What is due diligence?
This refers to the practical checks you make to confirm the identity, credentials and good standing of the individuals and organisations who give money to your charity. It is important to get to know your donors in this way because otherwise you cannot:

- assess the risks arising from accepting a particular donation (or type of donation);
- be reasonably confident that a donation is not from an illegal or inappropriate source;
- assess whether any conditions attached to a donation are appropriate and acceptable; and, ultimately
- be confident that it really is safe to accept money from a given source.

Basic questions

About the donor
- Who are they and what do we know about them?
- Are they based outside the UK? If so, does that country/area pose any particular risks?
- Do we have a well-established relationship with them?
- Are additional checks needed?
- Have any public concerns been raised about them or their activities?
- Would any adverse publicity about them also damage us?

About the donation
- How big is the donation? Is it a one-off, one in a regular series or the first of several? Was it expected?
- Is it in cash, a cheque, or a bank transfer? In which currency?
- Are any conditions attached? Are they reasonable?
- Does the money originate from outside the UK? If so, does that country/area pose any particular risks?
- Is there anything else unusual or strange about the donation?

Warning signs
You are probably familiar with the source and typical characteristics of most donations you receive. The key to identifying suspicious ones is, therefore, to look for anomalies and peculiarities with regard to factors like timing, country of origin, amount and frequency. These might include:

- an unusually large (or small) amount;
- strange, inappropriate or illegal conditions;
- complex banking or transfer arrangements; or
- the donation is unsolicited or from an anonymous source.

None of these are clear-cut evidence of fraud, but might point to the need for further investigation.

It is good practice to keep records of all suspicious donations. Include:

- the name of the donor;
- the key features of the donation – date received, amount, how it was received, currency – and any conditions;
- the nature of your suspicions;
- details of previous donations from the same source; and
- what you did about it – for example, was it reported (police, regulator, HMRC) and/or refused?
IN MORE DETAIL …

Anonymous or unsolicited donations
Be alert to any unusual or unsolicited donation from a source which cannot be identified or verified. Donations from unknown bodies or foreign locations in which the regulatory and legal frameworks are not as rigorous as the UK’s may also require closer attention.

Donations with special conditions
Special conditions can bring considerable risk. Consider carefully the wisdom and lawfulness of conditions that require your charity to act as a conduit for transferring money from one individual/organisation to another.

A number of other high-risk conditions are also commonly-found red flags.
- The charity is told it can keep the donation only for a limited (often short) time before returning it in full but keeping any interest earned.
- As above but the donation is received in one foreign currency and must be returned in another.

• Particular individuals or organisations (about whom your trustees have concerns) are expected to do the project work funded by the donation.
• Your charity is expected to provide services or benefits on favourable terms to the donor or someone he or she nominates.

Taking action
If you are unsure about the legitimacy of a donation it is perfectly acceptable to refuse it. You might also want to seek the advice and/or agreement of your regulator.

If you suspect fraud act promptly.
- Report your concerns to Action Fraud (England, Wales and Northern Ireland) or Police Scotland (Scotland).
- Report matters to your charity regulator. (For reports to the Charity Commission for England and Wales treat it as a serious incident. Use RSI@charitycommission.gov.uk to make your report, stating what happened and how you are dealing with it.)

OTHER RESOURCES
The Charity Commission for England and Wales has produced a range of resources covering this area as part of its compliance toolkit. See chapter two, ‘Due diligence, monitoring and verifying the end use of charitable funds’.