UNDERSTANDING FRAUD IN THE NOT-FOR-PROFIT SECTOR: A STAKEHOLDER PERSPECTIVE FOR CHARITIES

Abstract

The theorisation of fraud has largely been developed in the for-profit sector, and the paper extends this to the not-for-profit sector. Motivated by social control theory, we adopt a qualitative approach to assess the views of key charity stakeholders (social control agents) of charities registered with the Charity Commission for England and Wales about fraud. We find that stakeholders, especially donors and beneficiaries, are often reluctant to label 'fraud' as a threat to the sector. This reflects 'trusting indifference', a value embedded in the sector that brings more harm than good to the sector in terms of wrongdoing, by hampering effective social control. Adapting existing theories of fraud to charities, we propose a 'fraud tower' with three layers: the social layer (trusting indifference), organisational layer (opportunity), and individual layer (fraudsters-opportunity seekers).

Keywords

Fraud, Charity Sector, Fraud Triangle, Reasons for Fraud, Fraud Theories

Declarations of interest: none

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1 Introduction

Compared to the for-profit sector, fraud research in the not-for-profit sector has been limited (McDonnell, 2017, Harvey, 2018) and has focused more on misbehaviour by officials (Lamothe et al., 2022). Both for-profit and not-for-profit fraud studies have generally been quantitative (for example, Beasley, 1996; Holtfreter, 2008), aiming to assess governance determinants, and have not taken stakeholders' views on fraud into account (Trompeter et al., 2014). Theories of fraud typically derive from the 'fraud triangle' developed by Cressey (1953), which has been tested and largely supported by many scholars (for example, Abdullahi and Mansor, 2018; Bell and Carcello, 2000; LaSalle, 2007) and has led to further theories being developed such as the 'fraud scale' (Albrecht et al.,1984) and the 'fraud diamond' (Wolfe and Hermanson, 2004). However, these theories have been criticised as treating fraud as being only incidental (Free and Murphy, 2015), and as being limited to organisational boundaries rather than involving outsiders as well as insiders (Courtois and Gendron, 2017). The roles of political and economic institutions (Morales et al., 2014), the social dimension (Murphy and Free, 2015) and collusion (Free, 2015) in the occurrence of fraud are not adequately explained.

Theorisation of fraud has focused on the for-profit sector, and a fraud theory or model specific to the not-for-profit sector has not yet been developed (Harvey, 2018). Stakeholders' views on social deviance, and especially their notions of fraud, are still under-investigated (Shadnam et. al, 2020; Van Driel, 2018; Barnett et al., 2020). The not-for-profit sector has its own social and cultural context that is moderated by the moral values and norms of specific societies, which are argued to be internalised by not-for-profit organisations and their stakeholders (Lawry, 1995). Stakeholders are the agents or performers of social control (Greve et al., 2010). Recent scandals including Oxfam and Save the Children demonstrate how even stakeholders with little or no power such as beneficiaries play important roles in detection and possibly deterring misbehaviour and misconduct in the not-for-profit sector (Bruno-van Vijfeijken, 2019; Goncharenko, 2021).

The paper aims to understand how stakeholders, as social control agents, in the not-for-profit sector conceptualise fraud. The paper assesses how stakeholders in the not-for-profit sector perceive fraud and what they consider to be the most relevant explanations for fraud in the charity sector. We use social control theory (Hirschi, 1969) as the basis for developing a theoretical framework for fraud in the not-for-profit sector that is consistent with stakeholders' conceptualisation of fraud. We therefore respond to the call for developing a theoretical framework for fraud that is grounded in stakeholders' views (Anand et al., 2015) and construct our theoretical framework to encompass all important stakeholders, as social control agents in the not-for-profit sector.

The study focuses on charities that are registered with the Charity Commission for England and Wales. A qualitative approach is employed, which involves an assessment of the views of key charity stakeholders: regulator-watchdog organisations, charity officials, accountants/ auditors, donors and beneficiaries. We review the opinions and perceptions of charity stakeholders regarding their understanding of fraud and whether the charity sector is more vulnerable to fraud than the for-profit and public sectors. We discuss our interviewees' suggestions about why fraud occurs, the warning signs (‘red flags’) of fraud, and the perpetrators of fraud in the charity sector.

We find that, with regard to the conceptualisation of fraud, a central element is *trust*, which may be seen as interactions enabled by social structures (Weber et al., 2003; Heald, 2006; Dupont and Karpoff, 2020). The not-for-profit sector has its own social control norms based on a subculture of mutual trust (Salamon and Anheier, 1998; Harvey, 2018). Stakeholders do not perceive not-for-profit fraud to be different in substance from fraud in the for-profit sector. However, whereas auditors, regulators and to some extent charity officials see the not-for-profit sector as an easy target for occupational fraud (fraud committed by charity officials), donors and beneficiaries, the two stakeholder groups who make the bulk of the charity stakeholders, are more inclined to see the charity sector to be less prone to occupational fraud. This stark contrast between the two groups of social control agents was described by one of the stakeholders as ‘excessive trust’, a term that we use in our subsequent discussion.

Our findings also suggest that the two important stakeholders, donors and beneficiaries, are *indifferent* regarding charity finances and charity management. Donor giving is not entirely explained by performance or satisfaction but also by the ‘warm glow’ that comes from identification and the desire to give even to underperforming charities (Andreoni, 1989, 1990; Wong and Ortman, 2016). Beneficiaries on the other hand are indifferent because they lack an effective voice, being mainly excluded from the oversight of charities (Ebrahim, 2003). Indifference, coupled with a high level of trust, plays a part in the reluctance to question fraud in the charity sector. Social norms within the sector are influenced by trust and a level of indifference that prevents a desired level of social control from taking take place. This reluctance, which we call '*trusting indifference*' is based on a) a high level of trust b) the 'warm glow' especially for donors and c) lack of voice for beneficiaries, which deter social control actors from exercising enough control over charities.

As regards explanations for fraud, all stakeholder groups emphasised opportunity as the most important factor explaining why fraud occurs in the not-for-profit sector. Other important explanations for fraud offered by stakeholders are organisational deficiencies that prevent adequate fraud control and perpetrators purposefully targeting the charity sector. Although donors and beneficiaries identify charities as trustworthy, they also agree with other stakeholders that the sector is targeted easily by fraudsters from outside the sector. This is inconsistent with evidence suggesting that the majority of fraud in the sector is perpetrated by charity officials themselves rather than by strangers to the organisation (Civil Society, 2019).

Our findings suggest that trust within the sector and indifference on the part of donors and beneficiaries, with a view that the charity sector is made up of 'good people and intentions', creates the perception that fraud is less likely in the sector and so fraud is not perceived as a significant threat. Our findings suggest that compared to the for-profit and public sectors, *trusting indifference* in charities plays a key role in the occurrence of fraud and hampers effective social control. Especially the breach or exploitation of norms and values that shape the social control of the charity sector contribute to the occurrence of fraud. These factors therefore hinder appropriate organisational controls and create opportunities for fraud. Drawing on concepts from other fraud theories, our findings also suggest that charities may be a specific target of 'opportunity seekers' (Dorminey et al.,2012; Hermanson et al., 2017), with perpetrators purposefully targeting the charity sector as a 'bad crop' (Ramamoorti et al.,

2009) through setting up sham charities (Lamothe et al., 2023), as misplaced trust creates opportunities for potential donors to be targeted by fraudsters.

The paper develops a theoretical framework for fraud that aims to include the neglected social dimension of fraud (Free and Murphy, 2015). We contribute to the fraud literature by suggesting that a shift in fraud theories is necessary to embed the relationships between the organisation and its stakeholders and therefore to reflect the factors of 'trust', 'indifference' and 'social control' in organisational settings. Therefore, we extend the small number of fraud studies that use social control theory to understand how norms and values of a social structure define fraud and allow it to take place. In line with our empirical findings, we develop the 'fraud tower', a structure comprised of three interrelated layers (social, organisational, individual) based on the exploitation of norms and values, namely 'trusting indifference' within the sector.

This paper discusses the concept of fraud, fraud theories and prior empirical literature on fraud in the not-for-profit sector in Section 2. We discuss the social control theory and the importance of stakeholders for social control in Section 3. The research questions and research design and methods are elaborated in Section 4 and findings are set out in Section 5. We present our theoretical framework – the 'fraud tower' – in Section 6. We discuss the contributions of the paper and set out our conclusions in Section 7.

2 *The Concept of Fraud: Fraud Theories and Fraud Literature in the Not-for-Profit Sector*

2.1 The Concept of Fraud

Fraud has been defined by the Oxford Dictionary (2003) as "the quality of being deceitful; criminal deception; the using of false representations to obtain an unjust advantage or to injure the rights or interests of another; a dishonest trick", and by Merriam-Webster (1996) as "any act, expression, omission, or concealment calculated to deceive another to his or her disadvantage". The key elements of fraud have been suggested to be deception (Albrecht et al., 1984), abuse (Dellaportas, 2013) and self-benefit (Simpson, 2013).

Although the definition seems to comprise common themes and terms, most of these terms have been affected by events specific to individual societies and have evolved as a consequence of numerous fraud scandals (Rezaee, 2005) and therefore the detailed understanding of the term 'fraud' differs for each jurisdiction and especially for different social and cultural environments (Cooper et al., 2013). Norms and values also shape and define the boundaries of deviance and wrongdoing. The boundaries enable terms such as fraud to be constructed in line with the values of norms of a given society or community (Greve et al., 2010). Therefore, the fraud phenomenon requires multiple levels of analysis and one important level is the social context (Cooper et al., 2013), as fraud is suggested to be a social phenomenon (Sanders and Hamilton, 1997; Neu et al., 2013) that affects not only the organisation or a particular set of people but a variety of sections in society (Shadnam et al., 2020).

