



# **FRAUD PREVENTION PLAN**

1 JULY 2015 – 30 JUNE 2016

**MSUKALIGWA**

**LOCAL MUNICIPALITY**

**MP302**

# Fraud Prevention Plan

---

## Contents

<b>Glossary of Terms</b>	3
<b>SECTION 1: INTRODUCTION</b>	7
<b>SECTION 2: APPROACH TO THE DEVELOPMENT OF THE PLAN</b>	8
<b>SECTION 3: COMPONENTS OF THE PLAN</b>	9
<b>A. Preventing Fraud</b>	12
3.1. Code of Ethics and Business Conduct	12
3.2. The Msukaligwa Municipality's systems, policies, rules and regulations	14
Disciplinary Code & Procedures	17
Internal Controls	18
Physical and Information Security	20
<b>B. Detecting and Investigating Fraud</b>	26
3.3. Internal Audit and the Fraud Prevention Committee	26
3.4. Ongoing Risk Assessment	27
3.5. Reporting and Monitoring	30
The Fraud Policy and Response Plan	32
The Whistle Blowing Policy	33
<b>C. Further Implementation and Maintenance</b>	34
3.6. Creating Awareness	34
3.7. Ongoing maintenance and review	35
Fraud Prevention Committee	36
<b>Adoption of the policy</b>	38
<b>ANNEXURES</b>	
List of Fraud Risks Identified	A
Code of Conduct	B
Policy and Response Plan	C

# Glossary of Terms

**Throughout this document, unless otherwise stated, the words in the first column below have the meanings stated opposite them in the second column (and similar expressions shall bear corresponding meanings):**

“Code”	Code of Conduct for Councillors (Schedule 1 to the Local Government: Municipal Systems Act, Act 32 of 2000 (as amended), Code of Conduct for Municipal Staff Members (Schedule 2 to the Local Government: Municipal Systems Act, Act 32 of 2000 (as amended), and Section 46 of the of the Supply Chain Management Regulations to the Local Government:: Municipal Finance Management Act, Act 56 of 2003.
“Committee”	Fraud Prevention Committee
“Fraud”	Includes, but is not limited to, the following: (a) The following legal definitions: (i) Fraud, i.e. <i>“the unlawful and intentional making of a misrepresentation resulting in actual or potential prejudice to another”</i> ; (ii) Theft, i.e. <i>“the unlawful and intentional misappropriation of another’s property or property which is in his/her lawful possession, with the intention to deprive the owner of its right permanently”</i> . (iii) Offences in respect of <i>corrupt activities</i> as defined in the Prevention and Combating of Corrupt Activities Act, 2004, i.e: <ul style="list-style-type: none"><li>• The general offence of <i>corruption</i> which could be summarised as directly or indirectly accepting or agreeing to accept any gratification from another person; giving or agreeing to give any other person any gratification in order to influence that person directly or indirectly to exercise his powers, duties or legal obligations in a manner which is/amounts to:<ul style="list-style-type: none"><li>○ Illegal, dishonest, unauthorised, incomplete, or biased;</li><li>○ Misuse or selling of information or material acquired;</li><li>○ Abuse of position of authority;</li><li>○ Breach of trust;</li><li>○ Violation of a legal duty or set of rules;</li><li>○ Designed to achieve an unjustified result; and</li><li>○ Any other unauthorised or improper inducement to do or not to do anything.</li></ul></li></ul>

- Corrupt activities in relation to:
  - Public officials;
  - Foreign public officials;
  - Agents;
  - Judicial officers;
  - Members of the prosecuting authority;
  - Unauthorised gratification received or offered by or to a party to an employment relationship;
  - Witnesses and evidential material during certain proceedings;
  - Contracts;
  - Procuring and withdrawal of tenders;
  - Auctions;
  - Sporting events; and
  - Gambling games or games of chance.
  
- Conflicts of interests and other unacceptable conduct, e.g:
  - Acquisition of private interests in contract, agreement in or investment in public body;
  - Unacceptable conduct relating to witnesses; and
  - Intentional interference with, hindering or obstruction of investigation of offence.
  
- Other offences relating to corrupt activities, viz:
  - Accessory to or after an offence;
  - Attempt, conspiracy and inducing another person to commit offence; and
    - Failure to report corrupt transactions.

(b) Fraudulent acts may include:

*Systems Issues:* where a process/system exists which is prone to abuse by either employees or the public, e.g.:

- Maladministration or financial misconduct in handling or reporting of money, financial transactions or other assets;
- Travel and subsistence claims (false charges for accommodation and meals; inflated charges on meals, false mileage claims);
- Disclosing confidential information to outside parties;
- Abuse of sick leave or other permissible leave; and
- Falsification of qualifications for promotions.

