



# Molemole Municipality

## **FRAUD PREVENTION STRATEGY 2019/20**

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**MOLEMOLE LOCAL MUNICIPALITY FRAUD PREVENTION STRATEGY 2019/20**

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## 1. Introduction

Fraud represents a significant potential risk to the Municipality's assets and reputation. The Municipality is committed to protecting its funds, resources and other assets. The Municipality will not tolerate corrupt or fraudulent activities whether internal or external, and will vigorously pursue and prosecute any parties, by all legal means available, which engage in such practices or attempt to do so.

The Fraud Risk Management strategy has been designed to provide a consistent framework to assist the management and staff members of municipality in mitigating the diverse Fraud risks facing the municipality.

This Fraud Prevention Plan has been developed as a result of the expressed commitment to fight corruption. It is also an important contribution to the National Anti-Corruption Strategy of the and supplements both the Public Service Anti-Corruption Strategy and the Local Government Anti-Corruption Strategy.

### 1.1 Legislations and best practices relevant in addressing Fraud and Corruption

#### 1.1.1 The Municipal Finance Management Act of No 56 of 2003;

In terms of section 62 of the MFMA, General financial management functions. The Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure

- a) that the resources of the municipality are used effectively, efficiently and economically;
- b) that full and proper records of the financial affairs of the municipality are kept with accordance with any prescribed norms and standards.
- c) that the municipality has and maintains effective, efficient and transparent systems-
  - i, of financial and risk management and internal control; and
  - ii, of internal audit operating in accordance with any prescribed norms and standards.
- d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented;
- e) that disciplinary or, when appropriate ,criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15.

Section 173 of the MFMA states that "The accounting officer of a municipality is guilty of an offence if the accounting officer

- 
- a) deliberately or in a grossly negligent way
  - iv) fails to take steps to all reasonable steps to prevent to prevent corruptive practices

- aa) in the management of the municipality's assets or receipts of money; or
- bb) in the implementation of the municipality's supply chain management policy.

### **1.1.2 The Local Government Anti-Corruption Strategy**

The Local Government Anti-Corruption Strategy (LGACS), which is modelled around the Public Service Anti-Corruption Strategy. The main principles upon which the strategy is based:

- a) Creating a culture within municipalities, which is intolerant to unethical conduct, fraud and corruption;
- b) Strengthening community participation in the fight against corruption in municipalities;
- c) Strengthening relationships, with key stakeholders, that are necessary to support the actions required to fight corruption in municipalities, for example, South African Local Government Association (SALGA), Employee Representative Unions, and Communities;
- d) Deterring and preventing of unethical conduct, fraud and corruption;
- e) Detecting and investigating unethical conduct, fraud and corruption;
- f) Taking appropriate action in the event of irregularities, for example, disciplinary action, recovery of losses, prosecution, etc. and
- g) Applying sanctions, which include redress in respect of financial losses.

### **1.1.3 King III report**

The principle of good Corporate Governance as dedicated by King III report also necessitates the establishment of the fraud prevention strategy and plan.

#### **Increase effectiveness and efficiency**

The establishment of fraud strategy and prevention plan can further, act as a deterring factor to would be perpetrators and enhance external perceptions from stakeholders, i.e. the municipality will be seen as acting against fraud and corruption.

### **1.1.4 The Prevention and Combating of Corrupt Act.**

The objectives of the Act is to provide for the strengthening of measures to prevent and combat corruption and corrupt activities.

- i, To provide for investigative measures in respect of corruption and related corrupt activities;
- ii, To provide for the establishment and endorsement of a Register in order to place certain restrictions on persons and enterprises convicted of corrupt activities relating to tenders and contracts;
- iii, To place a duty on certain persons holding a position of authority to report certain offences of corruption and offences relating to corrupt activities.

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Other prescribed legislation dedicated to combating fraud and corruption activities include;

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- a) The Prevention of Organised Crime Act.
- b) Protected Disclosure Act.
- c) The Promotion of Administrative Justice Act.