In a wider sense, literature on wrongdoing and criminal behaviour also stresses that these terms should be evaluated within their social, political, economic and cultural environment. Pinto et al. (2008) suggest that misconduct not only covers the features of individuals inside the organisation but also the organisation's external environment. Vaughan (1999) suggests that misconduct is a product of interaction between personal cognition, individual choice, organisational structure and environmental dynamics. The sophistication and dynamism of the environment is believed to play a role in illegal activities. Zahra et al. (2005) posit that fraud has societal, as well as industrial and organisational antecedents. They suggest that not only individual antecedents for fraud to take place are important but that fraudulent activity depends on societal, industry level, organisational level, and individual level antecedents which may contribute to opportunistic behaviour. It is therefore important to assess how fraud is being conceptualised and framed socially (Becker, 1963).

Studies of fraud have generally focused on the individual – the fraudster (Albrecht et al.,2008; Morales et al., 2014) – and on the response of markets and organisations (Cooper et al., 2013; Dechow et al., 1996). As Courtois and Gendron (2017) suggest, the fraud literature focuses on the individual as if the individual is the sole source of deviance, and mostly ignores the social dynamics of malfeasance (Morales et al., 2014). Also, the theoretical and empirical literature on fraud, which focuses on the dynamics of fraud in the for-profit sector (Cooper et al., 2013), mostly ignores the norms and values of other groups and their importance in explaining fraud (Neu et al., 2013; Phiri and Guven-Uslu, 2019).

Although stakeholders have been identified as important in assessing the perception of fraud (Shadnam et al., 2020; O'Higgins, 2006), their views have mostly been given little attention. Analysing the perceptions of why fraud occurs in the not-for-profit sector from multiple stakeholder viewpoints is important as stakeholders fulfil a key social control function. We focus on the social control theory, which is our theoretical lens, in Section 3. In the next section we review fraud theories in the literature.

2.2 Fraud theories

This section embraces theories that study the nature of occupational fraud. Cressey built on the notion of 'white-collar crime' developed by Sutherland (1940, 1949) to construct the theory of the 'fraud triangle' in 1953. Cressey identifies the three factors or dimensions that form the triangle as pressure, opportunity and rationalisation.

Pressure, which Cressey (1953) defines as being financial, derives from 'non-shareable' problems that can only be solved by acquiring the resources of others. Perpetrators perceive pressure, and this leads them to commit fraud (Albrecht et al., 2008). Some examples of pressure are debt, health-related needs, addictions (drugs, gambling, alcoholism, etc.), desire for possessions, work-related pressures to be successful, fear of loss of employment, and family demands (Burke and Sanney, 2018).

The second factor is opportunity, in which the fraudster believes that there are chances to act fraudulently without being caught (Cressey, 1953). Gottschalk (2019) suggests that the perpetrator can create and expand opportunity over time. Dorminey et al. (2012) argue that weakness in monitoring and control and the remoteness of being caught create a perception of opportunity for the fraudster. Crawford and Weirich (2011) posit that the nature of the industry, lack of monitoring, unstable organisation and insufficient internal control activities are sources of opportunity.

Rationalisation, the third factor, identifies the perpetrator's justification for fraudulent behaviour, or the underlying motivation and moral excuse for the fraudulent action (Dellaportas, 2013). The act of fraud is justified by reasons and beliefs such as being unpaid or underpaid, short-term 'borrowing', being under-appreciated, and personal reasons such as revenge (Burke and Sanney, 2018).

Cressey's work (1953) has been tested and largely supported by many scholars (for example, Abdullahi and Mansor, 2018; Bell and Carcello, 2000; LaSalle, 2007) and it has led to further work to examine fraud (Roden et al., 2016). Theories have been further developed to try to enhance the fraud triangle model by focusing on new components, especially those related to personal traits and competence of the perpetrators. Albrecht et al. (1984) proposed replacing the rationalisation dimension by adding personal integrity to Cressey's theory, creating the 'fraud scale'. They argued that higher pressure and opportunity and lack of personal integrity will cause the scale to shift towards the occurrence of fraud. Wolfe and Hermanson (2004) enhanced the fraud triangle model with the addition of a fourth factor, capability, and came up with the 'fraud diamond'. The factor 'capability' posits that the fraudster must also be able to commit fraud.

Marks (2009) added the components of arrogance and competence to the fraud triangle and derived the 'fraud pentagon'. Sorunke (2016) suggests a different fraud pentagon model that adds 'personal ethics' as a fifth component to the fraud diamond, in which fraudsters are motivated by lack of ethical stance. Soltani (2014) also suggests modifying the fraud triangle, especially emphasising the importance of the opportunity component, by reflecting themes such as control environment, regulation and organisational ethical climate.

Ramamoorti et al. (2009), in their ‘ABC analysis’, argued that fraud is made up of three aspects: the ‘bad apple’, which is the individual who acts fraudulently, the ‘bad bushel’, which symbolises collusion in fraud behaviour, and the ‘bad crop’, which is the organisational and social dynamic that leads to fraud.

Dorminey et al. (2012, p.565) criticise the fraud triangle theory as being only a descriptive model. They argue that rationalisation and pressure are temporary factors and that the fraud triangle concentrates only on the ‘accidental fraudster’ “who under normal circumstances would never consider theft, break felonious laws, or harm others.” They suggest that the factors of pressure and rationalisation that were identified by the fraud triangle should be replaced by criminal mind-set and arrogance. They propose that the fraudster may also act as a ‘predator’, an individual who is a repeat offender (Hermanson et al., 2017), whose permanent purpose is to conduct fraud and who only needs ‘opportunity’ to complete his/her act.

The literature provides ample integration of theories to explain fraud. While Albrecht et al. (2004) integrate agency, stewardship and fraud triangle theory, Choo and Tan (2007) enhance Albrecht et al.’s (2004) theory by adding features of the ‘American Dream’ idea, which are: importance of success in terms of money, disregarding regulation, and justification of the fraudulent act. Raval (2016) proposes a ‘disposition-based fraud model’, criticising the fraud triangle theory for ignoring the human side of fraudulent behaviour and emphasising that human desires and intentions determine the act of fraud or absence of it. Lokanan (2015, p.6) argues that the “multifaceted and interrelated complexity of fraud makes it difficult to come up with a unidirectional causal theory that can explain all occurrences of fraud” and posits that the macro social environment should also be elaborated in discussing fraud and fraudulent behaviour. The fraud triangle model is also criticised as treating fraud as being only incidental (Free and Murphy, 2015), and the roles of political and economic institutions (Morales et al., 2014), the social dimension (Murphy and Free, 2015) and collusion (Free, 2015) in the occurrence of fraud are not adequately explained.

Table 1 below depicts the key aspects of some fraud theories with an emphasis on the fraud triangle. These theories will be assessed in Section 6 of this paper.

[INSERT TABLE 1 HERE]

2.3 Empirical work on why fraud occurs in the not-for-profit sector

Although fraud plays a crucial negative role in the not-for-profit sector, literature on fraud in this sector is limited compared especially to the for-profit sector (Harvey, 2018). Compared to the large number of for-profit fraud studies, only a few studies investigate fraud in the not-for-profit sector, and these have generally been quantitative (Harris et al., 2017). One of the earliest empirical studies of fraud in the not-for-profit sector was that of Gibelman and Gelman (2001), who analysed non-governmental organisations (NGOs) that had experienced incidents of wrongdoing. They found that the absence of effective accountability and control mechanisms explained the occurrence of wrongdoing. Further studies (Gibelman and Gelman, 2002, 2004; Fremont-Smith and Kosaras, 2003; Fremont-Smith, 2004) used information derived from newspapers to categorise and analyse fraudulent activities.

Greenlee et al. (2007) attempted to identify perpetrators and victims of fraud in not-for-profit organisations in the USA. They found that, in a typical fraud, the fraudster was a woman with no previous criminal offences who had worked in the organisation for at least three years, and the median value of the fraudulent event was below $50,000. They also found that, in at least a quarter of the cases, the perpetrator was the organisation's manager. Kihl et al. (2021) also found the fraud perpetrators in nonprofit community sport organisations to be the most trusted ones such as the volunteers or trustees. Holtfreter (2008) used survey data on auditors of not-for-profit organisations in which fraud had taken place, based on the findings of the Association of Certified Fraud Examiners (ACFE). She found a negative correlation between the value of the fraud loss and organisational size and effective control. Holtfreter (2008) and Archambeault et al.(2015) also found that female employees were the leading fraudsters and the size of loss correlated with the organisational role of the fraudster.

Insufficiency of internal control especially in small not-for-profit organisations has also been assessed (Keating et al., 2005; Petrovits et al., 2011). Kummer et al. (2015) analysed data from a survey of not-for-profit organisations in Australia and New Zealand. They posit that vulnerability to fraud, insufficient internal controls and inability to detect fraud (especially in small not-for-profit organisations) show that existing fraud prevention and detection tools in not-for-profit organisations have only limited effectiveness. Harris et al. (2017) found that fraud is less likely to occur if administration is undertaken internally rather than being outsourced, the organisation is audited, and there is monitoring of government grants and debts to the organisation. Lamothe et al. (2023, p.19) found that nonprofit organisations not prone to misconduct have an independent oversight of the board of trustees and enhanced transparency and reporting compared to nonprofit organisations that are prone to misconduct. They also found that whistleblowing or retention policies did not work as expected against misconduct.

