



Fraud Prevention  
Strategy



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# 1. Introduction

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

## 1.1 Why is Fraud Prevention Important

### ➤ The Local Government Anti-Corruption Strategy

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

- Creating a culture within municipalities, which is intolerant to unethical conduct, fraud and corruption;
- Strengthening community participation in the fight against corruption in municipalities;
- 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;
- Deterring and preventing of unethical conduct, fraud and corruption;
- Detecting and investigating unethical conduct, fraud and corruption;
- Taking appropriate action in the event of irregularities, for example, disciplinary action, recovery of losses, prosecution, etc; and
- Applying sanctions, which include redress in respect of financial losses.

### ➤ Good Corporate Governance

The principle of good Corporate Governance as dictated 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.

### 1.2 Statement of Commitment

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

### 1.3 Who is Responsible for Fraud Prevention?

The Accounting Officer is ultimately held 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 Molemole 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

In South Africa, the Common Law offence of **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:

Unauthorised private use of municipal assets, including vehicles;

Falsifying travel and subsistence claims;  
Operating a private business in working hours;  
Taking unrecorded leave;  
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.

➤ ***Bribery***

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

➤ ***Fraud***

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

➤ ***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).

➤ ***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.

➤ ***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.

➤ ***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.

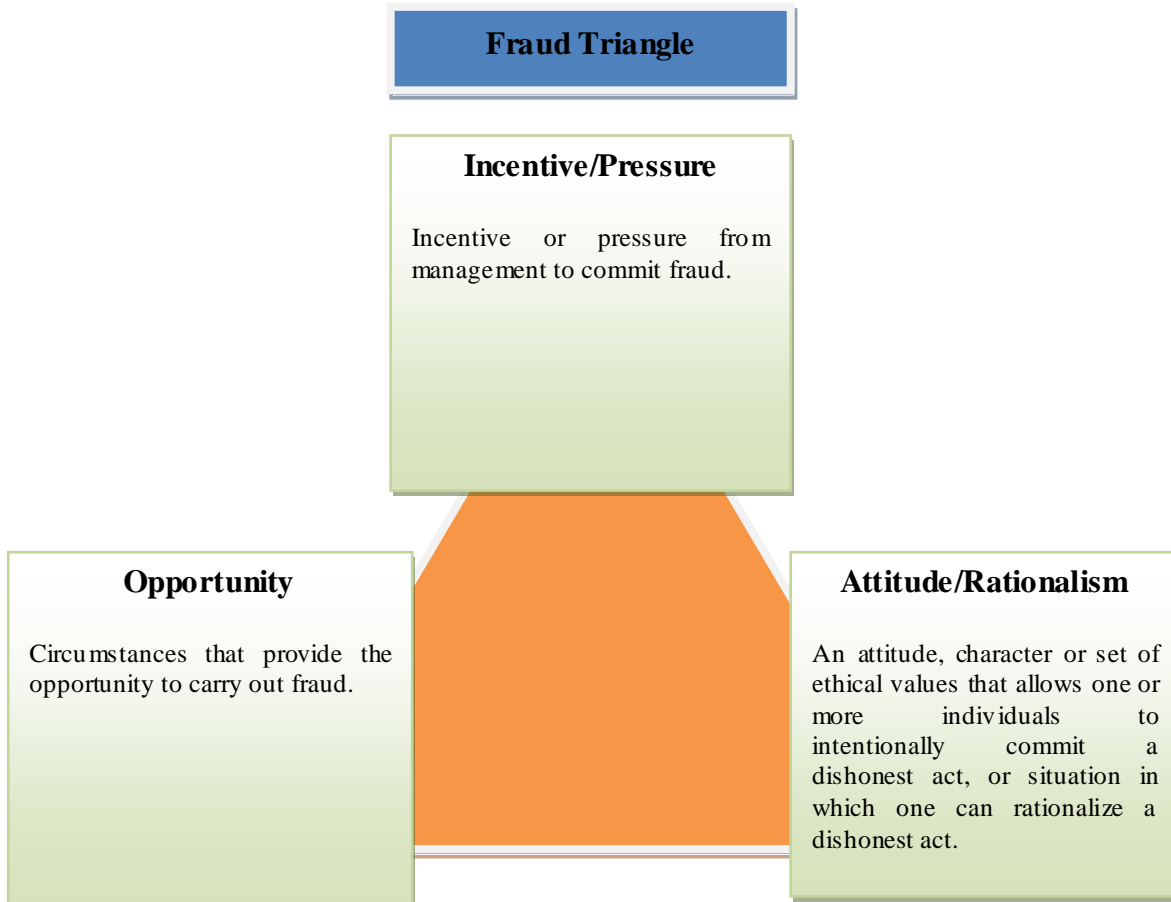
### 3. Characteristics of Fraud

#### 3.1 Objectives

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

#### 3.2 Context of fraud risk

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



### 3.3 Context examples

#### ➤ Incentive/Pressure

An incentive to commit fraud is not only limited to misappropriation of assets, i.e. cash but can also consist of manipulating information regarding key performance indicators to with the objectives of reaping financial rewards.

Personal issues, e.g. financial pressures, can increase the occurrence of fraud. Unnecessary business related pressures, e.g. pressure to reach set objectives and targets, also add to the likelihood of fraud occurring.