*Financial Issues:* i.e. where individuals or companies have fraudulently obtained money from the Msukaligwa Municipality, e.g.:

- Suppliers submitting invalid invoices or invoicing for work not done;

- Irregular collusion in awarding of contracts or orders for goods and/or services;
- Revenue Fraud;
- Theft/Rolling of cash;

*Equipment and Resource Issues:* i.e. where the Msukaligwa Municipality's equipment and resources are utilised for personal benefit, e.g.:

- Misuse of telephones;
- Misuse of office stationery and equipment;
- Theft of inventory, for example diesel;
- Misuse of the Msukaligwa Municipality's official time for personal gain; and
- Abuse of Msukaligwa Municipality vehicles, for example using municipality vehicle as a taxi.

*Other Issues:* i.e. activities undertaken by officials of the Msukaligwa Municipality which may be unlawful or against the Msukaligwa Municipality's regulations or policies, falls below established standards or practices or amounts to improper conduct, e.g.:

- Receiving undue gifts or favours for rendering services, e.g. expensive gifts in contradiction of the Code; and
- Deliberately omitting or refusing to report or act upon reports of any such irregular or dishonest conduct.

"Fraud Policy"	Fraud Policy and Response Plan
"IAU"	Internal Audit Unit
"Officials"	Employees and Management and for the purposes of this plan shall include Councillors, subject to any onus or burden placed upon the Councillors by any other code, rules or legislation.
"Municipal Systems Act"	Local Government: Municipal Systems Act, Act 32 of 2000 (as amended)
"MFMA"	Municipal Finance Management Act 56 of 2003 & Regulations thereto
"PCCA"	Prevention and Combating of Corrupt Activities Act 12 of 2004
"Plan"	Fraud Prevention Plan
"Protected Disclosures Act"	Protected Disclosures Act 26 of 2000
"Rolling of cash"	The use of Msukaligwa Municipality's cash/funds with the intention of replacing it at a later date.

## Section 1: Introduction

**D**uring the course of February 2004, the Msukaligwa Municipality awarded a contract to PricewaterhouseCoopers (“PwC”) to compile a fraud prevention plan.

The issues addressed, in line with the proposal submitted by PwC are the following:

1. Conducting a strategic fraud risk assessment and assisting with the formation of a Fraud Prevention Committee;
2. Developing a Fraud Policy and Response Plan for the Msukaligwa Municipality;  
and
3. Developing the Fraud Prevention Plan.

In effect, this document is the Fraud Prevention Plan (“the Plan”) for the Msukaligwa Municipality. This Plan recognises basic fraud prevention strategies, which are in place within the Msukaligwa Municipality. Furthermore, it identifies fraud risks that must be addressed and could jeopardise the successful implementation of each component of the Plan.

Several business risks, including fraud, were identified during as part of a business risk identification workshop, attended by representatives of the Msukaligwa Municipality held on 31 March 2004. These fraud risks were also taken into account during the development of the Plan. The Plan should therefore be read in conjunction with the Business Risk Identification Report dated March 2004. In addition, Senior Members of Management completed questionnaires identifying what they perceived to be fraud risks. The results of these questionnaires have also been taken into account in the development of this Plan.

The Plan is dynamic and it will continuously evolve as the Msukaligwa Municipality makes changes and improvements in its drive to promote ethics and prevent fraud.

## Section 2: Approach to the development of the Plan

**T**he Plan is based on risks identified during the interviews conducted, the questionnaires completed and the outcome of the business risk identification workshop held on 31 March 2004 and on the high-level review of documentation. Consequently, the fraud risks identified in this document cannot be relied upon as the full spectrum of fraud risks facing the Msukaligwa Municipality, but is rather an indication of the type of risks. A summary of these risks is attached as **Annexure A**.

## Section 3: Components of the Plan

**T**he main principles of the Plan are the following:

- Creating a culture which is intolerant to fraud;
- Deterrence of fraud;
- Preventing fraud which cannot be deterred;
- Detection of fraud;
- Investigating detected fraud;
- Taking appropriate action against fraudsters, for example, prosecution, disciplinary action etc.; and
- Applying sanctions, which include redress in respect of financial losses.

The **objectives of the Plan** could be summarised as follows:

- Encouraging a culture within the Msukaligwa Municipality where all employees and other stakeholders continuously behave ethically in their dealings with or on behalf of the Msukaligwa Municipality;
- Improving accountability, efficiency and effective administration within the Msukaligwa Municipality;
- Improving the application of systems, policies, procedures and regulations;
- Changing aspects of the Msukaligwa Municipality that facilitate fraud and allow it to go unnoticed or unreported;
- Encouraging all officials and other stakeholders to strive toward the prevention and detection of fraud impacting, or having the potential to impact the Msukaligwa Municipality.

