commission in NPOs' annual returns.
- There is a general agreement that NPO employees and volunteers are best placed to expose fraud and corrupt practices. Those involved in governance and regulation who work directly with NPOs are likely to exert control more than those with general supervisory or enforcement responsibilities. Therefore the generally low level of agreement over whether there is or is not a lead agency for managing the threat of NPO abuse in EU Member States is a matter of concern.
- If the available information is to be believed, the incidence and prevalence of NPO financial abuse in the EU are limited. Nevertheless, some level of criminal and terrorist misuse exists. The extent to which this is judged to be "a serious threat" depends on the tolerance levels of the observers. Any measures proposed to reduce abuse must be assessed against the situation that would arise if no such measures were implemented. Such a test could provide a warning of the dangers of counter-productive and disproportionate regulation. However, without better databases, reporting mechanisms and monitoring systems there is no way of knowing whether the expert group estimates are realistic or merely badly informed.
- The NPO sector is economically important and socially significant. Donors, volunteers and staff need to feel that their contributions are valued. There is a danger, expressed in the literature and during the course of the study generally, that that stricter regulatory legislation could create costs that might damage the efficiency and effectiveness of the sector. A more

accurate understanding of the true level of threat is therefore essential to enable a proportionate and appropriate response.

- The Delphi study, for all its limitations dictated by the scope of the research, does indicate priorities in terms of loci of threat, vulnerabilities and preferred options for threat and risk management.
- Around three-quarters (74 per cent) of stakeholders in the Delphi survey said that regulation and legislation is their country's main method of addressing the threat of NPO abuse. Thus, while there are concerns about the proportionality of formal oversight, governmental and EC regulation are very important in this context.
- The current levels of compliance with the FATF recommendations, the EU Communication 2005/620 recommendations and the proposed codes of conduct on one side and the perceived costs of compliance on the other side suggest that further regulation and legislation need to be approached with caution, especially considering the UK and US records. A low-cost, practicable regulatory and legislative regime could be supported by self-regulation through harnessing the altruism and ethical spirit of the NPO sector.

## Recommendations

The following recommendations are advanced for discussion at EU, national and local level.

- Following the examples in the US and UK, the EC should consider setting up a periodic victim survey across the EU with an adequate budget to generate an effective database to assess threat and vulnerability trends, examine the efficacy of preventive measures and monitor regulation and legislation.<sup>78</sup> Given the cost of pan-EU victim surveys, the possibility of using existing EC data collection processes such as Eurobarometer should be considered.
- To supplement victim surveys and to promote the exchange of best practices while developing self-regulatory mechanisms and stakeholder participation, it would be helpful to create a virtual NPO college using the latest corporate reporting and information exchange internet-based software. There are good examples of such colleges in existence and the expertise needed to run them is now widely available.<sup>79</sup>
- Whether by this or similar means, NPO representatives and officials should be coming together at the national and at the EU levels to swap information and good practices and build up the expertise necessary to protect their particular areas.
- Given that the popular media are important sources of information about the threat of NPO abuse, there should be more proactive dissemination of relevant information to the media across the EU.

<sup>78</sup> Victim surveys are typically carried out on a regular basis so as to be able to assess change accurately over time. They are usually in two parts: the first "sweep" contacts a representative random sample of organisations and determines which have been the victim of fraud or corrupt practices. The second sweep revisits a random sample of victims and investigates their victimisation in detail. This second sample can be so constructed that issues of special interest are adequately represented. Once trend data have been established, a properly designed victim survey provides by far the most accurate evidence of level and type of threat. In contrast, criminal justice statistics measure only what is reported to or comes to the notice of the police or what proceeds to court. In any case such is the specificity of the NPO threat that it is unrealistic to expect general criminal statistics to shed much light on this subject.

<sup>79</sup> The essence of this device is a special internet site available only to college members that can be used for exchanging information and ideas, for internet-based discussion groups, for archiving useful documents and research tools, for disseminating best practices and for arranging face-to-face meetings at the national, regional and EU levels. Such a device benefits from being relatively inexpensive to set up and maintain. It can create a collegiate environment that aids learning without creating undue costs for members.