#### ➤ Opportunity

Lack of internal control, poor control environment, lack of proper segregation of duties, etc. are all examples of opportunities in a work environment which increase the likelihood of fraud occurring.

#### ➤ Attitude/Rationalisation

A work culture that embraces and rewards dishonesty can be a fertile breeding ground for fraudulent activities.

## 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**.

#### **Incentive/Pressure**

This is to a greater extend 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.

#### **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.

#### **Attitude/Rationalism**

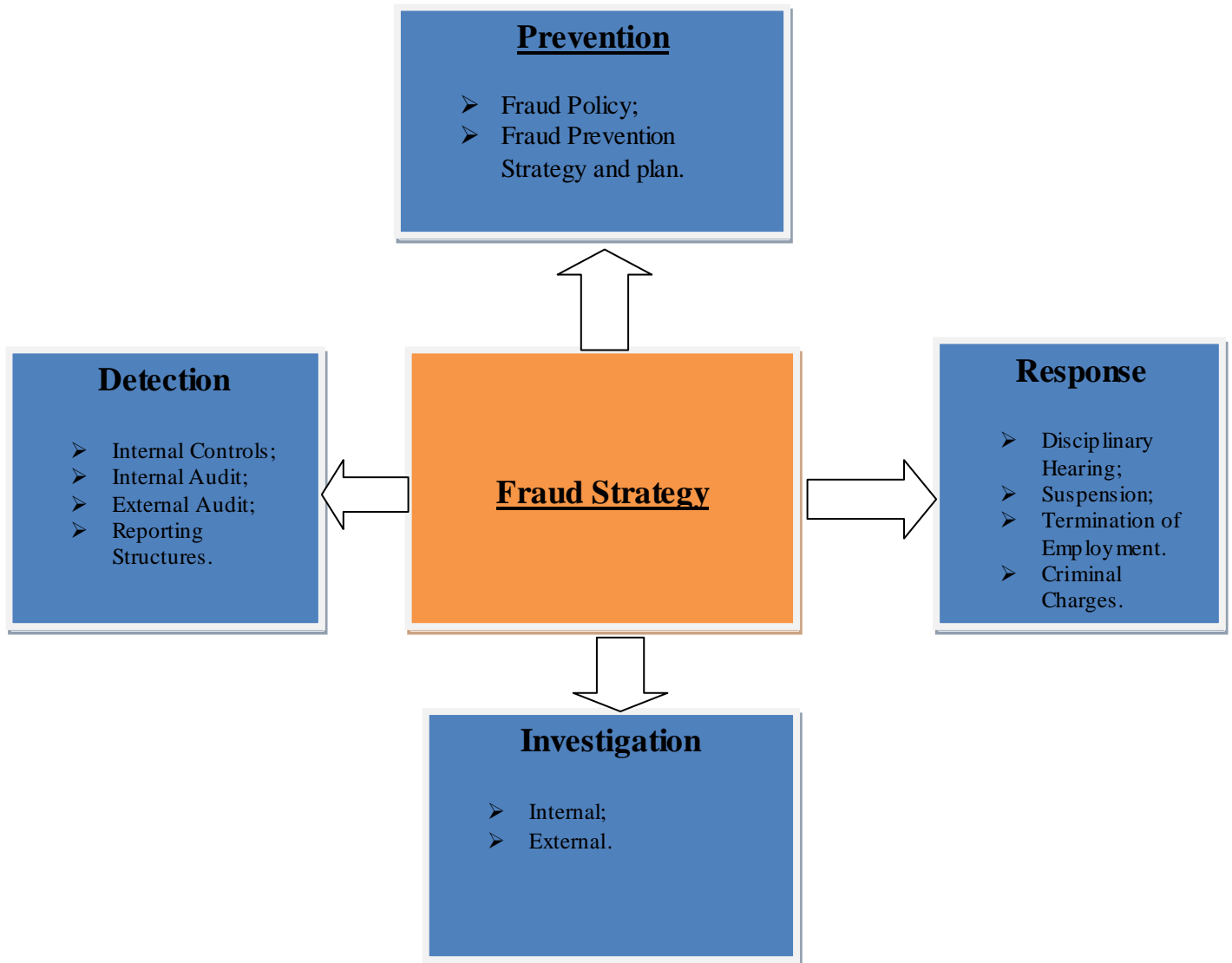
Attitude/Rationalism is to a lesser extend under the control of management. Incorporation a zero percent tolerance attitude and culture within the municipality will act as a powerful deterrent towards fraud.

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



#### 4.2 Components

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



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

#### 4.2 How will allegations of fraud and corruption be dealt with?

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

- Be investigated internally; or
- External investigation (be referred to a law agency).

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:

- In case of employee, disciplinary action after a reasonable period of time after the incident;
- Instituting civil action to recover the loss;
- Initiating criminal prosecution by reporting the matter to the SAPS or any other relevant law enforcement agency;
- 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:

- Acknowledging that the concern has been received;
- Indicate how he propose to deal with the matter and whether any inquiries have been undertaken;
- Give an indication as to how long he will give the final response;
- Inform them 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 Chief 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.