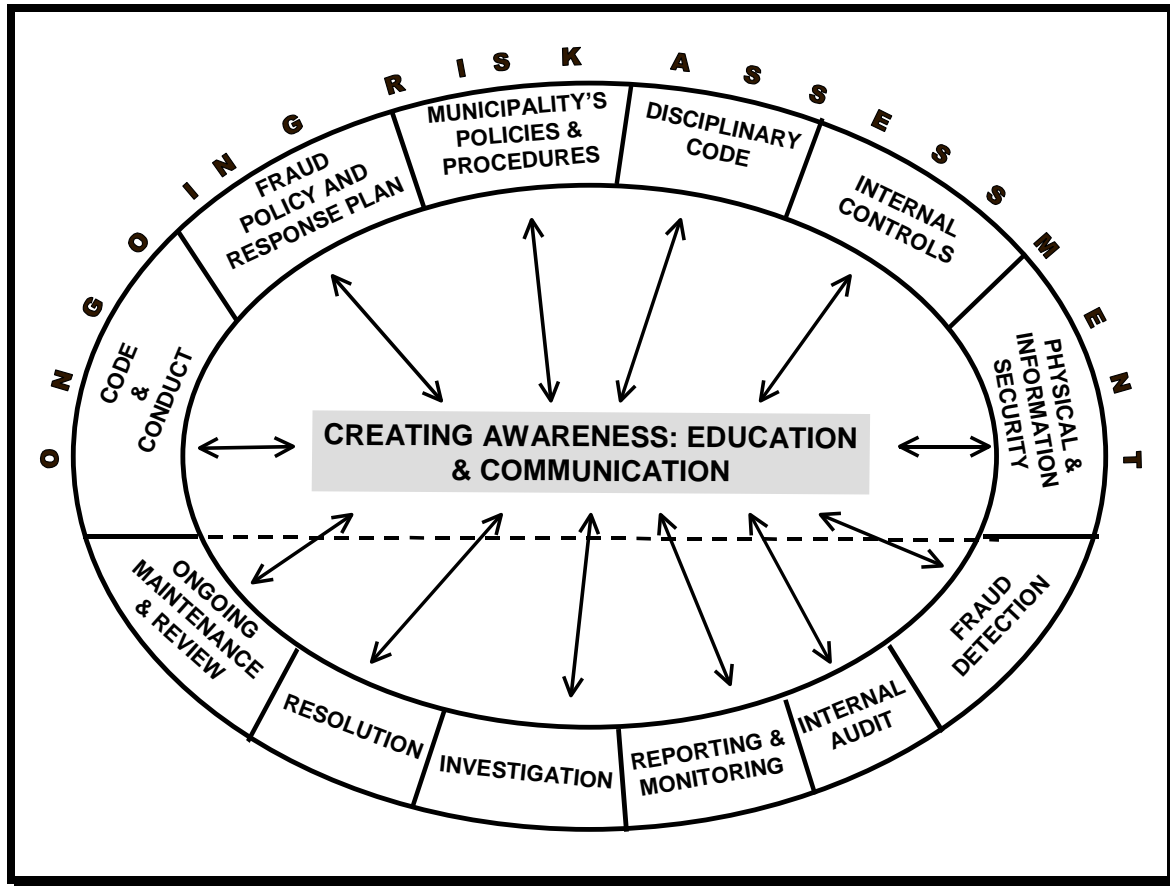
However, the above is not intended to detract from the premise that all the components are equally essential for the successful realisation of the Plan. **The components of the Plan** for the Msukaligwa Municipality are the following:

- (a) A Code of Conduct in which the Msukaligwa Municipality believes, and requires their employees to subscribe;



- (b) The Msukaligwa Municipality's policies, procedures, rules and regulations and other relevant government prescripts;
- (c) The Disciplinary Code and Procedure;
- (d) Internal Controls to prevent and detect fraud;
- (e) Physical and information security management;
- (f) Internal Audit;
- (g) Ongoing risk assessment, which includes fraud detection approaches;
- (h) Reporting and monitoring of allegations;
- (i) A Fraud Policy and Response Plan which includes the policy stance of the Msukaligwa Municipality to fraud and steps for the reporting, basic investigation and resolution of allegations and incidents of fraud;
- (j) A Whistle Blowing Policy in order to limit the risk of non-compliance with the provisions of the Protected Disclosures Act;
- (k) Creation of awareness amongst employees and other stakeholders (in the broad sense of the word) through communication and education of the Code and the Policy;
- (l) Ongoing maintenance and review of the Plan which includes the formation of a Fraud Prevention Committee, to steer and take responsibility for the Plan as well as to ensure effective project management of its implementation and maintenance.

