

Fraud Prevention Policy & Strategy



LANGEBERG

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1. INTRODUCTION

Fraud represents a significant potential risk to the Municipality's assets and reputation. Langeberg 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, that 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 Municipal Manger is ultimately held responsible for the design and implementation of fraud prevention plan and strategy

The success of the fraud prevention plan and strategy will require acceptance and commitment by all role players. Every official of Langeberg 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 plan and strategy. 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 of new goods with old ones

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 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
- 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 that 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. OBJECTIVES OF FRAUD RISK MANAGEMENT

The objective of the fraud risk management within Langeberg Municipality is to identify where the exposures to fraud exist within Langeberg's current operating system and procedures. It is also to provide the richer understanding of the environment in which fraud is likely to occur

3.1 Context of fraud risk

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

3.2 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 Langeberg Municipality shall consider the context of fraud as outlined above in context example.

Incentive/Pressure

This is to a greater extent not responsive to management's interventions. Management can however, through an increased focus on the control environment and internal control, increase the incentive/pressure threshold.

Incentive/Pressure threshold is the cut-off before a person commits fraud. Although we acknowledge that each person has a different incentive/pressure threshold, management can raise the average threshold of an entity by their 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 extent under the control of management. Incorporation a zero per cent 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 Key Pillars of Fraud Prevention Strategy

Prevention

- Should lower the likelihood that fraud occurs
- Prevention efforts should focus on identifying controls to prevent all three conditions (opportunity, rationalism and pressure) that have to occur for fraud to take place, e.g. Policy, Strategy and Plan

Detection

- Fraud risk management processes should be embedded in the Municipality's systems, ensuring that the responses to fraud and corruption risks remain current and dynamic
- This include the Internal Controls, internal audits, Reporting Structures

Investigation

- Should take place when actual fraud has been committed or there is suspicion that fraud has occurred
- Investigation policy should be implemented and focus on:

Manner in which incidents should be reported

Roles and responsibilities in the process

Procedures in carrying preliminary investigations which will help to establish reasonable grounds on whether investigation is justified or not

Procedures in taking resolutions after preliminary findings i.e. who decides on escalation of cases to internal investigation units.

Involvement of law enforcements

Resolution

- Post investigation activities which can include the following:

Disciplinary action

Criminal Charges

Termination of employment

Awareness and communication

Updating the incidents database for future reference

Reporting

5. Reporting Procedure and Resolution of reported Incidents

5.1 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 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.

5.2 Recovery of Losses

Managers are required to ensure that losses or damages suffered by Langeberg Municipality as a result of all reported acts committed or omitted by employees if they are found to be liable for such losses.

5.3 Feedback to reporters of fraud

The Municipal Manager will, upon receiving a report of fraud from an external person, write to the person making the report:

- Acknowledging that the concern has been received;
- Indicating how he proposes to deal with the matter and whether any initial enquiries have been made;
- Giving an estimate of how long it will take to provide a final response; and
- Informing them whether any further investigations will take place, and if not, why not.

5.4 What should an employee do if he/she suspects fraud and corruption?

It is the responsibility of all employees to manage fraud risks and to immediately report all allegations or incidents of fraud and corruption to their immediate Manager or the Municipal Manager. If an employee is concerned that the Manager is involved; the report can be made to any other member of Management, the Municipal Manager and/or the Chairperson of the Risk Management Committee. Should employees wish to report allegations of fraud and corruption anonymously, they can contact any member of Management, the Municipal Manager, the Risk Committee or call the **National Hotline on 0800 701 701**

5.5 What should a member of the public or providers of goods and/or services do if they suspect fraud and corruption?

Langeberg Municipality encourages members of the public or providers of goods and/or services who suspect fraud and corruption to contact any member of Management, the Municipal Manager or call the **National Hotline on 0800 701 701**.

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 Municipal Manager.

7. PUBLICATION OF SANCTION

The Municipal manager 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. IMPLEMENTATION STRUCTURE

Langeberg Municipality has established the Risk Management Committee who will serve as the Fraud Prevention Committee and whose responsibility will include the implementation of this Policy.

POLICY REVIEW

The policy shall be reviewed annually to reflect the current stance on the risk management within the Langeberg Municipality.

APPROVAL OF THE POLICY

The approval of this policy lies with the Langeberg Municipality Council on the recommendations of the Risk Management Committee and the Municipal Manager.

ACKNOWLEDGEMENT OF APPROVAL

Recommended by the Risk Management Committee:

Position:

Chairperson

Signature:



Name in Print:

IAB VAN DER WESTHUIZEN

Date:

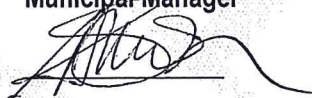
21/05/2014

Recommended by the Municipal Manager:

Position:

Municipal Manager

Signature:



Name in Print:

S A MOLOWENI

Date:

21/06/2014

Approved by Council Resolution:

Report No.:

A 3012

Date:

24/06/2014