Empirical studies of fraud and misconduct in the UK charity sector (mainly focused on Scottish charities) have appeared only recently (McDonnell, 2017; McDonnell and Rutherford, 2018). The latter study found a "disconnect between the types of charities that are suspected of misconduct and those that are subject to subsequent regulatory action" (McDonnell and Rutherford, 2018, p.1). Ohalehi (2019) studied fraud in small charities in England and Wales, and concluded that the absence of a strong control system and lack of segregation of duties means that smaller charities face a greater threat of fraud.

3 Social Control Theory and Theorisation of Fraud

Although the term 'social control' began to be used in the 19^{th} century, it came to be theorised and used in assessing deviance from norms and values and to be associated with crime in the 20^{th} century (Costello and Laub, 2020). Social control has been defined as tools and processes that regulate and limit the actions of groups or individuals to achieve social harmony and tackle the deviant behaviour of individuals and groups based on common social good (Hirschi and Gottfredson, 1993; Rebellon and Anskat, 2018).

Reiss (1951) defined social control as the ability of a society to prevent wrongdoing against the values of the society. Toby (1957) suggested that social control can impose the pressure of isolation from the community or the society if the individual deviates from the norms, and therefore forces the individual to be in line with the norms. Nye (1958) distinguished the forms of control as direct control such as sanctions, indirect control such as norms and values and internal control as personal motives that prevent deviance from the social rules.

Hirschi's (1969) social bond theory argues that crime and/or fraud is a result of weak or non-existent social control (Sampson and Groves, 1989; Kubrin and Mioduszewski, 2019). In his book *Causes of Delinquency*, Hirschi (1969) assesses mechanisms that can prevent wrongdoing such as strong ties to society and to family. Foucault (1977) argues that lack of effective social control may lead to opportunistic behaviour or deviance as a result of perceived opportunity. Foucault (1977) suggests that through disciplinary social control, norms are created and that the members of a society obey the norms, which ‘normalises’ the society (Lianos, 2003). Hirschi (2004) stresses the importance of social bonds, and suggests offenders are those with few or no social bonds.

Social control can be both formal and informal and can be imposed through both negative (fines etc.) and positive (approval etc.) methods (Becker 1963; Courtois and Gendr2017). Foucault (1977) suggests that social control is not limited to the state but can be performed by institutions or groups in a society such as the family, prison or school, where the individual is under constant oversight. For Foucault (1977), the power to control is not only imposed by society as a whole, but by individuals or by groups that have ‘micro-power’ relationships. Hirschi (1969) stresses the importance of ‘social institutions’ in the function of social control and suggests that deviant acts occur when the social bonds and attachments with society or the group deteriorate.

Social control can be divided into formal (legislation, imprisonment, education, economic regulation, codes of ethics) and informal social control (community monitoring, ceasing of relationships) (Groff, 2015). Informal social control is applied by social actors within the community without any written rules or principles and is mostly voluntary. Informal social control finds a place especially in monitoring within a community (Silver and Miller, 2004). Formal social control in the not-for-profit sector is performed more by the trustees, regulator and auditors. Informal social control on the other hand is mostly performed by donors and beneficiaries. For Phillips (2010) and Goebel and Weißenberger (2017), informal social control is crucial in preventing unethical behaviour especially if legal control and regulation are ineffective, and stakeholders are important in realising social control as they structure the social norms and values.

Donors for example often identify with a specific 'cause' and are inclined to donate to a charity that they identify with (Venable, 2005). However, donors who are dissatisfied with their preferred charity have the power to end the financial relationship which the charity depends on to survive (Andreoni, 1990), either by donating to another charity or deciding not to support the general cause any longer. Although much less powerful, beneficiaries can also indirectly exercise social control by expressing their dissatisfaction with the charity, and negative information from beneficiaries about the charity can lead to a reduction in donations received. A recent example of beneficiary dissatisfaction related to the Oxfam staff's misconduct in Haiti, which tested the communication skills of international non-governmental organisations in times of crisis (Scurlock et al., 2020).

As Courtois and Gendron (2017) suggest, norms and values may differ from one group or society to another and therefore a perfect construction or generalisation of fraud is not possible. As a result, different sets of norms or values may result in different framings of fraud. As well as society, the stakeholders of an organisation are argued to control and oversee the actions of the organisation (Lokanan, 2018; Barnett, 2014). Stakeholder-based social control is thought to favour both the organisation and the stakeholder as focusing on stakeholder needs and not opportunistic behaviour (Fombrun et al., 2000).

The not-for-profit sector has its own social and cultural context defined by the moral values and norms of the specific society in which the sector is located. In this respect enhanced social control also allows the voices of less powerful stakeholders to be heard (Barnett et al., 2020). Stakeholder engagement is argued to enhance responsible action and therefore diminish deviance from the stakeholders' needs and expectations (Greenwood, 2007).

However, little is known about how social control is achieved in not-for-profit organisations. Social control theory has also not been used in charity sector studies and stakeholder-based analysis (Greenwood, 2007; Lokanan, 2018) and views of agents (stakeholders) about social control have not been assessed (Barnett et al., 2020). As it has been argued that deficient social control may lead to deviance from social norms, this study assesses through the views of stakeholders in the not-for-profit sector how deviance is thought to be possible. We therefore use social control theory to understand how norms and values of a social structure define fraud and allow it to take place (Cooper et al., 2013). The next section discusses the research questions and the method used in the paper.

4 Research Questions and Method

4.1 Research questions

Because charities are dependent on their stakeholders, ascertaining stakeholders' understanding of fraud is crucial in deepening the analysis. The empirical literature on fraud is predominantly based on quantitative research methods. The role of the external environment and the influence of stakeholders have not been assessed in detail (Trompeter et al., 2014; Shafer et al., 2016). We therefore aim to extend the fraud literature by conducting interviews with charity stakeholders to examine how they conceptualise fraud and their views on why fraud occurs in the charity sector. Building on this, we develop an explanatory fraud model specifically for the not-for-profit sector, in line with ways in which stakeholders in this sector frame fraud.

Most of the fraud theories and models (see Table 1) are derived from first person impression of fraud or based on the findings of studies regarding perpetrators or executives of organisations. Through the lens of social control theory, we analyse how fraud is conceptualised by not-for-profit sector stakeholders. Our research objective is to assess how the notion of fraud in not-for-profit organisations is perceived by the agents of social control (stakeholders), and to assess their views on what causes fraud in the charity sector. We identify two research questions:

RQ1: How do stakeholders conceptualise and perceive fraud in the charity sector?

RQ2: What do stakeholders consider to be the most relevant explanations for fraud in the charity sector?

Because we wanted to explore the nuanced views of stakeholders about fraud in the charity sector, we undertook a series of semi-structured interviews with different stakeholders.

4.2 Research method

We identified five groups of stakeholders: the regulator and watchdog organisations, charity officials, auditors/accountants, donors, beneficiaries. To ensure that we obtained a wide range of views, three of the five stakeholder groups were each divided into three sub-groups, and we interviewed stakeholders from each sub-group. Donors were distinguished into sub-groups based on the Foundation for Social Improvement's (FSI) Small Charity definition

(UK Fundraising, 2019). Charities were divided into sub-groups according to size of annual income, using the Charity Commission's database (Charity Commission, 2020). The accountant/auditors were identified and distinguished into sub-groups by using the Charity Audit Spotlight Report (Charity Audit Spotlight, 2017).

The charity officials included trustees, managers, audit committee members, fraud prevention specialists and finance directors. All auditors/accountants were external to the organisation and were identified according to their income from the charity sector. We selected donors giving both smaller and larger amounts, and included funds, for-profit organisations, national authorities, local authorities and individual donors. We identified beneficiaries who received direct monetary benefits as well as benefits in kind, such as scholarships, accommodation, food and clothing, use of libraries, and access to places of worship. Table 2 summarises the number of interviewees for each stakeholder group:

[INSERT TABLE 2 HERE]

An interview guide, and a consent request for recording and subsequent use of the interviews, were developed and ethical clearance was secured before the interviews took place (Creswell, 2013, Walliman, 2006). In total, 41 interviews took place between February and July 2018, of which 38 were face-to-face and three used telephone or Skype. Each interviewee was given a unique reference, to maintain anonymity and to provide identification of comments made. Semi-structured questions were used, with a few closed-end questions. All the interviews were recorded with a hand-held audio recorder, with the permission of the respondents. We found that, by the seventh or eighth interview in specific groups, answers tended to repeat those given in earlier interviews, confirming the appropriateness of the pre-determined interview numbers.

Interviews were transcribed within one month, and transcriptions were analysed through content analysis using NVivo. The coding process enabled the emergence of various themes that are assessed in the ‘Findings’ section. The coding was performed in three steps (Strauss and Corbin, 1998). The transcripts were conceptualised and categorised during the open coding process. The analysis of the coded data generated categories and subcategories of themes. Subcategories such as differences of perceptions on fraud in the for-profit, public and not-for-profit sectors, important norms and values that maintain social control, and red flags of fraud were the themes identified by use of axial coding. Finally, the use of selective coding enabled the integration of different categories and subcategories and helped us to construct a fraud model based on our findings.

5 Findings

The findings section first elaborates how social control agents perceive fraud (RQ1) through assessing what respondents understand from fraud and how fraud in the not-for-profit sector compares to fraud in the other sectors (sections 5.1 and 5.2). Then relevant explanations for fraud in the charity sector given by the respondents was evaluated (RQ2) through focusing on reasons and red flags of fraud in the sector.