An illustration of the Plan is contained in the figure below:



## A. Preventing Fraud

### 3.1 Code of Conduct

3.1.1 The Code of Conduct for Municipal Employees is applicable to all the Msukaligwa Municipality's officials and The Code of Conduct for Councillors is applicable to all the Msukaligwa Municipality's Councillors. In addition Section 46 of the Supply Chain Management Regulations refers to ethical standards applicable to Msukaligwa Municipality officials who are responsible for Supply Chain Management. In order to contextualise the Codes as a component of the Plan, they has been attached as **Annexure B** and collectively called the Code of Conduct.

3.1.2 The Msukaligwa Municipality expects all people and organisations that are in any way associated with it to be honest and fair in their dealings with the Msukaligwa Municipality

and its clients and customers. All councillors and officials are expected to lead by example in these matters.

3.1.3 The risks identified in this area are the following:

- *Non-compliance with the Code by councillors and officials;*
- *Lack of consistent understanding of professional ethics and integrity in terms of the expectations of the Msukaligwa Municipality; and*
- *Failure to declare conflict of interest in decision- making process.*

3.1.4 Compliance by officials of the Msukaligwa Municipality with the Code, both in its spirit and content, would address the risks listed in paragraph 3.1.3 above. However appreciating that striving to achieve such a status literally “overnight” would be idealistic, the Msukaligwa Municipality will pursue the following tactics to improve professional ethics and conduct:

- (a) A copy of the Code will be circulated to all officials and included in induction packs for new officials. All officials will also be required to sign an annual declaration serving as an indication of their understanding of and commitment to the Code; and
- (b) Include relevant aspects of the Code in awareness presentations, training sessions and communication strategies (as indicated in paragraphs 3.6.2 and 3.6.3 below) to create awareness thereof amongst officials and other stakeholders. Further objectives of this training will be the following:
  - Help officials to understand the meaning of fraudulent behaviour in line with expectations of legislation, such as the Municipal Systems Act and the MFMA;
  - Present case studies which would assist in developing behaviour to articulate and encourage attitudes and values which support ethical behaviour;

- Help officials to understand issues involved in making ethical judgements;
- Explain to officials who is responsible for ethical standards within the Msukaligwa Municipality; and
- Communicate the implications of unethical behaviour and its impact for individuals, the workplace, professional relationships, the Msukaligwa Municipality as whole and external stakeholders including the public.

### **3.2 The Msukaligwa Municipality's systems, policies, procedures, rules and regulations**

3.2.1 The Msukaligwa Municipality has a number of policies, procedures and regulations designed to ensure compliance with prevailing legislation and limit risk, including the risk of fraud. Fundamentally, all officials and councillors of the Msukaligwa Municipality, as appropriate, should and must comply with these.

3.2.2 The most important of these are the following:

- The MFMA;
- The Municipal Systems Act;
- Supply Chain Management Policy;
- Code of Conduct for Councillors (Schedule 1 to the Municipal Systems Act/MFMA)
- Code of Conduct for Municipal Staff Members (Schedule 2 to the Municipal Systems Act/MFMA);
- Human Resources Policies and Procedures, in particular – the Disciplinary Collective Agreement;
- Delegation of Authority; and
- Conditions of Service for Municipal Staff Members.

3.2.3 In addition to the above, the individual directorates have also introduced operational measures designed to control their activities.

3.2.4 The Msukaligwa Municipality has identified the strategic fraud risks in this area as the following:

- *Non-compliance to the MFMA;*
- *Non adherence to policies and procedures, particularly relating to debt collection;*
- *Failure by staff to follow directives, procedures etc.;*
- *Lack of knowledge and understanding of prevailing policies;*
- *Lack of performance appraisals and performance management system at a junior level; and*
- *Inadequate pre-employment screening for candidates applying for sensitive positions.*

3.2.5 The risks that are indicated above suggest, amongst other issues, that there appears to be weaknesses in the system for creating awareness of and implementation of policies and procedures.

3.2.6 The Msukaligwa Municipality will regularly engage in the conducting of training programmes to improve awareness and knowledge of the relevant policies, procedures and regulations amongst its employees. The Msukaligwa Municipality will set clear targets to facilitate the measurement of the effectiveness of this training in order that further weaknesses identified are addressed.

3.2.7 Furthermore, a clearly defined communication and training strategy will be developed to create awareness of existing and new policies and procedures to ensure that all employees are made aware of, and adequately trained in the implementation of policies, procedures and regulation relevant to their duties and responsibilities in the Msukaligwa Municipality. This system will include the following:

- Provisions for all employees to acknowledge, in writing, that they have read the policies and procedures applicable to their duties, have undergone relevant training and/or are aware of these policies and procedures; and
- The keeping of adequate records serving as proof that employees have been made aware of the policies and procedures relevant to their duties.

