

Managing financial crime risk:

a primer for charities
and not-for-profits



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Foreword

This guide is intended for those who have the passion, perseverance, dedication and selflessness it takes to commit time and effort to a charitable cause. Here at HSBC, we would like to thank you for helping improve the others' quality of life and the environment in which we live.

As one of the leading financial institutions in Hong Kong, we serve a wide variety of not-for-profit customers, from small organisations supporting a particular cause or underprivileged segments of the local Hong Kong community, through regional bodies working across Asia and right up to multinational charities delivering aid to emergency hotspots around the world.

Whilst larger not-for-profit organisations will typically employ experts to manage their affairs, we understand that smaller charities may not always have this kind of permanent infrastructure in place. Some individuals may be managing the operations from home, fitting it in around work, family or relying on the support of a close-knit group of like-minded friends.

If you manage a Hong Kong charity or not-for-profit, or you are thinking of stepping into such a role, then this guide is for you. As a bank, we have our own role to play in helping protect the interests of our customers and the

financial system. To do this we must understand exactly what our customers do, how they work, with whom and where they operate. Our role is to be vigilant, working with our customers to ensure that they are financially sound and striving to deter an ever-increasing range of threats, from simple cash thefts to sophisticated global cybercrimes.

As a responsible officer with formalised accountability in the governance or prudent management of the organisation, your goals and ours are entirely aligned. We have published this guide to help you understand your financial responsibilities, and to offer some tips on how you can make your organisation in Hong Kong as safe and successful as you want it to be. It is not intended as a substitute for seeking expert advice, but it highlights the key topics for you to consider.

Section 01

Your responsibilities

As a responsible officer, your job is to act as the ‘custodian’ and you want to be able to consider your charity or not-for-profit’s best interests and help manage it responsibly.

You are responsible for the management of the organisation, a responsibility which is shared with the top-team.

Together you must ensure that your charity or not-for-profit is carrying out the purpose for which it was established, and follows the organisation’s governing document.

The basic guiding principles that will be consistent across the majority of organisations and could be considered as best practices are:

- ♦ Acting in good faith, with prudence and with diligence
- ♦ Maintaining confidentiality while communicating with transparency
- ♦ Complying with applicable laws and regulations and promoting the highest standards of governance

Some of your responsibilities are to regularly review and assess the many forms of risks that will be faced. A proactive approach will help you to manage these and ensure your charity or not-for-profit continues to fulfil its goals.

This guide will help you understand the financial crime risks specific to this sector better.

A member of the management team of a charity or not-for-profit should be able to demonstrate their capability to serve in that they have:

- ♦ Taken reasonable steps to help prevent financial abuse or loss of the organisation’s funds
- ♦ Ensured that robust financial controls and procedures are in place and are suitable for the size and scope of your organisation
- ♦ Acted responsibly and in the interests of the organisation when dealing with incidents of crime

Having a clear view of all of the activities within the organisation is important. This includes its finances. To do this you should consider raising concerns and asking difficult questions about income, outgoings, payments and accounts. This helps you to safeguard the integrity of your charity or not-for-profit and serve the wider interests of your community.

Find out more:

You can read more about your responsibilities as an officer in charge of a Hong Kong charity or not-for-profit in the Reference Guide produced by the Social Welfare Department entitled ‘Leading Your NGO – Corporate Governance’.
www.swd.gov.hk/doc/ngo/corp-gov-eng.pdf

The Hong Kong Trustees’ Association sets out the Best Practice Guide for Trustees of Charitable Trusts.
hktrustees.com/upload/article/HKTA_BP_Guide-Charitable_Trusts.pdf

Know your donors and beneficiaries

As a member of the management team of a charity or not-for-profit, it is your responsibility to select donors, partners and beneficiaries carefully. This helps you manage potential reputational and financial crime risks.

Key things to consider when managing these risks are:

- ♦ Identify who you are dealing with and check that they are appropriate for your organisation
- ♦ Be confident that the individuals or organisations you are working with can deliver what is expected of them
- ♦ Watch out for unusual or suspicious activities

Donations from individuals

Your charity or not-for-profit may receive money from a number of people and through different fundraising methods.