## **1.2 Responsibility for Fraud Risk Management**

The Accounting Officer is responsible for the design and implementation of fraud prevention strategy and plan.

The success of the fraud prevention strategy and plan will require acceptance and commitment by all role players. Every official of the Municipality needs to be held accountable for assets and activities under their control.

It must be emphasized that the understanding of the overall risk (Cumulative effect of inherent risk, detection risk and control risk) in relation to fraud is critical to the success of the fraud prevention strategy and plan. Every line manager therefore needs to be aware of the relationship between risk and fraud.

## **2 Definitions**

### **2.1 Fraud**

Fraud is defined as "the unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another". The term "fraud" is also used in a wider sense by the general public. In this regard, the term is used in this document in its widest possible meaning and is intended to include all aspects of economic crime and acts of dishonesty. In other words, fraud can be described as any conduct or behaviour of which a dishonest representation and/or appropriation forms an element.

### **2.2 Actions constituting fraud and corruption**

Fraud manifests itself in a number of ways and varying degrees of intensity. These include, but are not limited to:

- i, Unauthorised private use of municipal assets, including vehicles;
- ii, Falsifying travel and subsistence claims;
- iii, Operating a private business in working hours;
- iv, Taking unrecorded leave;
- v, Substituting new goods with old.

## **2.3 Corruption**

**Corruption** in its wider meaning, and as referred to in this document, includes any conduct or behaviour where a person accepts, agrees or offers any gratification for him/her or for another person where the purpose is to act dishonestly or illegally. Such behaviour also includes the misuse of material or information, abuse of a position of authority or a breach of trust or violation of duty.

## **2.4 Forms of corruption**

Corruption takes various forms in the public service and elsewhere in society. The following are examples of different types of corruption.

### **i, Bribery**

Bribery involves the promise, offering or giving of a benefit that improperly affects the actions or decisions of public servants.

### **ii, Fraud**

Any conduct or behaviour of which a dishonest representation and/or appropriation forms an element.

### **iii, Abuse of power**

The use by a public servant of his or her vested authority to improperly benefit another public servant, person or entity (or using vested authority to improperly discriminate against another public servant, person or entity).

### **iv, Conflict of interest**

The failure by a public servant to act or to consciously fail to act on a matter where the public servant has an interest or another person or entity that has some form of relationship with the public servant has an interest.

### **v, Abuse of privileged information**

This involves the use, by a public servant of privileged information and knowledge that a public servant possesses as a result of his/ her office to provide unfair advantage to another person or entity to obtain a benefit.

### **vi, Nepotism**

A public servant ensuring that family members are appointed to public service positions or that family members receive contracts from the state is regarded as nepotism.