3.2.8 In addition, the Msukaligwa Municipality will develop and distribute a regular communiqué outlining the implications for employees, for example, the taking of disciplinary action against offenders not complying with policies, procedures and regulations. In instances where breaches occur, swift and efficient disciplinary action will be taken to set an example to other potential wrongdoers.

3.2.9 The Msukaligwa Municipality is committed to ensuring that thorough pre-employment and security clearance screening is conducted for all candidates applying for sensitive positions. This will be extended to include the conducting of appropriate checks to verify qualifications submitted by candidates due for promotion or transfer to other posts.

#### **Disciplinary Code and Grievance Procedure (“Disciplinary Code”)**

3.2.10 The Disciplinary Code of the Msukaligwa Municipality prescribes appropriate steps to be taken in order to resolve disciplinary matters. The strategic fraud risks which have been identified with regard to discipline and the application thereof are the following:

- *Lack of disciplinary measures taken, for example negligent driving by municipal drivers;*
- *Inadequate knowledge of disciplinary process by managers; and*
- *Poor and inconsistent application of disciplinary action. Each departmental manager is responsible for his/her department’s own disciplinary matters and thus the outcome varies from Manager to Manager.*

3.2.11 The Msukaligwa Municipality recognises the fact that the consistent and efficient application of disciplinary measures is an integral component of effective fraud

prevention. The Msukaligwa Municipality will pursue the following steps to ensure the consistent, efficient and speedy application of disciplinary measures:

- (a) Ongoing training of managers with regard to the content of the Disciplinary Code, the application of disciplinary measures and the disciplinary process, and sustaining this training; and
- (b) Developing a system to facilitate the consistent and timeous application of disciplinary measures.

3.2.12 A programme will be developed to communicate the standards of discipline expected of all employees. Where disciplinary standards are not adhered to, action will be taken against offenders.

3.2.13 Where managers are found to be inconsistent and/or inefficient in the application of discipline, firm action will be considered.

### **Internal Controls**

3.2.14 This section of the Plan relates to basic internal controls to prevent and detect fraud and corruption. The policies, procedures, regulations and other prescripts of the Msukaligwa Municipality prescribe various controls, which if effectively implemented, would limit fraud within the Msukaligwa Municipality. These controls may be categorised as follows, it being recognised that the categories contain overlapping elements:

Prevention controls:

*These are divided into two sub-categories, namely Authorisation and Physical;*

Detection controls:

*These are divided into four categories, namely Arithmetic and Accounting, Physical, Supervision and Management Information; and Segregation of duties.*

### ***Prevention controls***

(a) Authorisation

- (i) All transactions require authorisation or approval by an appropriate responsible person.
- (ii) The limits for these authorisations are specified in the delegations of authority of the Msukaligwa Municipality as well as in various Municipality regulations.

(b) Physical

These controls are concerned mainly with the custody of assets and involve procedures and security measures designed to ensure that access to assets is limited to authorised personnel. This becomes prominent in the case of protection of valuable, portable, exchangeable and desirable assets.

### ***Detection controls***

(a) Arithmetic and accounting

- (i) These are basic controls within the recording function which check that transactions to be recorded and processed have been authorised and that they are correctly recorded and accurately processed.
- (ii) Such controls include checking the arithmetical accuracy of the records, the maintenance and checking of totals, reconciliations, control accounts and accounting for documents.

(b) Physical

- (i) These controls relate to the security of records. They therefore underpin arithmetic and accounting controls.



(ii) Their similarity to preventive controls lies in the fact that these controls are also designed to limit access.

(c) Supervision

This control relates to supervision by responsible officials of day-to-day transactions and the recording thereof.

(d) Management information

(i) This relates to the review of management accounts and budgetary control.

(ii) Management outside the day-to-day routine of the system normally exercises these controls.

***Segregation of duties***

(a) One of the primary means of control is the separation of those responsibilities or duties, which would, if combined, enable one individual to record and process a complete transaction, thereby providing him/her with the opportunity to manipulate the transaction irregularly and commit fraud and corruption.

(b) Segregation of duties reduces the risk of intentional manipulation or error and increases the element of checking.

(c) Functions that should be separated include those of authorisation, execution, custody and recording and, in the case of computer-based accounting systems, systems development and daily operations.

(d) Placed in context with fraud and corruption prevention, segregation of duties lies in separating either the authorisation or the custodial function from the checking function.