5.1 Stakeholders’ understanding of fraud

To provide an insight into how stakeholders conceptualise fraud in the charity sector (**RQ1**), we asked interviewees what they understood by ‘fraud’ with respect to charities. Although the answers varied from a single sentence to comprehensive and detailed explanations of fraud, we could identify frequently used descriptions. Table 3 summarises the words and expressions used to describe and classify fraud:

[INSERT TABLE 3 HERE]

Small donors and beneficiaries defined fraud in simple terms, while officials from the regulator, watchdog organisations, and larger charities, as well as auditor/accountants and larger donors, referenced legal definitions such as the Fraud Act (2006).

Figure 1 provides a list of words that respondents frequently used to define fraud in the charity sector:

[INSERT FIGURE 1 HERE]

Most of the terms used to define fraud are in line with dictionary or legislative definitions of fraud. However, the term ‘reputational harm’, which was one of the terms favoured by the stakeholders, can be differentiated from the rest of the terms as it also stresses the social importance and consequences of fraud and that, especially for the charity sector, fraud has deeper social influence (Cooper et al, 2013; Carroll and Olegario, 2020). In this respect, ‘reputation’ and the harm brought by fraud to reputation also reflects an important value that is comprised in the charity sector. Being seen as a victim of fraud may have a greater impact on the reputation of a charity than it would on the reputation of a for-profit entity.

We also asked interviewees whether charity sector fraud differed from fraud in the public and for-profit sectors. Most respondents do not believe that the problem is hugely different compared to other sectors:

"Charities can be hurt by the same kind of fraud that hurts any other kind of organisation. I guess the main difference between a charity and other types of organisations are some of the unique attributes that the charity sector has." ***(RW1, 08.05.2018)***

The term 'fraud' described by the stakeholder usually matches legal definitions. However, in order to understand how social control agents compare fraud in the not-for-profit sector with other sectors we assessed further on topics such as vulnerability of the sector against fraud.

5.2 Vulnerability to fraud

Assessing vulnerability to fraud is argued to be one of the first lines of defence in tackling fraud (Rezaee, 2005). The interviewees were requested to consider whether the charity sector is more vulnerable to occupational fraud than the for-profit and the public sectors. This provides insight into how stakeholders perceive fraud in the charity sector (**RQ1**).

The figure below (Figure 2) depicts for each stakeholder group the percentage of respondents who suggested that the charity sector is more vulnerable to occupational fraud compared to the public and the for-profit sector:

[INSERT FIGURE 2 HERE]

Donors and beneficiaries are the stakeholder groups more reluctant to define the charity sector to be vulnerable to occupational fraud compared to for-profit and public sectors.

Auditors and some charity officials suggested that the laid-back attitude of mainly donors and beneficiaries exacerbated the problem of fraud in the sector, creating gaps that can be exploited by fraudsters. Lower remuneration in the charity sector compared to the for-profit sector was also identified by some respondents as a reason why some charity officials find illicit ways to augment their income.

Some interviewees, especially the majority of donors, beneficiaries and some charity officials, believe that charities are secure from fraud because people do not work in the charity sector for their own personal benefit but rather to bring good to the wider public. Some respondents thought that, because fewer resources are deployed in the charity sector than in the private sector, fraudsters would be deterred from acting opportunistically as there is less to gain:

> *"Because the charity sector labours under an illusion that fraud does not exist, based on the fact they say to themselves, 'we are a charity so who will commit fraud against us?' And the answer is overwhelmingly the charities' own staff. 80% to 90% of fraud in charities is committed internally."* ***(C1, 28.05.2018)***

Some respondents thought that charities seem to care less about procedures and policies, and these are therefore not often put in place, because the sector is reliant on trust. Many respondents suggested that belief that those involved with charities will not commit fraud because they are trustworthy and 'nice' people creates an important vulnerability, which we call 'excessive trust'. Charity officials, whether trustees, managers or volunteers, find it hard to believe that charities would be targeted by fraudsters, and therefore are unwilling to challenge the charities to prevent fraud in the first place. One respondent observed that there are two important issues:

> *"One is accountability or lack of, and the other is trust and abundance of. The charity sector, the trust is the lubricant that gets everything done. I trust you, you're nice, I'm nice, I trust you, you trust me, we're a charity so who can do fraud against us? As a supervisor, you could sound too busy and important and you could do what you like and so it goes on."* ***(C1, 28.05.2018)***

Most of the respondents argued that, due to the different nature of the for-profit and not-for-profit sectors, differences of relationships among the organisations and their stakeholders are unavoidable. In the case of charities, there is over-reliance on trust and the absence of residual stakeholders in the form of shareholders, which leads to less scrutiny:

> *"Well, the for-profit sector has stakeholders as shareholders who may be more demanding of the organisation from a financial point of view in terms of turning a profit at the end of the day. Perhaps there is less scrutiny in that sense of a charity than there is to a commercial organisation."* ***(D1, 15.04.2018)***

> *"The relationship is a lot less tangible but in a way it makes a lot more complicated as well because the main difference for charities is that at the end of the day they rely on public trust and confidence. Public trust and confidence is very fleeting and is very difficult to manage, it's very easy to lose, it's difficult to rebuild when things go wrong. That then has implications on all sorts of relationships that the charity has."* ***(RW3, 08.03.2018)***

The respondents suggested that relationships in the charity sector are based on good intentions and belief in the cause and less on expectations, especially for donors (Andreoni, 1990; Rose-Ackerman, 1996). Some respondents argued that absence of formal ties and links between the charities and their stakeholders allows donors and beneficiaries to easily walk away and end their relationship with a charity without any hassle. This is unlike the for-profit and public sectors where in the public sector the relationship is mandatory because of citizenship and in the for-profit sector there is an expectation of a service or product:

> *"I think the relationship between funder and beneficiary in a charity is different to certainly a private sector where the customer is the funder and the beneficiary at the same time. ... Whereas in charities often the funders and the beneficiaries are two completely different sets of people, and that's probably where the difference lies in terms of the stakeholder map. Obviously, each of them also have regulators and other things from that sense that's consistent."* ***(A4, 09.07.2018)***

> *"You don't have a choice if you're in the public sector because you have to pay tax, in the private sector you have a choice but that's a contractual business relationship. Whereas if you're a donor it's because I believe in and I want to give some from a charitable beneficiary basis, I want to help people, I believe in the cause whatever it might be so I think their level of commitment can, obviously be, much higher."* ***(RW1, 08.05.2018)***

However the act of giving is very complicated and a donor may continue to donate to a charity even after fraud has occurred or is suspected if they consider that the benefits generated by the donation are still of value. The dynamics of giving may have a role in donating even to a fraudulent charity. For example, Andreoni and Payne (2013) identify four approaches to explain why charitable giving takes place: first, an economic function, where a utility is expected after the act of giving, second as a strategic process as a result of many actors involved such that the regulator, the donors and charities act interdependently, third as a social process as social drivers such as a social request to give affect the donor and fourth as a moral instinct to give as a result of heightened senses of empathy for the vulnerable. This impure altruism is called ‘warm-glow giving’ by Andreoni (1989, 1990). Wong and Ortman (2016) found that donors would like to have their donations maximise charitable output, but do not want to spend a long time searching for a suitable charity. The act of giving is also found to be influenced by the individual perceiving his or her personality or self-conception, through the ‘brand’ characteristics of the charity (Sargeant et al., 2008).

Boenigk and Helmig (2013) found that donors’ identification with a charity will have a stronger impact on donor loyalty compared to donor satisfaction. Charles and Kim (2016) found that not-for-profit organisations with better performance outcomes may receive fewer donations, as better performance outcomes create the image of success, making organizations look less needy. Van Iwaarden et al. (2009) found that although effectiveness of how a charity uses funds is important for donors, it is not the major criterion in the selection of a charity. Sargeant and Lee (2004) demonstrated that levels of trust drive giving behaviour.

Respondents also suggested that, although the charities exist to meet the needs of the beneficiaries, beneficiaries lack ‘voice’ with which they can talk to charities and power to direct or influence the policies of the charities:

> *“For me I would place the beneficiary as the top, not in terms of power, because they have very little power, but in terms of which stakeholders charities should prioritise, they exist for the benefit of their beneficiaries. That's why they should be there but they have very little power.”* ***(A4, 09.07.2018)***

"I feel like I'm unable to critique them necessarily because of the power relationship that comes with donation versus recipient. Does that make sense? They hold all the cards. They can cut off my funding. I can't do anything to them." ***(B4, 02.06.2018)***

"We don't have the power to know. I mean even if we had the power, what are we supposed to do?" ***(B3, 08.04.2018)***

Ebrahim (2003) argues that the principal-agent relationship is more complicated for beneficiaries because NGOs are more powerful as they provide resources to the beneficiaries and beneficiaries possess only the threat to complain or refuse the service. This lack of power also leads to indifference against any malpractice in the charity sector.

As discussed, donor giving is not only explained by performance or satisfaction but identification and the desire to give even to underperforming charities. Our findings suggest that this indifference, coupled with a high level of trust, plays a part in the reluctance to question fraud in the charity sector and that the social norms within the sector are influenced by trust and by a level of indifference that prevents a desired level of social control from taking place. This reluctance, which we call 'trusting indifference', is based on a) a high level of trust, b) the 'warm glow' especially for donors, and c) lack of voice for beneficiaries, which deters social control actors from exercising a strong enough level of control on charities. As also will be discussed in section 5.3.1, charity sector fraud differs from fraud in the public sector and for-profit sector as occurring in a weak control environment that provides a tempting target for fraudsters. However, it is interesting that donors and beneficiaries are more reluctant than other stakeholders to agree that the charity sector is more vulnerable to fraud. Some respondents went so far as to describe the view that charities rely on trust rather than controls as an 'illusion'.