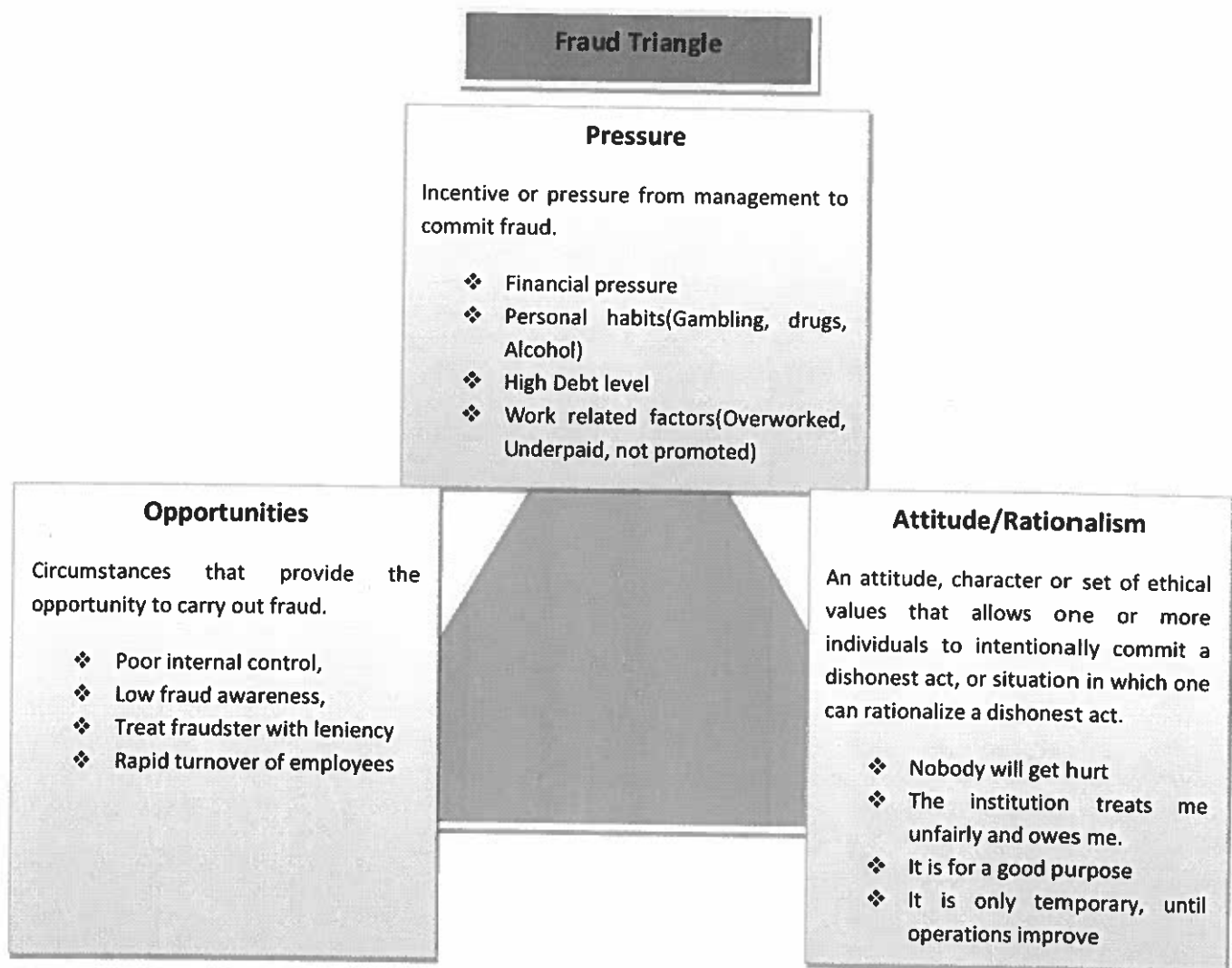
These manifestations are by no means exhaustive as corruption appears in many forms and it is virtually impossible to list all of these.

### 3 Characteristics of Fraud

#### 3.1 Objectives

To provide a broader understanding of the environment in which fraud is likely to occur.

Three conditions are generally present when fraud occurs – Incentive/pressure, opportunity and attitude/rationalism.



### **3.2 Understanding fraud triangle**

Deciding on the appropriate strategy to address fraud, Risk Management committee of the Municipality shall consider the context of fraud as outlined above in **context example**.

#### **3.2.1 Incentive/Pressure**

This is to a greater extent not responsive to managements interventions. Management can however through increase focus on the control environment and internal control increase the incentive/pressure threshold. Incentive/Pressure threshold is the cut-off before a person will commits fraud. Although we acknowledge that each person will have a different incentive/pressure threshold, management can raise the average threshold of an entity by his/ her attitude and response towards the occurrence of fraud.

#### **3.2.2 Opportunity**

Opportunity to commit from within a municipality is under the control of management. The implementation of internal control (both detective and prevention) is one of the mechanisms available to management. Occurrence of fraud within a department should call for a redesign, or if appropriate reestablishment of related internal controls.

#### **3.2.3 Attitude/Rationalism**

Attitude/Rationalism is to a lesser extent under the control of management. Incorporation a zero percent tolerance attitude and culture within the municipality will act as a powerful deterrent towards fraud.