3.2.15 Despite the existence of systems, policies, procedures, regulations and other prescripts to address internal control, the following fraud risks have been identified:

- *Non-compliance to policies such as debt collection;*
- *Poor control over assets;*
- *Lack of adequate control over inventory and stores;*
- *Inadequate control over documentation;*
- *Lack of proper control over revenue and debtors' collection;*
- *Inadequate segregation of duties, for example revenue collection staff;*
- *Contracts management/procurement/tendering; and*
- *Lack of a fleet management system*

3.2.16 The Msukaligwa Municipality will constantly engage in the conducting of training programmes to improve awareness and knowledge of relevant policies, procedures and regulations amongst its employees. The Msukaligwa Municipality will set clear targets to facilitate the measurement of the effectiveness of this training in order that further weaknesses identified are addressed. Furthermore, a strong emphasis will be place on the following areas during this training:

- Delegation of authority;
- Recording of revenue;
- Control over inventory and stores;
- Budgetary control;
- Contract's management; and
- Document control.

- 3.2.17 The Msukaligwa Municipality will continue to regularly re-emphasise to all managers and supervisors that consistent compliance by employees with internal controls is one of the fundamental controls in place to prevent fraud. Managers will be encouraged to recognise that internal control shortcomings identified during the course of audits are, in many instances, purely symptoms and that they should strive to identify and address the causes of these internal control weaknesses, in addition to addressing the control weaknesses.
- 3.2.18 The Msukaligwa Municipality will develop a formal system by which the performance of managers is appraised by taking into account the number of audit queries raised and the level of seriousness of the consequent risk to the Msukaligwa Municipality as a result of the internal control deficiency identified. This is intended to raise the level of manager and supervisor accountability for internal control.
- 3.2.19 A matrix of internal control weaknesses identified during the audits, inspections and investigation will be developed in order to assist in the identification of areas that require additional focus.
- 3.2.20 Where managers do not comply with basic internal controls, e.g. non-adherence to the delegation of authority limits, firm disciplinary action will be taken.

### **Physical and information security**

#### ***Physical security***

- 3.2.21 Recognising that effective physical security is one of the “front-line” defences against fraud, the Msukaligwa Municipality will take regular steps to improve physical security and access control at its offices in order to limit the risk of theft of assets.
- 3.2.22 The Msukaligwa Municipality will also consider conducting a regular detailed review of the physical security arrangements at its offices and improve weaknesses identified.

#### ***Information security***

- 3.2.23 The fraud risks identified in information security are the following:

- *Lack of IT policy and procedures;*
- *Weak IT controls;*
- *Insufficient IT manpower capacity; and*
- *Manipulation of information on computers due to poor access control, including poor control over passwords.*

3.2.24 The Msukaligwa Municipality will ensure that all employees are sensitized on a regular basis to the fraud risks associated with information security and the utilization of computer resources, in particular – access control, and ensure that the systems are developed to limit the risk of manipulation of computer data.

3.2.25 Regular communiqués will be forwarded to employees pointing out the content of the IT policy and procedures, with particular emphasis on e-mail and Internet usage and the implications (e.g. disciplinary action) of abusing these and other computer-related facilities. Where employees are found to have infringed on prevailing policy in this regard, disciplinary action will be taken.

3.2.26 Regular reviews of information and computer security will also be considered. Weaknesses identified during these reviews will be addressed.

## B. Detecting and Investigating Fraud

### 3.3 The Internal Audit Unit and the Fraud Prevention Committee

3.3.1 In order to promote good corporate governance (which includes promoting ethical conduct and the prevention and detection of fraud) the under-mentioned sections have the main responsibilities as summarised below:

#### ***The Internal Audit Unit***

3.3.2 The Internal Audit ("IAU") has, *inter alia*, the following main responsibilities:

- Providing management with an independent evaluation of its internal controls systems, operations and performance;
- Evaluation of the effectiveness of internal control measures, compliance with these measures, and efficient, effective and economical use of resources of the Msukaligwa Municipality; and
- Conducting special investigations into financial misadministration on instruction from senior management.

3.3.3 As indicated in paragraph 3.2.16, the Msukaligwa Municipality will continue to regularly re-emphasise to all managers and supervisors that consistent compliance by employees with internal control is one of the fundamental controls in place to prevent fraud. Managers will be encouraged to recognize that internal control shortcomings identified during the course of audits are, in many instances, purely symptoms and that they should strive to identify and address the causes of these internal control weaknesses, in addition to addressing the control weaknesses.

3.3.4 IAU will commence with an awareness program in order to enhance management's understanding of the role of IAU. This program will be sustained on an ongoing basis.

3.3.5 Where managers are found to be slow in responding to internal control queries raised by IAU, firm action will be taken.

### ***Fraud Prevention Committee***

3.3.6 The Fraud Prevention Committee is responsible for the following:

- The maintenance and review of the Plan;
- Overseeing the development of strategies to prevent, detect and investigate fraud;  
and
- Making recommendations regarding the way in which an investigation should be performed, for example investigate internally or obtain the services of external investigators.