- In the absence of reliable information on the real level of threat, vulnerability and compliance, and without adequate understanding of the benefits of new legislation the EC should be cautious about introducing new forms of regulation and legislation. However, existing forms can and should be further developed, but only after a proper impact evaluation is carried out.
- Registration and keeping accurate registers of basic details of NPOs is essential as a prerequisite for increasing the knowledge base. The accuracy and completeness of registers should be continuously improved.
- An important means of achieving progress on this front and many others is the creation of a lead agency in each Member State that is acknowledged as such by other interested national agencies and national NPOs themselves.
- Acknowledging the relative importance of NPO employees and volunteers in the self-regulation of the sector, there is a general need to promote appropriate staff training. While such training might have to be based at first on general knowledge, in due course much more local detail can be added as the relevant knowledge base grows.
- With due regard to the opinions expressed in the survey and gleaned from the literature review, means of bolstering self-regulation and ethical working cultures in NPOs should be explored, especially in those Member States where the cost of regulatory compliance is problematic. This can be done informally by the means outlined in the preceding recommendations or more formally through research exercises aimed at generating content for handbooks, training courses and internet-based tools.
- Given the extent to which international fraud experts agree that prevention depends on *“knowing your people and where the money is coming from and going to”*, it would be helpful to devise a simple model of due diligence procedures for NPOs and their major donors or disseminate best practices in this area already in use in some Member States. While applying a risk based approach in due diligence procedures, the costs and complexity of these should also be taken into account. The simplest procedures such as checking the references and CVs of prospective staff are often the most effective. These measures should add value to the general management of NPOs as well as contribute to threat reduction.
- Due diligence procedures can be greatly simplified where proper levels of transparency are maintained in the NPO sector. The promotion of transparency at all levels is therefore essential.
- The current variability in the level of development of NPO institutions across the EU should be exploited by arranging NPO-to-NPO mentoring schemes on a bilateral basis. International NPOs might prove especially adept in this field. Such schemes are based on brokering relationships between organisations that have much-needed skills and expertise and those that want them but cannot afford to provide them. Individuals who supply help and advice (usually for free) gain experience in training and articulating their personal knowledge and expertise, while the receiving organisation obtains high-value consultancy that it could not otherwise afford. In this field mentoring would provide the additional return of contact with other jurisdictions and NPO cultures.

## Ways and means

To make progress on these recommendations it will be important to initiate action at several levels simultaneously. It would be over-optimistic to expect smooth progress across a broad front. The reality is likely to be the development of a variety of pockets of progressive activity. The aim should be to try to ensure that these are well-spread geographically and across organisational levels from the EC through lead agencies to the NPOs and donors themselves. This would give the maximum chance of the various epicentre effects linking to create more general progress.

With this in mind, the following distribution of initiatives is suggested:

- Actions by the EC:
  - develop an EU NPO abuse victim survey;
  - promote a web-based “virtual college” for EU NPOs and their stakeholders;
  - market and otherwise promulgate compliance with existing legislation, regulations etc;
  - develop a regional NPO stakeholder structure by holding conferences and workshops with a bottom-up policy generation theme;
  - encourage, using all of the above, the emergence of lead agencies in every Member State; and
  - develop a public relations and media strategy in this area.
- Actions by national lead agencies or those who might move to that role:
  - develop the lead agency role and consultative relations with major national NPOs;
  - identify and develop relevant national data sources;
  - hold national events and participate in regional events to exchange information and good practices;
  - facilitate EC initiatives at the national level by participating in consultation exercises and improving available data sources;
  - undertake a national assessment of the NPO sector, as required by FATF SR VIII; and
  - develop a public relations and media strategy at the national level.
- Actions by NPOs and those directly involved with them in terms of donations, governance etc:
  - participate in consultation exercises and information exchange processes;
  - support compliance and self-regulation practices;
  - take active steps to improve transparency and public accountability
  - seek out or provide mentoring exchanges on an inter-State basis;
  - take part in relevant training exercises;
  - build internal anti-fraud procedures; and
  - provide timely and accurate information to the national authorities on threats and actual victimisation.