Leading by example will be one of the tools used by management to create such a culture of zero tolerance towards fraud.

## **4. Fraud strategy**

### **4.1 Building fraud strategy**

Deciding on the appropriate strategy to address fraud, Risk Management committee of Molemole Municipality shall consider the context of fraud as outlined above in context example.

#### **4.1.1 Incentive/Pressure**

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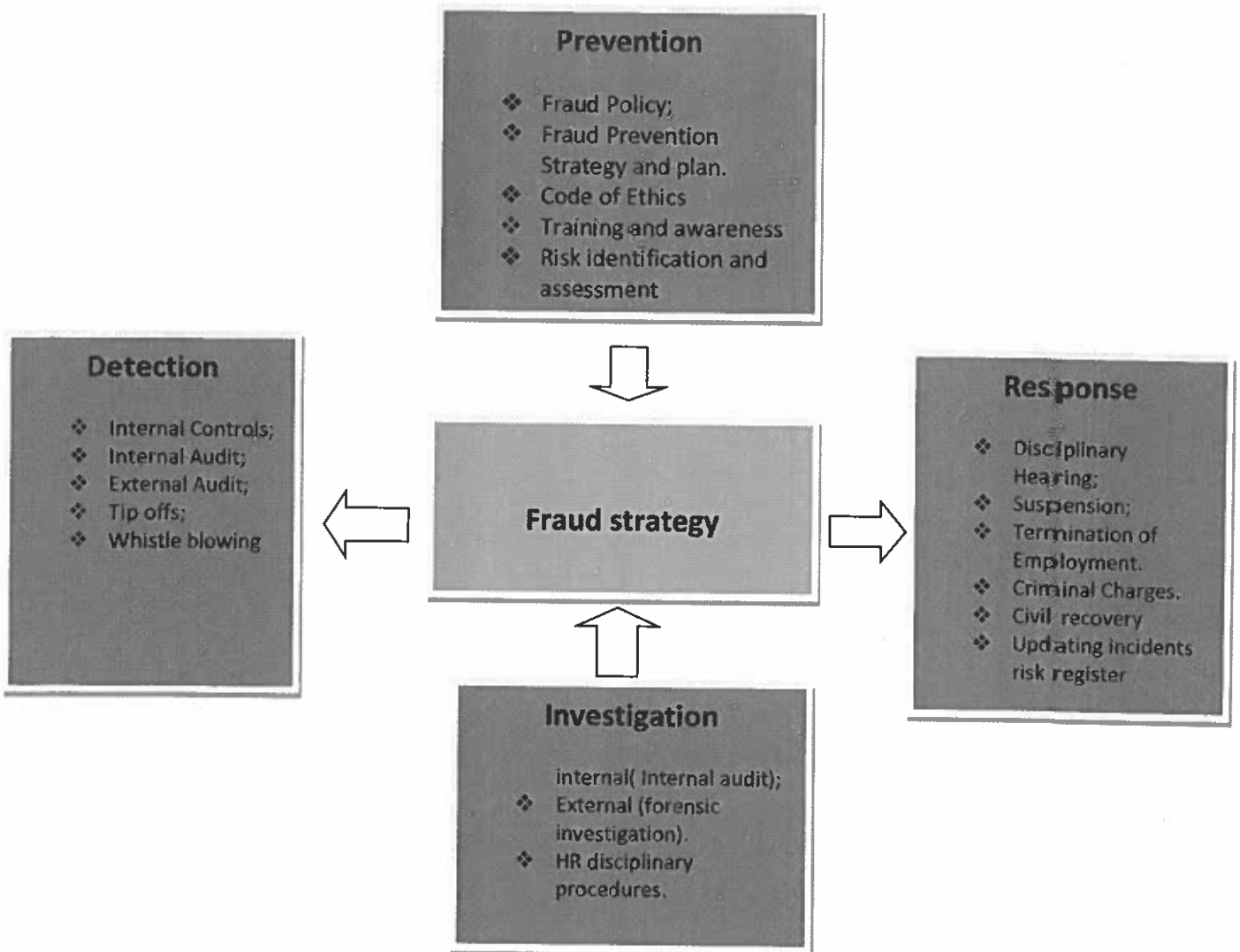
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**4.2 Components of fraud strategy**

Components of the municipality fraud strategy comprise of prevention, detection, investigation and response as depicted in the diagram below.