### **3.4 Ongoing risk assessment**

3.4.1 The Msukaligwa Municipality acknowledges the fact that it faces diverse business risks from both internal and external sources. A comprehensive risk assessment has been conducted. This information will be used to assist management in prioritising areas for attention and subsequently developing appropriate controls to limit the risks identified.

3.4.2 In addition to the fraud risks already discussed, the fraud risks listed in paragraph 3.4.3 below will be addressed by conducting reviews in order to secure a more detailed understanding of the areas wherein these risks exist. This is intended to ensure that adequate fraud prevention controls and detection mechanisms are developed. This will include the conducting of presentations to managers and staff to ensure that they have a more detailed understanding of the fraud risks associated with these areas, thus enhancing the prospect of detecting irregularities earlier.

3.4.3 Furthermore, specific transactions in areas referred to in paragraph 3.4.2 above will be selected in order to conduct ***fraud detection reviews***, including ***fraud susceptibility assessments***, aimed at identifying possible incidents of fraud and control weaknesses in order to address these.

- *Abuse/misuse of assets, including financial resources, information and time:*

- *Malicious damage to property by employees, e.g. damage of equipment and other movable property;*
- *Fraud relating to S&Ts;*
- *Utilising the Municipality's equipment during office hours for personal purposes; and*
- *Fraud relating to fleet management (e.g. abuse of vehicles); and*
- *Leaking of confidential information.*
- *Irregular collusion between employees and external parties:*
  - *Corruption of employees, e.g. acceptance of "kickbacks" for the issuing of driver's licenses;*
  - *Falsification of inventory records in order to cover any misappropriation of stock; and*
  - *Irregular manipulation of records.*
- *Theft from the Msukaligwa Municipality*
  - *Theft of movable assets;*
  - *Theft of funds, including rolling of cash;*
  - *Theft of inventory; and*
  - *Loss of stores stock.*
- *Irregularities relating to procurement/project/contracts management:*
  - *Collusion in procurement and tendering leading to fraud;*
  - *Preferential treatment to certain suppliers;*

- *Appointment of suppliers and providers of goods and/or services who supply false credentials; and*
  - *Payment of fraudulent orders.*
- *Unauthorised, fruitless, wasteful and irregular expenditure; and*
  - *Fraud with particular emphasis on financial reporting.*

### **3.5 Reporting and monitoring**

3.5.1 The Msukaligwa Municipality has identified the fact that its plan for the reporting of fraud could be communicated more effectively as some employees do not know what steps are in place for the reporting of allegations and incidents they witness. The effect hereof is that some incidents of fraud may not be reported. This could lead to weaknesses in the effective management of threats to the Msukaligwa Municipality.

3.5.2 The Msukaligwa Municipality also recognizes the fact that whistle blowers could be victimized by fellow employees or managers in contravention of the Protected Disclosures Act. This could have severe negative implications for the Msukaligwa Municipality, for example, negative media publicity.

3.5.3 The Msukaligwa Municipality will also consider a reward for good faith reporting, in line with the Reward Policy of the Council.

3.5.4 Should employees wish to report allegations of fraud anonymously, they can contact any member of management, IAU or MM or alternatively report it directly to the Fraud Prevention Committee or the Chairperson of the Audit Committee. The Msukaligwa Municipality will however consider the development of a Fraud Hotline in order to achieve the following:

- To deter potential fraudsters by making all employees and other stakeholders aware that the Msukaligwa Municipality is not a soft target, as well as encouraging their participation in supporting, and making use of such a facility;



- To raise the level of awareness that the Msukaligwa Municipality is serious about the prevention and detection of fraud;
- To detect incidents of fraud by encouraging whistle blowers to report incidents which they witness;
- To assist the Msukaligwa Municipality in managing the requirements of the Protected Disclosures Act by creating a channel through which whistle blowers can report irregularities which they witness or which come to their attention; and
- To further assist the Msukaligwa Municipality in identifying areas of fraud in order that preventive and detective controls can be appropriately improved or developed.

### **The Fraud Policy and Response Plan**

3.5.5 A Fraud Policy and Response Plan (**Annexure C**) has been developed for the Msukaligwa Municipality. The Fraud Policy contains provisions for the reporting of allegations of fraud which include the following:

- Making a report to the employee's immediate manager;
- Where the person reporting the information wishes to make a report anonymously, such a report may be made to the Internal Audit or directly to the Fraud Prevention Committee; and
- The manager who receives such a report must forward it to the General Manager: Finance, who will initiate an investigation in consultation with the Fraud Prevention Committee and other appropriate stakeholders within the Msukaligwa Municipality.