Overall, we found that groups of social control actors characterised the charity sector differently, with donors and beneficiaries identifying the sector as trustworthy and immune to fraud, while auditors, the regulator and some charity officials suggest that 'excessive trust' and 'indifference' within the sector enables wrongdoing.

5.3 Causes, preconditions and red flags of fraud

5.3.1 Causes and preconditions of fraud

Interviewees gave a variety of reasons for why occupational or white-collar fraud happens in the charity sector (**RQ2**). Many respondents had witnessed actual frauds or had information about fraud in charities, therefore answers reflected not only theoretical but also real-world experiences of fraud.

Important factors paving the way for opportunistic behaviour included deficiencies in organisational culture, which inhibited establishing a suitable environment and providing adequate awareness to deter and prevent fraud, along with insufficient policies to tackle fraud. Tolerating behaviour that appears to be innocuous but is not in accordance with the organisation's policies is argued by respondents to cause more serious problems especially for larger charities. The importance of 'tone at the top' and ethical conduct was also underlined:

> *"I think so much of it is down to culture. If leaders don't exhibit the behaviours, that means that … auditors come in and controls are talked about and eyebrows are*

raised. If you get that tone from the top where this is just seen as a nuisance, it's not adding any value, then that just creates a cascade of people thinking, 'Well, I don't need to worry about this. I don't need to behave in this way,' and then, at some point, somebody says, 'Hang on. If that's the case, I can maybe get away with this'." ***(A4, 09.07.2018)***

Structural problems such as the presence of a strong founder and a lack of segregation of duties were also discussed. Loading too many functions on one person was argued to give that person too much power and may allow opportunistic behaviour to take place. Absence of segregation of duties was especially a problem for the smaller charities due to insufficient staff and resources. Strong personality and a dominant individual, coupled with an abnormal turnover of other positions, were underlined as problematic areas.

Some respondents also highlighted a lack of interest on the part of trustees, who were thought to have insufficient day-to-day involvement, seeing trusteeship as a hobby rather than a proper duty. Respondents also suggested that there were not enough board of trustee meetings and committees. This was argued to lead to breakdown of trust between the board of trustees and the management, which is reflected in lack of proper oversight.

In terms of external reasons, some respondents highlighted insufficiency of sanctions, the regulator being deprived of resources and determination, and regulation being only effective for larger charities. Respondents also identified the existence of 'sham charitable organisations', which are not authorised fundraisers but are formed solely to solicit donations in a fraudulent way. Donors and beneficiaries stressed fraudsters' motives, such as greed, financial problems, revenge, and lack of satisfaction in the work. Habitual criminal behaviour was also mentioned by the respondents, consistently with the idea that fraudsters are predators (opportunity seekers), suggested by Dorminey et al. (2012):

> *"People who do not have the most honourable intentions might actively seek out the charity sector for that particular reason, having the weak controls and weak governance, and the charity sector creates more opportunity for the people who want to take advantage."* ***(RW1, 08.05.2018)***

> *"Because people are opportunist. They want to grab the benefits and it is easier [for the fraudster] to escape from charities."* ***(B2, 11.04.2018)***

Although donors and beneficiaries identify the sector as trustworthy, they also agree with other stakeholders that the sector is targeted easily by fraudsters and that the fraudsters may believe that charities will be much easier targets. However, they mostly believe that the occupational fraudsters are 'opportunity seekers' alien to the sector. This suggests that they believe people within the sector to be trustworthy, but they do not accept that perpetrators of fraud can come from the sector.

All stakeholder groups mentioned lack of effective control, including both internal and external oversight, as a precondition of fraud. Control was used as an umbrella term comprising more than just internal and external audit. Respondents believed that the control function should be performed by a wide range of stakeholders, including the trustees, the managers, the staff and, if possible, donors and beneficiaries.

> *"[I]f the control environment is weak, then I believe a fraud can happen, and I have a concern. I don't look whether a fraud is happening. I look to see whether there is an environment that allows fraud to happen."* ***(A1, 03.04.2018)***

Figure 3 provides a summary of the reasons for fraud mentioned by respondents. The figure counts the number of times that specific reasons for fraud were articulated by stakeholders.

[INSERT FIGURE 3 HERE]

5.3.2 The fraud triangle

With respect to **RQ2** – What do stakeholders consider to be the most relevant explanations for fraud in the charity sector? – the fraud triangle theory of Cressey (1953), including the factors of pressure, rationalisation and opportunity, was assessed. This allowed interviewees to have second thoughts on fraud in charities. Respondents considered opportunity to be the leading factor that enables fraud in the charity sector. Even in the presence of pressure and the ability to rationalise fraudulent actions, the opportunity to commit fraud will be limited if controls are robust:

> *"- opportunity is the key, because it's observable, it's controllable, it depends on the amount of money you have. In other words, you have control over that one. What you don't have control over or less control over is people's motivation or their rationalisation."* ***(D2, 15.05.2018)***

While accountants/auditors agreed that opportunity is the dominant factor that affects fraud in charities, it was also the leading factor proposed by other stakeholder groups, including donors and beneficiaries:

> *"It's all about leave the keys to the door. I think that is the pivotal part. If that's locked down, and no matter what the pressure is on the person, no matter how they*

justify it, they can't get in. They can't commit the fraud. It's having a jeweller with no front door or window. […] For me it's all about opportunity." ***(A3, 25.03.2018)***

"If they know that they can do it, and they can get away with it and if there's opportunity to do it, obviously people will do it. Anyone would do it. It's just, it's all human." ***(B3, 19.06.2018)***

Pressure was respondents' second choice of factor and was most often referred to by smaller donors and beneficiaries. These respondents argued that if potential fraudsters face the financial pressure of not having enough money to survive, they will rationalise their actions and look for the right opportunity to commit fraud. Some charity officials observed that salaries in the charity sector are far less than those in the for-profit sector. This may force charity officials to find other ways to make a living.

While some respondents replied that both opportunity and pressure are equally important for fraud to take place, only four respondents considered that rationalisation was the key component. Overall, opportunity led the way as the most important component of the fraud triangle in explaining why fraud might take place, as can be seen from figure 4 below:

[INSERT FIGURE 4 HERE]

5.4 Red flags of fraud

Interviewees were asked about how they develop suspicions about fraud, in particular the signals, fraud risk indicators or 'red flags' (Gullkvist and Jokipii, 2013), that may alert them to the possibility that fraud might be occurring **(RQ2).** We identify three types of red flag. The first group of red flags consists of conflicts of interest among charity officials such as trustees and managers, the involvement of family members of trustees or managers, the presence of a dominant founder who intervenes in every aspect of the charity, and control of the financial system of a charity by a single person.

Secondly, respondents identified peculiarity in documentation, such as missing or absent documents (particularly evidence of expenditure), problems in bank reconciliations, and delays in submitting accounts. The use of fake domain names and personal email accounts were regarded as red flags for large charities.

The third type of red flag is the existence of financial irregularities, such as significant variances between the budget and actual expenditure, trading activity or disbursements which seem out of kilter with the charity's size or aims, spending very little on charitable objectives, and improper use of restricted funds and grants.

Accountants also mentioned annual accounts and financial measures as sometimes providing red flags of fraud, such as irregularities in the double-entry bookkeeping system, excessive capital expenditure and payroll costs and excessive use of cash:

> *"I would generally be looking for projects with heavy expenditures: that might be capital expenditure. ... That could be through, say, inflating an asset cost. Or otherwise it would be the classic expenses that go through an income and expenditure account or statement of financial activities. ... Where there is a cost or an asset, the other side could be money leaking from a bank account."* ***(A5, 24.03.2018)***

Social behaviour, including behaviour that is not normal in an organisational sense, was also identified as a red flag for fraud: an example of this would be people not taking holidays. Overall, a dominant founder, missing documentation and excessive use of cash were highlighted as some of the important red flags that might identify a possible fraudulent charity.

6 *A model for fraud in the charity sector: The fraud tower*

Our study suggests important findings regarding the perception of fraud, the norms and values that form the social control structure in the charity sector. Figure 5 below depicts how fraud is conceptualised in the charity sector.

[INSERT FIGURE 5 HERE]

Our findings suggest a strong link between how charity stakeholders stress the reasons for and sources of fraud and how fraud is conceptualised in the charity sector. First, stakeholders perceive that the charity sector is unprotected from 'opportunity seekers': fraudsters whose permanent purpose is to conduct fraud and who only need 'opportunity' to complete their act. Although we believe that these fraudsters can be identified as 'predators' as they purposefully target the charity sector to take advantage and therefore are not 'accidental fraudsters' (Hermanson et al., 2017), we do not have evidence that many fraudsters in the charity sector actually are predators, 'repeat offenders' who target charities with the goal of committing fraud (Dorminey et al., 2012). We might identify these fraudsters as 'situational fraudsters' who take advantage of apparently weak controls, but who did not enter the organisation with the goal of committing fraud, but again we lack evidence to support our claim. As the presence of opportunity is the main element for these fraudsters to commit fraud, we identify the perpetrators as 'opportunity seekers' who purposefully target the sector.