Some of the money coming in could be relatively small amounts from one-off donations such as money from street

collections. You are not expected to know who every single small donor is.

However, if you are the recipient of a large donation, you should know the donor and be confident that the source of the money is legitimate.

Donations from companies, institutions or governments

Your charity or not-for-profit may also receive donations from institutions or companies. If so, it is necessary to find out more about how and why these donations are being made – and to keep a record of them. The following questions can help you do this:

- ♦ What does this organisation do and are you happy to be associated with it?
- ♦ If the money is from a company, is it registered with the Companies Registry and have the funds come from an official account of the organisation?
- ♦ What is the trading name and registered address of the organisation?
- ♦ If the funds have come from a personal account rather than an official account, have you asked why?

- ♦ Is the donation an unusually large amount?
- ♦ Did you receive the funds through a complex banking or money transfer arrangement? If so, why was this arrangement necessary?
- ♦ If you know the donor, has the money come through an intermediary? If so, have you been able to confirm there is no financial crime risk in this arrangement?

By asking these and similar questions you are able to:

- ♦ Assess risks to which your organisation could be exposed by accepting the donation
- ♦ Make sure it is appropriate to accept the donation
- ♦ Have reasonable assurance that the donation is not from an inappropriate or illegal source
- ♦ Prove you have acted in good faith

Know your beneficiaries

As well as knowing who is donating, you should know where the money is going – your beneficiaries. Keeping records of how funds are used will help protect you from being exposed to potential financial crime risks. There are a number of questions to help you gain a clearer picture of your beneficiaries:

- ♦ What evidence and records do you maintain to demonstrate all funds are going to the intended recipients? Do you have an internal monitoring and auditing process through which volunteers or employees track all funds that have been distributed?
- ♦ How do you identify and select beneficiaries?
- ♦ Is this the first time you have sent money to a beneficiary? If so, have you done the right checks to know who they are, assessed whether their operation or service is consistent with what you were advised, if the actual use of funds is consistent with the beneficiary background and setup purpose?
- ♦ Does your charity or not-for-profit provide financial assistance, services or support on the basis of a certain amount per beneficiary? If so, do you have a process in place to ensure funds are shared properly between the beneficiaries?

Do the right checks

A health charity received a large, unsolicited donation from a businessman.

The trustees wanted to be sure they understood why the donation was made and from whom. They designated one of the management team to carry out further checks on the donor's motives and connections to their charity.

The donor confirmed she had a family connection with the health condition being researched through the money raised. The donation came through a legitimate bank account directly into the charity's account.

Having done these checks the trustees and management were happy they had confirmed the source and reason for the donation.

The findings were recorded in the charity's 'significant donor' log and confirmed the identity of the donor.

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Know your donors and beneficiaries (Cont)



Keeping records of how funds are used will help protect you from being exposed to potential financial crime risks.



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Know your partners

It is also important to know whom you are working with and who your partners are. The key things you may want to consider are:

- ♦ If you operate through intermediaries, do they also receive funds from other charitable bodies? If so, are you sure there is no 'double-funding', particularly where contributions are being made to cover costs which are not easy to check?
- ♦ Do you have a clear audit trail tracking all funds sent to partners?
- ♦ Are new partners able to safely handle, log and distribute funds relating to your activities in a lawful and transparent manner?
- ♦ Are you collecting and checking documents that prove partners have used the funds your charity or not-for-profit has sent in the way you intended?

- ♦ What is the designated channel for receiving the money you sent?
- ♦ Do you match the impact of a partner's work against your organisation's goals to make sure they are relevant and the money is being used in the best way possible?

Find out more:

The Social Welfare Department has published a 'Good Practice Guide on Charitable Fund-raising' that you can view:

www.swd.gov.hk/en/index/site_pubs/vc/page_controlofc/sub_reference/

In addition, the Hong Kong Council of Social Service is a federation of non-government agencies who have the vision of developing a more accountable and effective sector. Its official website has some good information on the collective initiatives being undertaken: www.hkcss.org.hk/?lang=en

Section 03

The key financial risks

Unfortunately, financial crime affects all types and sizes of organisation. Here are the most common types of financial crime to be aware of.