Appendix 1. Delphi survey questionnaire

Section 1: About you

Participants should consider each question in this questionnaire from the perspective of their **current country of residence**.

1. Can you please identify the country from which you are responding:

2. Can you please identify the organisation that you belong to (optional):

3. What description most closely resembles your role, or that of your organisation?

<i>Law enforcement</i>	<input type="checkbox"/>	<i>NPO</i>	<input type="checkbox"/>	<i>Donor</i>	<input type="checkbox"/>	<i>Academic</i>	<input type="checkbox"/>
<i>Legal</i>	<input type="checkbox"/>	<i>Tax authority</i>	<input type="checkbox"/>	<i>Finance sector</i>	<input type="checkbox"/>	<i>Anti-terrorism</i>	<input type="checkbox"/>
<i>European Commission</i>	<input type="checkbox"/>	<i>Government agency</i>	<input type="checkbox"/>	<i>Regulatory body</i>	<input type="checkbox"/>	<i>International organisations</i>	<input type="checkbox"/>
<i>Consultancy</i>	<input type="checkbox"/>	<i>Other</i>	<input type="checkbox"/>				

a. If you have answered 'other' above, please use the space below to describe your role:

4. As part of your role, how closely do you work with NPOs?

Not at all	<input type="checkbox"/>	Indirectly	<input type="checkbox"/>	Quite closely	<input type="checkbox"/>	Very closely	<input type="checkbox"/>
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## Section 2: Existence of financial abuse of NPOs

1. How concerned are you that financial abuse of NPOs is occurring in your country of residence (where 1 means not concerned at all, and 5 means very concerned)?

1	<input type="checkbox"/>
2	<input type="checkbox"/>
3	<input type="checkbox"/>
4	<input type="checkbox"/>
5	<input type="checkbox"/>

If you have answered '1', please go to question 2.

- a. If it has been of some concern to you, how long has it been of concern?

This is a very recent concern (up to 2 years)	<input type="checkbox"/>
This is a relatively recent concern (2 to 5 years)	<input type="checkbox"/>
This has been of concern for some time (5 to 10 years)	<input type="checkbox"/>
This has been of concern for a long time (more than 10 years)	<input type="checkbox"/>

2. Are you aware of any examples of financial abuse of NPOs that are:

Publicly available	<input type="checkbox"/>
Known only to your organisation	<input type="checkbox"/>
Known only to your work group/close colleagues	<input type="checkbox"/>

If you answered 'No' please now only complete Questions 3 and 4 in Section 3, and all the questions in Section 4.

3. Could you estimate the number of instances of financial abuse of NPOs in your country of residence in the last 12 months? (this should **not** be restricted to legal cases).

None	<input type="checkbox"/>
Very few	<input type="checkbox"/>
Quite a few	<input type="checkbox"/>
Many	<input type="checkbox"/>
Don't know	<input type="checkbox"/>

If you have answered 'Don't know' please go to Question 4.

- a. Could you provide an actual estimate of the number of instances?



- b. Can you estimate the total value of funds diverted associated with these instances?

Less than €1million	<input type="checkbox"/>
Between €1 – €5million	<input type="checkbox"/>
Between €5 – €20million	<input type="checkbox"/>

More than €20million	<input type="checkbox"/>
Too difficult to say	<input type="checkbox"/>

- c. In your opinion, do you think the number of instances of financial abuse of NPOs has increased or decreased in the last five years?

Decreased significantly	<input type="checkbox"/>
Decreased marginally	<input type="checkbox"/>
Stayed about the same	<input type="checkbox"/>
Increased marginally	<input type="checkbox"/>
Increased significantly	<input type="checkbox"/>
Don't know	<input type="checkbox"/>

4. Where have you seen financial abuse of NPOs being reported (you may select more than one answer)?

Legal cases	<input type="checkbox"/>
Newspaper media	<input type="checkbox"/>
Television media	<input type="checkbox"/>
Internet media	<input type="checkbox"/>
Investigations as part of job	<input type="checkbox"/>
Provided information in work context	<input type="checkbox"/>
Professional journals	<input type="checkbox"/>
European Commission documents	<input type="checkbox"/>
NPO documents	<input type="checkbox"/>
Other	<input type="checkbox"/>