Secondly, our findings suggest that the control environment is weak in the charity sector, which provides a tempting target for fraudsters. As suggested by our respondents, the problems within the control environment were related to structural issues such as insufficient segregation of duties (especially a problem for small charities) and a lack of appropriate culture and policies (identified by respondents as the major factor that enables fraud in larger charities). These deficiencies were argued to affect the whole sector. Overall, insufficient control was suggested by respondents to be the most important aspect that enables fraud.

Finally, the breach or exploitation of the norms and values that shape social control in the charity sector contribute to the occurrence of fraud. The not-for-profit sector has its own social control norms based on a subculture of mutual trust (Salamon and Anheier, 1998). Two elements of the social norms embedded in the charity sector play a part: a high level of trust, which leads to an assumption (especially by the donors and beneficiaries) that wrongdoing is not possible, and the existence of 'indifference' , where the 'warm glow' of donating no matter what is embedded within the culture and beneficiaries are indifferent due both to existence of trust and lack of power to raise their voices. We therefore suggest that, especially for donors and beneficiaries, there is 'trusting indifference' manifested through trust in the sector but also through a level of indifference, consistent with and integrating the findings of previous research relating to both donors (Andreoni, 1990; Rose-Ackerman, 1996) and beneficiaries (Ebrahim, 2003). The concept of 'trusting indifference' in not-for-profit organisations may mean that behaviour that would be immediately identified as fraudulent in for-profit organisations is excused or overlooked. Therefore, the social norms within the sector are influenced by trust and a level of indifference that prevents the desired social control from taking place.

[INSERT TABLE 4 HERE]

Table 4 summarises the explanations for fraud found in the present study by reference to the theories discussed in section 2. In the context of Cressey's theory of the 'fraud triangle', opportunity was suggested by respondents to be the leading factor in explaining fraud in charities. The other two components (pressure and rationalisation) were referred to much less by respondents. Other explanations, such as personal integrity, personal ethics, arrogance, competence, and capability, were proposed by respondents. The charity sector itself can be regarded as a 'bad crop' (Ramamoorti et al., 2009), as trustworthiness creates the opportunity to be targeted by fraudsters. The concept of 'predators' suggested by Dorminey et al. (2012), which emphasises habitual criminal behaviour to target the sector, may also help in explaining the dynamics of fraud in the charity sector and the existence of 'opportunity seekers'. Although 'opportunity' was identified as the leading explanation for fraud, we conclude that the fraud triangle needs further analysis and enhancement, especially to comprise the sociological multiple-principal environment of the charity sector (Morales et al., 2014).

The belief of donors and beneficiaries that the whole charity sector is based on people with good intentions is criticised by others, who suggest that this is an illusion encouraged by the charity sector. This excessive trust, coupled with a high level of indifference from donors and beneficiaries towards charity finances, was also found to contribute to the lack of oversight and of controls within the sector and leads to the identification of the charity sector as an easy target for fraud. We suggest that the easy exploitation of norms and values in the charity sector such as trust (Dupont and Karpoff, 2020) plays a major part in the occurrence of fraud. Another value in the charity sector, that charities are made up only of good people who have come together for good intentions, is found to exacerbate the fraud problem. Therefore, we suggest that the norms and values that influence social control in the charity sector are worsening the fraud problem and easing the process of wrongdoing.

The social level of fraud is coupled with organisational weaknesses such as lack of an effective control environment, which enables fraud to take place. Therefore, social level, organisational level and individual level opportunities allow fraud to take place in the charity sector, which are interrelated with each other. The permissive structure of the society which arises by 'trusting indifference' leads the way to a 'relaxed' control environment and lack of oversight in the charity sector. These organisational opportunities provide the gateway for personal opportunities or 'opportunity seekers' to target the charity sector. This is shown in the 'fraud tower', which we found to be useful in understanding fraud in the charity sector. Figure 6 depicts the 'fraud tower':

[INSERT FIGURE 6 HERE]

Our findings suggest that fraud is likely to occur in the charity sector because of three interrelated concepts: (1) the social layer, which provides trusting indifference, (2) the organisational layer, which as a result of the trusting indifference enables opportunities for fraud to take place, and (3) individual layer, in which opportunity seekers target the charity sector due to trusting indifference and lack of adequate control. Overall, our findings suggest that these three concepts are not separate from each other but tend to emerge especially from the social layer as the stepping-stone.

7 *Contributions and conclusions*

The paper attempts to assess the concept of fraud in the charity sector through the eyes of stakeholders. The study draws on social control theory for understanding not-for-profit sector stakeholders' conceptualisation of fraud in itself, and how they perceive the dynamics of fraud. We find that 'trusting indifference', which is embedded in the norms and values of the charity sector, is perceived by stakeholders to play a key role in enabling fraud, hampering effective social control.

We empirically develop a theoretical framework for fraud that aims to include the neglected social dimension of fraud (Free and Murphy, 2015). We contribute to the small number of fraud studies in the accounting literature that assess how fraud is socially perceived, using social control theory to understand how norms and values of a social structure define fraud and allow it to take place, and we develop a theoretical framework for understanding fraud that reflects the viewpoints of stakeholders in the not-for-profit sector. We suggest that fraud should be analysed in a wider frame that includes social dimensions and stakeholder views and effects.

We investigated how stakeholders conceptualise and perceive fraud in the charity sector **(RQ1)**. Our findings suggest that stakeholders acknowledge fraud as a problem, but it is not seen, especially by donors and beneficiaries, the two major stakeholders within the sector, as a substantial threat. Our findings also reveal an important dilemma within the sector. The norms and values within the charity sector, which according to social control theory should prevent wrongdoing, create an environment of trusting indifference in the charities and this in return enables and even fosters fraud. This is consistent with the finding of Neu et al. (2013)

for the for-profit sector that accounting may enable rather than prevent fraud. The findings suggest that there is disconnect between donors and beneficiaries, the two stakeholder groups that make up the majority in terms of numbers, and auditors and regulators on perception of fraud and the threat it poses. This disconnect may also alienate the stakeholder groups in the charity sector (Saravanamuthu and Lehman, 2013), leading to further problems.

We also investigated what stakeholders consider to be the most relevant explanations for fraud in the charity sector (**RQ2**). Respondents identified the charity sector as an easy target for fraud. The empirical findings of the present study lend support to the argument of Dorminey et al. (2012) that 'predators', who in our study transform to 'opportunity seekers', are important, to the notion of a 'bad crop' proposed by Ramamoorti et al. (2009) and to the importance of capability stressed by Wolfe and Hermanson (2004). The challenge of segregating duties was found to be crucial for smaller charities. By contrast, in larger charities, a lack of appropriate culture and policies was identified by the respondents to be the major factor that enables fraud. However, overall, insufficient control was suggested by respondents to be the most important aspect that enables fraud. The interviews also provided information on possible 'red flags' – signals that fraud may be taking place – in the charity sector. Stakeholders identified possible red flags as: lack of documentation, disproportionate use of cash, and aggressively commanding individuals.

This study contributes to the literature in various aspects. First, this study extends research on social control by utilising interviews with the groups that apply control themselves, the stakeholders. The study focuses on the not-for-profit sector, in which stakeholders possess critical importance: Valentinov and Iliopoulos (2013) define not-for-profit organisations as 'stakeholder coalitions'. We therefore contribute to the small number of mostly quantitative fraud studies in the not-for-profit sector. Second, we assess how fraud is conceptualised with norms and values specific to the not-for-profit sector. Third, we identify the important differences of fraud in the charity sector, why concepts such as trust are important in the sector and why *trusting indifference* may be an indicator of poor social control performed by the stakeholders.

The study also suggests a 'fraud tower' model to explain the layers of fraud in the not-for-profit sector. The tower is composed of three layers which are all interrelated. The first, which is also the basis for the other layers, distinguishes fraud in the not-for-profit sector from other sectors by focusing on the social factors that create the opportunity for fraud to take place in the not-for-profit sector. A lack of oversight and of controls, due to trusting indifference, was seen by respondents as the most common explanation for charities being more vulnerable than for-profit or public sector entities. The second layer of the tower identifies the organisational opportunities for fraud to take place in the not-for-profit sector, nourished by the social lack of oversight on the not-for-profit organisations. Not-for-profit organisations were found to have a more relaxed control environment and loose internal and external controls, which creates the organisational opportunity for fraud to take place. The third layer focuses on the individuals – or opportunity seekers – who want to benefit from the social and organisational opportunities and purposefully target the not-for-profit sector as it is deemed to be an easy target. Overall, the study demonstrates that the norms and values of the not-for-profit sector may inhibit social control, indeed, some of these values, such as trusting indifference, may exacerbate the fraud problem.

Further research is needed to establish whether these findings may be extended to other jurisdictions. The existence of a large variety of stakeholders with different priorities, many of whom lack power, is also found to exacerbate the problem of fraud in the charity sector. Therefore, further examination of stakeholders, and how wider groups of stakeholders can become involved in charities, is crucial in addressing and minimising the risk of fraud in the sector.