Fraud and theft

Sadly, charities or not-for-profits can be abused by fraudsters posing as genuine donors or volunteers.

There are many types of fraud and criminals' methods are constantly changing. For example, your charity or not-for-profit may be targeted by imposters in person or through emails, phone calls, letters or websites.

Your organisation could be the victim of fraud or your brand name could be used to commit fraud.

Money laundering

Money laundering happens when criminals hide money gained from unlawful activities. It is the name given to the way they 'clean' the proceeds from crime to make this money look legitimate.

Often money laundering involves a series of actions – moving funds between different accounts, people or investments. Moving the money many times over makes it harder to trace where it originated. Eventually the funds appear to have come from legal, reputable sources.

In the past, organisations that operated on a cash basis were most at risk because of the difficulty in tracing funds. Today, the ability to move money electronically has created additional threats for money laundering.

There have unfortunately been multiple natural disasters around the world in recent years, which have attracted public attention. Criminals have taken advantage of this creating online 'scams' to steal charitable donations. They did this by setting up false appeal websites and emails using the names of genuine charities.

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The key financial risks (Cont)

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Bribery and corruption

Bribery is when money, goods or other benefits are used to try to change the behaviour of the recipient in a way that is favourable to the giver.

There are real risks for charities or not-for-profits if they are associated with bribery, for any reason. As well as legal penalties, the potential damage to reputation can be severe, impacting your ability to raise money in the future.

Find out more:

You may want to ask one individual involved in the management of the firm to take responsibility for finding out more about financial crime risks and report back at your next governance meeting. Websites that can help include:

The International Money Laundering Information Network is a global online network supporting governments, organisations and individuals:
www.imolin.org

Transparency International's Hong Kong branch aims to combat corruption within politics, business and civil society: www.transparency.org/country/HKG

The three main pieces of legislation in Hong Kong that are concerned with Money-Laundering and Terrorist-Financing are:

1. The Drug Trafficking (Recovery of Proceeds) Ordinance (the DTROP)
www.elegislation.gov.hk/hk/cap405!en?INDEX_CS=N
2. The Organised and Serious Crimes Ordinance (the OSCO)
www.elegislation.gov.hk/hk/cap455!en?INDEX_CS=N
3. The United Nations (Anti-Terrorism Measures) Ordinance (the UNATMO)
www.elegislation.gov.hk/hk/cap575!en?INDEX_CS=N

The Corruption Prevention Department of the Independent Commission Against Corruption, Hong Kong (ICAC) published a guide to advise on its best practices involving organisations who are raising funds:
www.icac.org.hk/filemanager/en/content_218/fund_raising.pdf

Section
04

Putting Effective Controls in Place



Reasonable steps to make sure your organisation's funds are not misused include having appropriate controls in place.

There is no 'one size fits all' approach to the controls that you can use. It depends on the size and type of the organisation you run. Here are some practical steps to consider:

- ♦ Ensure records of income and expenditure are kept, together with receipts, invoices and supporting documents.
- ♦ Records of domestic and international payments should have enough details (particularly for large donations or disbursements, details of the donor or beneficiary should be recorded) to show that funds have been received, transferred and spent as you intended.
- ♦ Use 'tiered authority' and signature levels for payments. If a large payment is to be made, it may be appropriate to have a senior person provide authorisation.
- ♦ Check bank accounts regularly and reconcile bank statements.
- ♦ Keep an audit trail of decisions made by the management team.
- ♦ Store these records digitally wherever possible. Set up IT controls so only a small number of authorised people can access them and this information is stored safely to avoid theft or fraud.
- ♦ Make sure hard drives, laptops and other electronics are kept securely and moved about safely to avoid data and identity theft.
- ♦ Keep computer security up-to-date by using anti-virus software and firewall protection.
- ♦ Ensure responsible officers, staff and volunteers are kept up to date about the fraud risks your organisation faces.

Small charity

A small active charity tended to receive a lot of donations in cash and via card payments. It doubled in size over three years, so the trustees decided to review their financial controls.

Following that review they decided to implement a new banking mandate, and new internet banking authorisations, to give them greater control over the movement of funds. They also increased reconciliation of transactions on their bank account from monthly to weekly, and they reduced the number of people with access to sensitive information on the charity's IT system – deleting users who were no longer involved in the charity's work.