3.5.6 Furthermore, the Fraud Policy includes the following issues:

- The policy stance of the Msukaligwa Municipality to fraud, i.e. Zero Tolerance to fraud;

- Definitions to fraud and some manifestations in the Msukaligwa Municipality's context;
- The available channels to report, investigate and resolved incidents of fraud which impact on the Msukaligwa Municipality;
- Provisions relating to the protection of whistle blowers;
- The handling of confidentiality relating to allegations and investigations of fraud;
- Publication of sanctions imposed on persons found guilty of fraud; and
- Responsibility for the administration of the Policy.

3.5.7 The Fraud Policy, once finalized, will be circulated to all employees within the Msukaligwa Municipality.

#### **The Whistle Blowing Policy**

3.5.8 In order to further limit the risk of employees being victimized for whistle blowing in contravention of the Protected Disclosures Act, the Msukaligwa Municipality will develop a Whistle Blowing Policy.

3.5.9 The Whistle Blowing Policy is intended to encourage and enable employees to raise serious concerns without fear of victimization.

## C. Further Implementation and Maintenance

### 3.6 Creating Awareness

3.6.1 This component of the Plan comprises two approaches, namely education and communication. The strategic weaknesses identified in this area are the following:

- *Lack of a formalised strategy to create awareness amongst employees of the manifestations of fraud;*
- *Lack of awareness of existing strategies in place to address fraud; and*
- *Lack of knowledge on tactics to prevent and detect fraud in specific processes and transactions.*

#### ***Education***

3.6.2 The Msukaligwa Municipality will ensure that regular presentations and formal training are carried out for employees to enhance their understanding of the manifestations of fraud prevention and detection techniques, and the components of the Plan. These presentations and training will include ongoing formal lectures for supervisors and managers in all functional disciplines, with particular emphasis on Human Resources and Finance.

#### ***Communication***

3.6.3 The objective of the communication strategy is to also create awareness of the Plan amongst employees and other stakeholders. This is intended to facilitate a culture where all stakeholders strive to contribute toward making the Plan a success as well as for the sustaining of a positive, ethical culture within the Msukaligwa Municipality. This will increase the prospect of fraud being reported, improve the Msukaligwa Municipality's prevention and detection ability and address negative perceptions of the Msukaligwa Municipality.

3.6.4 Communication tactics that will be considered by the Msukaligwa Municipality will include the following:

- (a) Developing a poster campaign aimed at all stakeholders to advertise the Msukaligwa Municipality's stance toward fraud and its expectations with regard to the ethics and integrity of all stakeholders;
- (b) Developing submissions relating to successes stemming from the Plan for inclusion in publications of the Msukaligwa Municipality and external publications, e.g. the news media, aimed at stakeholders;
- (c) Circulating copies of the Code and the Policy to all employees;
- (d) Circulating appropriate sections of the Code to other stakeholders;
- (e) Publicising "lessons learned" out of investigations into allegations of fraud; and
- (f) Publishing actions taken against people found guilty of fraud against the Msukaligwa Municipality and the results of disciplinary action taken. Due to possible legal ramifications, the information published with regard to the latter will be decided in consultation with the Manager: Human Resources and/or a Legal Advisor.

### **3.7 Ongoing Maintenance and review**

#### ***Fraud Prevention Committee***

3.7.1 In order to ensure that the process of ongoing development and implementation of the Plan is consultative and viewed as such by all stakeholders within the Msukaligwa Municipality, the Msukaligwa Municipality will consider the establishment of a Fraud Prevention Committee in order to address this issue. The Fraud Prevention Committee will be responsible for the overseeing of the development of strategies to prevent, detect and investigate fraud.

3.7.2 The Committee, once formed, will be responsible for the ongoing maintenance and review of the Plan. This will include:

- (a) Evaluating reports of fraud and highlighted areas of risk within the Msukaligwa Municipality;
- (b) Considering fraud threats to the Msukaligwa Municipality and make recommendations to other appropriate committees or management;
- (c) Monitoring action taken to implement the recommendations relating to incidents of fraud;
- (d) Reviewing and making appropriate amendments to the Plan, Policy and Code;
- (e) Amending the awareness programme as necessary, and implementing the changes; and
- (f) Ensuring that ongoing communication strategies are developed and implemented.

3.7.3 The Plan will be reviewed on an annual basis, whilst progress with the implementation of the various components will be reviewed on a quarterly basis. In the latter regard, specific priorities stemming from the Plan, actions to be taken, responsible persons and feedback dates relating to progress made will also be set. Once the Plan has been finalized, a matrix of tasks and responsibilities will be developed to facilitate this.

## Adoption of the Policy

-----  
**MUNICIPAL MANAGER**

-----  
**DATE**

-----  
**MAYOR**

-----  
**DATE**