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TABLES

Table 1 Theories of Fraud

Theory	Empirical/ Theoretical Basis	Key Aspects
Fraud Triangle **Cressey (1953)**	**Theoretical**	***Pressure:*** **'**non-shareable' problems that can only be solved by acquiring the resources of others. ***Opportunity:*** the fraudster has the belief that there are chances to act fraudulently without being caught. ***Rationalisation:*** identifies the actual reasons for fraudulent behaviour, or the underlying motivation and a moral excuse for the fraudulent action.
Fraud Scale **Albrecht et al. (1984)**	**Theoretical**	The component rationalisation is replaced by the component ***personal integrity.***
Fraud Diamond **Wolfe and Hermanson (2004)**	**Theoretical**	A fourth component, ***capability***, is added to the fraud triangle.
Fraud Pentagon		
Sorunke (2016)	**Survey**	Adds ***personal ethics*** as a fifth component to the fraud diamond.
Marks (2009)	**Theoretical**	Adds the components of ***arrogance*** and ***competence*** to the fraud triangle.
ABC Analysis **Ramamoorti et al. (2009)**	**Theoretical**	Argues that fraud is made up of three aspects ***the bad apple:*** which is the individual who acts fraudulently ***the bad bushel:*** symbolises collusion in fraud behaviour ***the bad crop:*** organisational and social dynamic that leads to fraud.
Fraudster as 'predator' **Dorminey et al. (2012)**	**Theoretical**	Suggests that ***opportunity*** is the main element of risk, for fraud to occur in organisations. Argues that the components of rationalisation and pressure should be replaced by ***criminal mind-set*** and ***arrogance*** as the fraudster may also act as a predator.

Table 2 Stakeholder Interviews

Stakeholder Group (Code)	**Sample Size**	**Sub-Groups**
Regulator-Watchdog (RW)	5	No sub-groups
Charity Officials (C)	9	Large (3): Income over £10million Medium (3): Income between £1million-£10 million Small (3): Income below £1million
Auditors-Accountants (A)	9	Large (3): Revenue over £4million Medium (3) Revenue between £1million-£4 million Small (3) Revenue below £1 million
Donors (D)	9	Large (3): Donation/grant over £1million Medium (3): Donation/grant between £1,000-£1million Small (3): Donation/grant below £1.000
Beneficiaries (B)	9	No sub-groups

Table 3 Terms used to describe and classify fraud

Terms used to describe fraud	Terms used to classify fraud		
	Corruption	**Asset Misappropriation**	**Financial Statement Fraud**
Theft, misappropriation, misrepresentation, deliberate action for personal gain/benefit, wrongdoing, burglary, stealing, robbery, reputational harm caused by a criminal act, corruption, embezzlement, manipulating figures to achieve another objective, submitting bogus expenses claims, abuse of position, failure to disclose information and false representation, misusing your power for your own benefit	Corruption	Theft of cash, misapplication and misuse of resources, illegal capture of money or goods, fictitious and overstated expenses, inventory misuse	Financial irregularity, manipulating figures, failure to disclose information and false representation, overstated expenses

Table 4 Theories of Fraud Revisited

Theory	Examples derived from the interviews
Fraud Triangle **Cressey (1953)**	***Pressure:*** debt, work related pressures to be successful, financial demands of relatives mentioned as pressure elements by the respondents ***Opportunity:*** absence of segregation of duties, poor leadership at the top, lack of awareness and culture, lack of appropriate policies and procedures, not having the right knowledge and skills for proper oversight, lack of resources and staff, excessive use of cash in transactions, autocratic founders and management, weak controls and oversight, fraudsters targeting specially charities, lack of legislation, laid-back attitude of stakeholders mentioned as opportunity elements by the respondents ***Rationalisation:*** being unpaid, personal interests such as revenge, borrowing, common practice, job dissatisfaction, greed, lack of satisfaction in the work mentioned as rationalisation elements by the respondents
Fraud Scale **Albrecht et al. (1984)**	Respondents suggest that employees should have ***personal integrity*** and work ethic for fraud to not take place
Fraud Diamond **Wolfe and Hermanson (2004)**	The component, ***capability***, is useful to understand fraud in the sector as a fraudster is identified as a person who is capable of accessing the finances of a charity
ABC Analysis **Ramamoorti et al. (2009)**	***the bad apple:*** 'opportunity seekers' who target the charity sector ***the bad crop:*** the charity sector itself is a reason for fraud to happen as the sector's trustworthiness and indifference creates the opportunity to be targeted by fraudsters.
Fraudster as 'predator' **Dorminey et al., (2012)**	Habitual criminal behaviour was mentioned by the respondents, in accordance with the idea of the fraudsters being 'opportunity seekers' where certain people target the sector purposefully. However, it is not clear as they are 'repeat offenders' so cannot use 'predators' to identify perpetrators.

(Source: Authors)

FIGURES

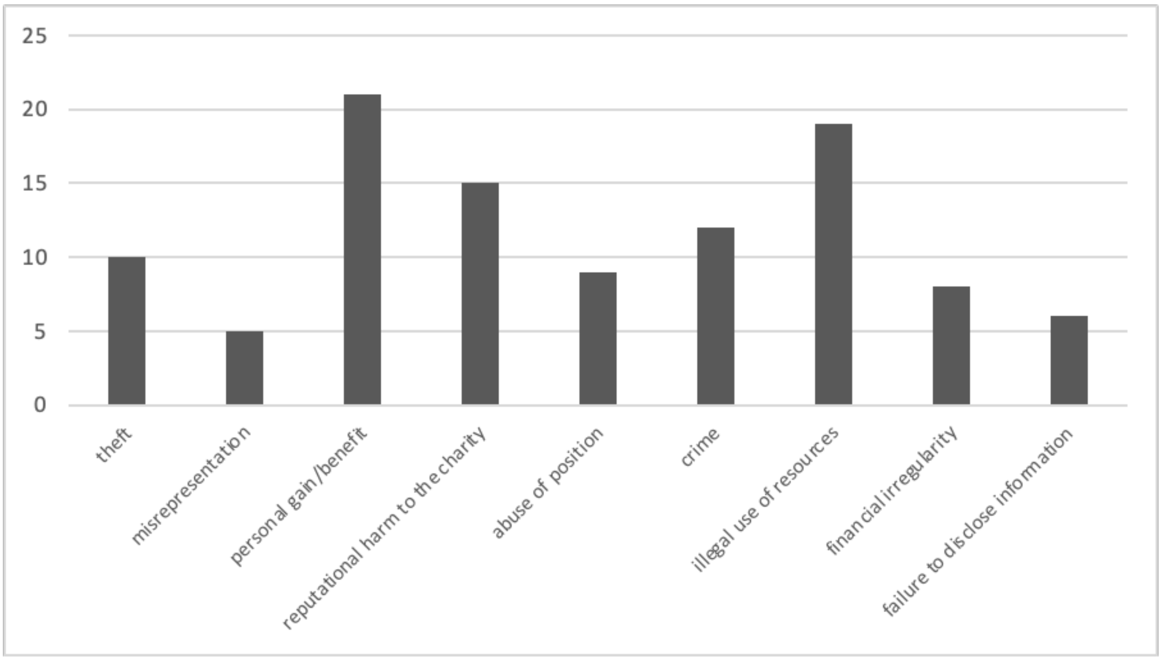

Figure 1 The number of times words mentioned to define fraud in the charity sector

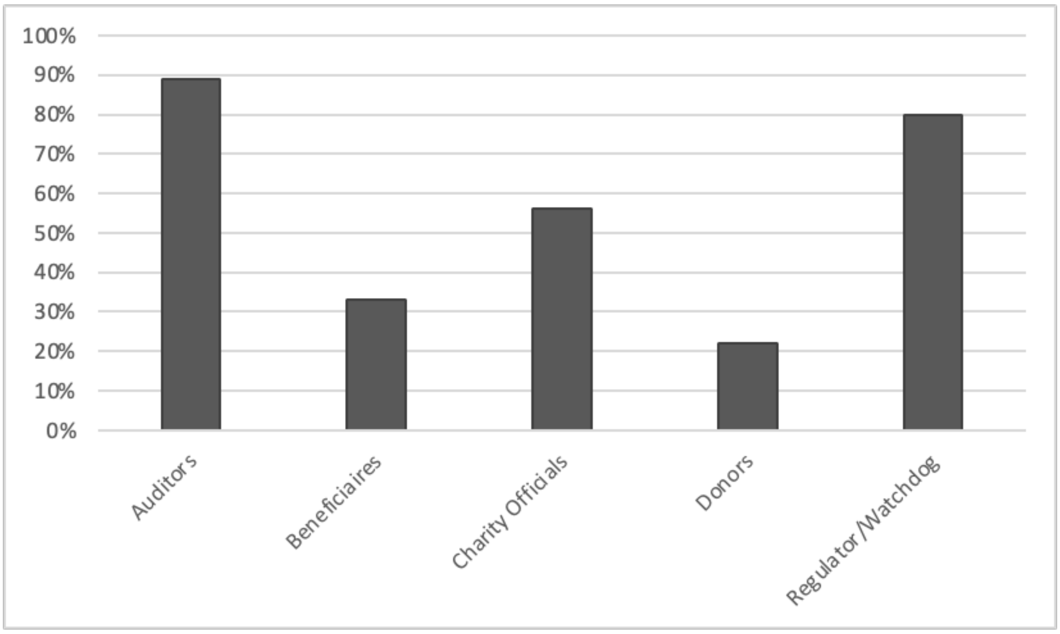

Figure 2 Percentage of Stakeholders who argue that Charities are more Vulnerable to fraud than other sectors