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Putting Effective Controls in Place (Cont)



It is important you raise suspicious or unclear activity in the meeting.

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Putting in place these types of controls can't remove all exposure to financial crime risk, but they can significantly reduce it.

These kinds of checks and balances should be communicated to everyone, including volunteers of your organisation, who are tasked to handle funds.



Management meetings

Conducting regular management meetings and being able to prove you are doing so are an important part of running your organisation responsibly.

During meetings it is important to review the finances and check that all responsible individuals are acting appropriately according to their roles. You should be prepared to ask questions and look into the detail. This includes reviewing reports on the flow of funds in and out of your organisation. Here are some practical steps that you could consider:

- ♦ Examine the financial records to look for anything unusual or inconsistent. In doing this, you may be able to see if the accounts have been tampered with.
- ♦ Ask how you can be sure funds have reached their intended destination. If money has been forwarded on, do you have documents to prove who has received it?
- ♦ Ask about a new or unusual transaction, partner or project and the risks they pose.



It is important you raise suspicious or unclear activity in the meeting. If suspicions come to the fore, we would recommend asking for a second opinion. Alternatively, you should consider ensuring it is fully recorded in the meeting minutes so that it can be traced if needed.

By recording your questions and the answers given, you can show you were making reasonable enquiries about the finances of your organisation. If something goes wrong, you can prove that your decision was made with the best intentions.

If in a meeting you make a decision to do something that falls outside the charity or not-for-profit's aims and objectives, it is important to ensure that the decision is recorded in the minutes with the reasons behind it.

If you believe your organisation has been the victim of a financial crime, you should report your concerns to the police.



Operating a charity or not-for-profit's bank accounts

As a responsible officer, it is important that you supervise your charity or not-for-profit's bank accounts. If your organisation is small, it will probably make sense for you or a direct delegate to handle it. If you oversee a larger organisation, you may want to delegate the day-to-day supervision and control to a member of staff.

Your governing document should clearly set out who has the authority to sign cheques and confirm payments.

It is suggested that your organisation's bank accounts be reconciled at least once a month. This is an accounting process used to compare two sets of records. This is a check to ensure the figures match and are accurate and the money leaving an account matches the amount spent. Any accounts that do not match may be reviewed by a second person in order to be resolved. If they cannot be resolved you need to ask why.

A list of all accounts should be kept and reviewed. Dormant accounts – accounts that are rarely or never used – should be closed.

It can be risky to allow anyone who is not working for your organisation, or responsible for its governance, to open an account in its name. As a responsible officer you should either authorise, or have clear sight of, the opening or closing of any accounts.

Trustees, management, volunteers or other members of staff should never use charity accounts and funds for any personal activity.

Cyber crime

Technology is at the core of our everyday lives and presents opportunities for businesses of all sizes. But it's also given criminals new tools for gaining access to information and funds. As such, it's critical that you are up-to-speed on what criminals are doing and – more importantly – what you can do to minimise the likelihood of becoming the victim of these types of attacks.

Please visit our website to see more cyber security information:
www.business.hsbc.com.hk/en-gb/hk/campaign/build-a-cyber-aware-business

The Hong Kong Police Force have set up The Cyber Security and Technology Crime Bureau (CSTCB), which is responsible for handling investigations in this area. The latest information from them can be viewed here
www.police.gov.hk/ppp_en/04_crime_matters/tcd/index.html

Financing Operations Overseas

If your organisation has operations around the Asia region or even beyond, then these could include high-risk jurisdictions. As such, in your capacity as a responsible officer, you will need to be aware of the additional risks involved so you can manage them effectively. These include:

- ♦ The physical risks of people working in politically unstable countries or territories. You have a responsibility to make sure your staff and volunteers are safe wherever you are operating. For example, a conflict could break out putting people working with your charity in danger.

An aid organisation that historically focused on domestic aid started raising funds to help people in need overseas. The management team knew this created additional risks, so they decided to put additional controls in place.

These included making it a policy that the charity would not make any cash payments outside its home country or territory, and that it would review the latest travel safety guidelines before allowing volunteers to travel overseas.