#### 4.1 Fraud Response Plan

The fraud prevention is the most important component for Molemole Municipality in dealing with fraud and corruption.

For issues raised by employees of the municipality, members of the public and or service providers, action taken will depend on the mature of the concern. The matter raised will be screened and evaluated and may subsequently be:

- i. Be investigated internally; or
- ii. External investigation.

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Any fraud and corruption committed by an employee or any other person will be pursued through investigation and to the full extent of the law, including (where appropriate) consideration of the following:

- i, In case of employee, disciplinary action after a reasonable period of time after the incident;
- ii, Instituting civil action to recover the loss;
- iii, Initiating criminal prosecution by reporting the matter to the SAPS or any other relevant law enforcement agency;
- iv, Any other appropriate legal remedy available.

Managers are required to ensure that losses or damages suffered by Molemole Municipality as a result of all reported acts committed by employees, members of the public or service provider are recovered from such persons if they are found liable for such losses.

**The Accounting Officer will, upon receiving a report of fraud from external person write to that person making a report:**

- i, Acknowledging that the concern has been received;
- ii, Indicate how the municipality propose to deal with the matter and whether any inquiries have been undertaken;
- iii, Give an indication as to how long the municipality will give the final response;
- iv, Inform person whether further investigation will take place, and if not, why not.

**5. Reporting procedure and resolution of reported incidents.**

**5.1 What should an employee do when he/she suspects fraud and/or corruption?**

It is the responsibility of all employees to report all allegations and incidents of fraud and corruption to their immediate manager/supervisor. Should the employee be concerned that the manager is involved, the report can be made to any other member of management, the Accounting Officer or member of audit or risk committee.

All managers are responsible for the detection, prevention and investigation of fraud and corruption and must report all allegations and incidents of fraud and corruption to the Accounting Officer. The Accounting Officer will initiate an investigation into the matter.

Should an employee wish to report the allegation of fraud and corruption anonymously, they can contact the Risk Officer or any member of Management, Accounting Officer, Mayor or member of the audit or risk committee.

**5.2 What should members of the public or service providers do if they suspect fraud and Corruption?**

Molemole Municipality encourages members of the public or service providers who suspect fraud and corruption to contact any member of management and or the Accounting Officer.

**6 Confidentiality**

All information received and investigated relating to fraud and corruption will be treated confidential. The progression of the investigation will be handled in a confidential manner and will not be disclosed or discussed to any person(s) other than those who have legitimate right to such information. This is important in order to avoid harming the reputation of the suspected person who is subsequent found innocent of wrong doing.

No person is authorized to supply any information regarding allegations or incidents of fraud and corruption other than the Accounting Officer.

**7 Publication of Sanction.**

The Accounting Officer will decide whether any information relating to corrective actions taken or sanctions imposed, regarding incident of fraud and corruption should be brought to direct attention of any person or should be made public through any other means.

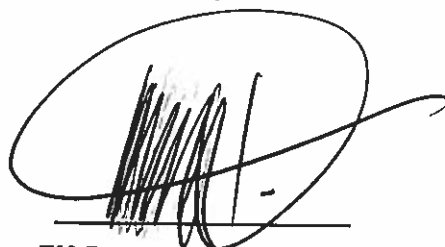
**8 Application of prevention controls and detection mechanisms.**

In respect of all reported incidents of fraud and corruption, management is required to immediately review, where possible improve the effectiveness of the controls, which have been breached in order to prevent similar irregularities from taking place in the future.

**9 Approval**

The policy shall be reviewed annually to reflect the current stance on fraud risk management and adopted by Council.

APPROVED BY:

  
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EM Paya  
Mayor

29 July 2019  
Date