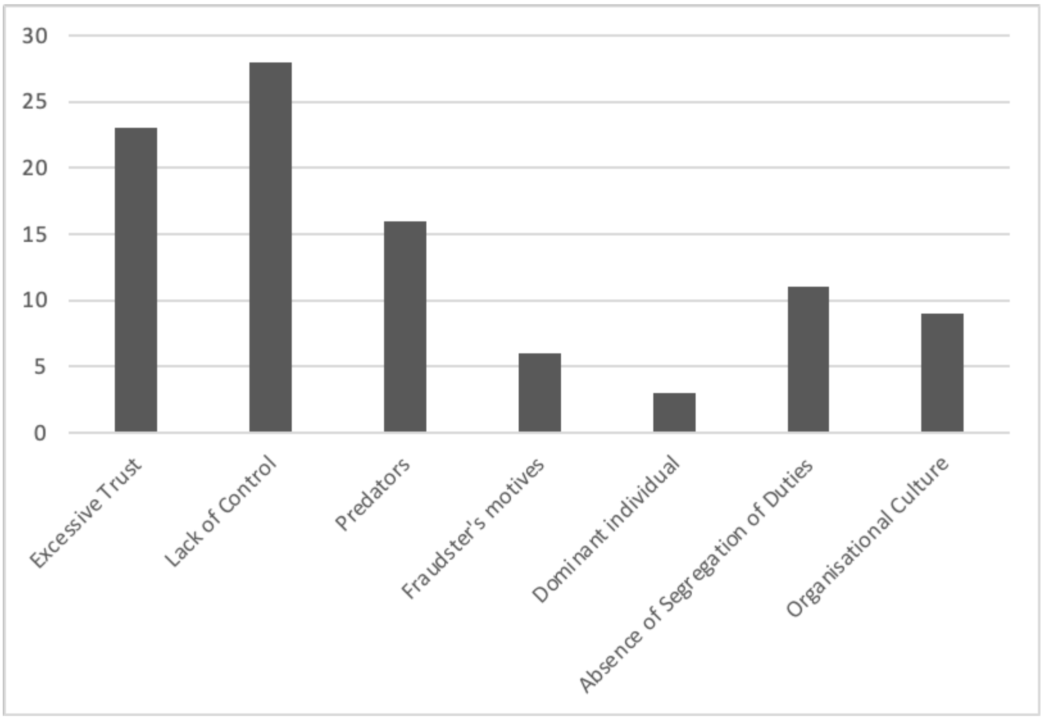

Figure 3 The number of times concepts used to identify Reasons for Fraud

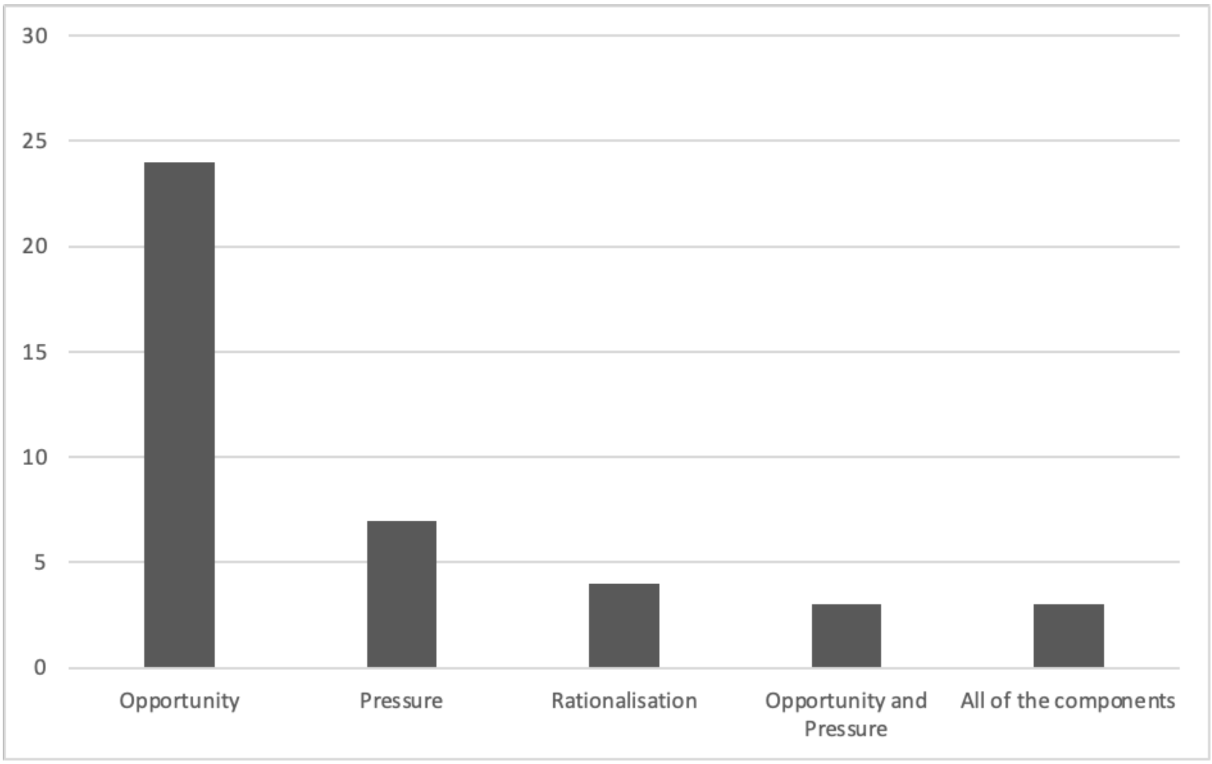

Figure 4 – Number of respondents identifying the most important fraud component of the fraud triangle that enables fraud in the charity sector

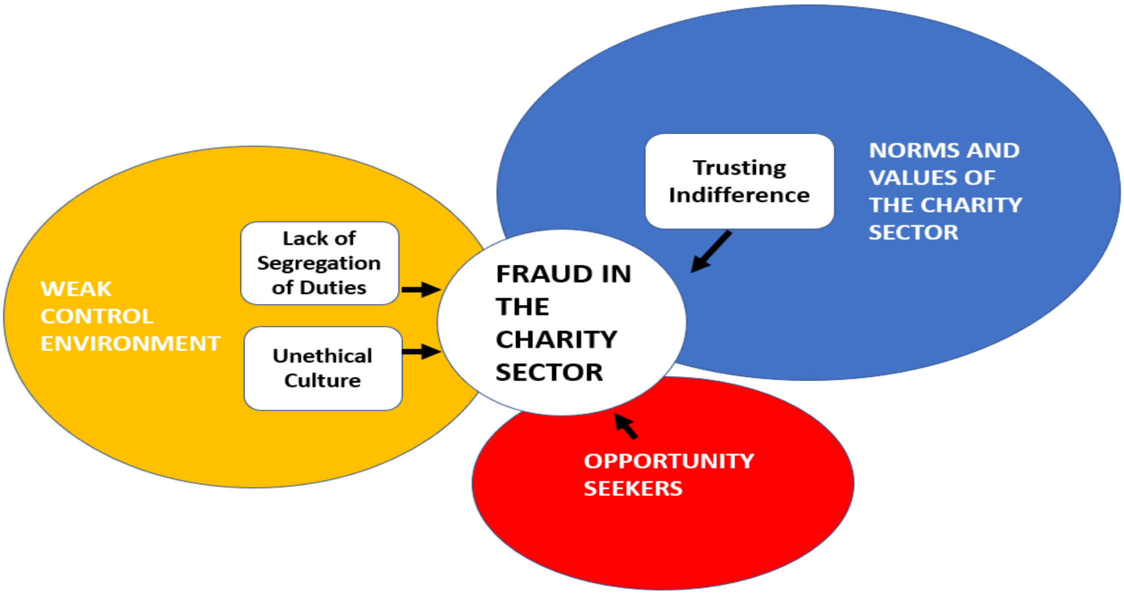

Figure 5 – Conceptualisation of Fraud in the Charity Sector

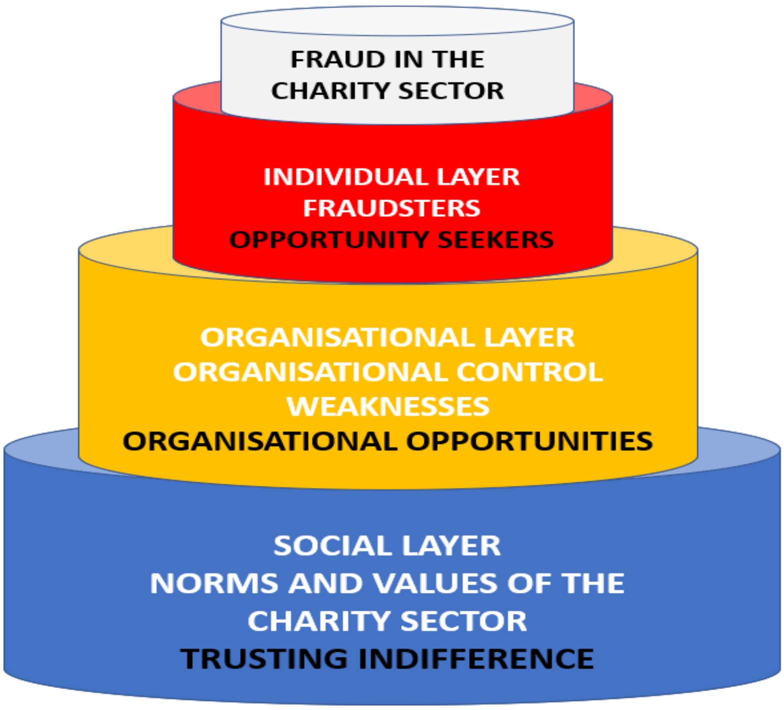

Figure 6 – The Fraud Tower