You may also be working in an area where disease is common. Do you have the right policies in place to best protect all those working with and for your organisation?

- ♦ The risk of moving money across borders, which makes it more difficult to apply your standard controls in unfamiliar territories.
- ♦ The risk that moving funds overseas creates extra opportunities for the money to be diverted. Changing money into other currencies, exchanging cash into goods and back again, local corruption; and a lack of formal banking systems and unregulated customs practices can all mean you lose sight of where the money is going and how it is being used.
- ♦ The risk you could lose money if the local banking system collapses or the exchange rate falls.

- ♦ The risk that money is being handled by volunteers and without the right controls in place, meaning you don't have a clear picture of how funds flow through your organisation.
- ♦ The risk that you cannot control how funds are used at their destination in particular if it is a country or territory affected by civil unrest or terrorist activity.

Extra steps you could take to manage these risks

Generally, it is safest to transfer money through the banking system. When you are using the formal recognised system, your banking partner will need a clear description of the work being carried out. They will need information on where the money has come from, where it is going and how it is being transferred.

When thinking about your operations overseas, you need to ask questions about the banking system of the countries or territories you are operating in. You should have a clear picture of the political and social situation of the countries or territories you are working in and ask whether you are comfortable with any risks involved.

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When thinking about your operations overseas, you need to ask questions about the banking system of the countries or territories you are operating in.



Financing Operations Overseas (Cont)

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Terrorist financing

There is a risk that charities or not-for-profits can be used to move money for terrorist organisations. The following factors are characteristics that can make these organisations vulnerable to a terrorist organisation diverting funds for their own use:

- ♦ Serving communities that are in geographically remote locations or areas with poor infrastructure.
- ♦ Moving funds to or through high-risk countries or territories, which could lead to money being diverted before it reaches the intended recipients.
- ♦ Moving funds in cash, which is easy to conceal and to divert, rather than through the formal banking system of the country or territory you are operating in.



Sanctioned individuals, organisations and countries or territories

Some individuals, organisations and countries or territories have sanctions against them.

If your donors or beneficiaries reside outside Hong Kong, it is important to find out if they are on any sanctions lists.

If you do operate on an international basis, you also need to know about any sanctions against countries or territories that your organisation is planning to work with.

You can check this by carrying out a public search on sanctions lists and researching if there have been any press reports mentioning the country or territory, organisation or individual.

The Hong Kong Special Administrative Region Government implements sanctions decided by the Security Council of the United Nations. Please refer to the United Nations Sanctions Ordinance and its subsidiary legislation for up to date information on the United Nations sanctions in force in Hong Kong. The lists of persons and entities subject to financial sanctions are available at the website of the Commerce, Industry and Tourism Branch of the Commerce and Economic Development Bureau.

Where you do operate on an international basis, you also need to know about any sanctions against countries or territories that your organisation is planning to work with.

Find out more:

HSBC is committed to complying with the sanctions laws and regulations of both international bodies and those applicable to its countries and territories of operation. You can read the HSBC Group Sanctions Policy Statement here: www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk/hsbc-group-sanctions-policy-statement

1 Comply with your governing document and make sure important documents such as insurance policies and licenses are up-to-date and in one place.

2 Understand your organisation's record keeping processes; make sure they are accurate and you can show where your funds come from and how they are spent.

3 Make sure you have processes to identify your large donors and the corresponding beneficiaries, and manage any potential reputational and financial crime risk. A range of resources for this can be found on the internet.

4 Appoint trustees or responsible officers in line with your constitution. Make sure they understand their roles and obligations.

5 Consider taking minutes in all meetings and ensuring that this documentation is kept safely.



TOP 10

Tips for Charity and Not-for-profit Responsible Officers



6 Keep up-to-date with your paperwork and make sure you lodge all your filings in a timely manner.

7 Review the financial health of your organisation regularly and make sure you are confident that the accounting requirements and methods are robust.

8 We recommend that volunteers are selected, trained and managed formally.

9 Observe all applicable data protection and privacy laws.

10 Ensure that you are engaged with the range of departments in Hong Kong involved in the oversight and management of charities and not-for-profits.

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please call our Commercial Banking Service Hotline on **+852 2748 8288**.

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