- a. If you have answered 'other' above, please use the space below to describe where you have seen it reported:

### Section 3: Types of financial abuse

1. Thinking about the following types of NPO financial abuse/fraud from the point of view of your country of residence, how much of a threat is each? (where 1 is 'no threat', 5 is a 'significant threat')

Fraudulent fundraising	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Diverting legitimately raised funds	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Double financing of the same project	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Misappropriation of funds by an NPO acting intentionally	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Misappropriation of funds by individual employees acting secretly	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Providing funding or support to banned/unauthorised groups	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Disguising unauthorised expenditure as legitimate	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>



Other	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
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- a. If you have answered 'other' above, please use the space below to describe the types:



2. Will some characteristics of NPOs tend to make them more vulnerable to abuse (where 1 is 'not very likely' and 5 is 'extremely likely')?

Are closely associated with particular religious or ethnic groups	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Have a high profile, or are large NPOs	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Have a low profile, or are small NPOs	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Operate in areas of conflict or unrest	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Do not deliver services directly	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Have extremely complicated financial systems	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>
Have very basic financial systems	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Don't know <input type="checkbox"/>

3. Are there any other characteristics you can think of that might make NPOs more or less vulnerable to fraud?



## Section 4: Country response to financial abuse of NPOs

1. Is there a lead agency responsible for preventing the financial abuse of NPOs in your country of residence?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

2. What type or types of organisations are involved in this area in your country of residence (you can tick as many as you like)?

Law enforcement agencies	<input type="checkbox"/>
NPO regulators	<input type="checkbox"/>
Tax authority	<input type="checkbox"/>
Anti-terrorism organisations	<input type="checkbox"/>
Government agencies	<input type="checkbox"/>
Financial regulators	<input type="checkbox"/>
Others	<input type="checkbox"/>

- a. If you have answered 'others' above, please use the space below to describe the agency:

## 3. What are the main ways your country has sought to address financial abuse of NPOs?

Regulation or legislation	<input type="checkbox"/>
Investigation and prosecution	<input type="checkbox"/>
Sharing of information on illegal activity	<input type="checkbox"/>
Formally publishing information on illegal activity	<input type="checkbox"/>
Sharing of information on best practice	<input type="checkbox"/>
Formally publishing information on best practice	<input type="checkbox"/>
Don't know	<input type="checkbox"/>
Other	<input type="checkbox"/>

- a. If you have answered 'other' above, please use the space below to describe the approaches:

## 4. How effective do you think your country has been in dealing with financial abuse of NPOs?

Not successful at all	<input type="checkbox"/>
It has had some successes	<input type="checkbox"/>
Moderately successful	<input type="checkbox"/>
Very successful	<input type="checkbox"/>
Don't know	<input type="checkbox"/>

## Section 5: Examples

1. If you have any examples of NPOs that have been the victims of financial abuse, can you please fill in the table below or send the information to the following email address – [admin@tmkg.co.uk](mailto:admin@tmkg.co.uk).

Year of abuse	Name of NPO	Country reported in	Type of financial abuse (please select from dropdown list)	Weblink or location of information
			Fraudulent fundraising	
			Fraudulent fundraising	
			Fraudulent fundraising	
			Fraudulent fundraising	
			Fraudulent fundraising	

2. Could you please list any additional sources of information to follow up for this research? This could include publications, websites, media articles etc.

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In addition to an internet-based grey<sup>80</sup> literature research, a more formal, structured review of key social science and legal databases that hold publication details within the areas of interest for this study was conducted <or something to make this a complete sentence>. The databases searched were: BI Direct (five-year file only), Sociological Abstracts, Applied Social Science Index and Abstracts, Ubadoc, Planex, Web of Knowledge, Criminal Justice Abstracts, National Criminal Justice Reference Service, International Bibliography on Social Sciences, EconLit, Worldwide Political Science Abstracts and CommunityWise. Below are listed all studies consulted and quoted in this report. Some documents were relevant but not necessarily quoted. All quote materials also appear in the footnotes throughout the text.

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