# FRAUD MANAGEMENT STRATEGY

# 2022/23

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## 1. Purpose

The purpose of this Fraud Prevention Policy is to ensure that Moqhaka Local municipality communicate its stance with regard to anti-fraud and anti – corruption activities and develop appropriate strategies and procedures to prevent, detect and corrective measures. This fraud prevention strategy has been developed to comply with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

The Fraud Management Strategy does not attempt to provide a complete approach to risk management but it forms part of the integrated approach to risk management in terms of the Public Sector Risks Management Framework and Treasury Regulations. While some aspects of managing fraud risks are specific, many of the control designed to address fraud risks will have a wider application and will therefore form a part of a general approach to risk management and financial management. Top management must set the tone of the Municipality and promote an anti-fraud culture.

The Strategy is designed to implement the fraud prevention policy and to protect public resources, protect the integrity, security and reputation of the Municipality and maintain a high level of services to the Municipal stakeholders consistent with good governance as per the King Reports on Corporate Governance.

## 2. Objectives of the strategy

a. To provide and maintain a zero tolerance towards any instances of fraud directly affecting the municipality.;
b. To provide with the framework on which the employees will utilise to implement caution towards fraud at all the time;
c. To enhance and support any initiative intended to combat any incidents of fraud and corruption.
d. To ensure that the fraud management strategy is used in collaboration with risk management key documents and all other applicable legal prescripts.

## 3. The need for the strategy

The need to have a fraud management strategy is to facilitate a broad understanding of fraud across the municipality and also intend to:

Opportunity

Pressure Rationalization

**a. Need / Pressure:**

There would always be a need that the fraudster would want to fulfil his/her personal achievement. In this case, the fraudster would be an employee within or outside the Municipality.

**b. Opportunity:**

After the need has arisen from an individual / group of individuals to pursue, different angles are evaluated to find a way in which opportunity may arise and use it. These opportunities are within the environment within which the individual operates. It may be because of weak controls or misuse of power within the Municipality.

**c. Justification / Rationalization:**

When an individual / group of individuals have found the opportunity to institute his / their plan, they find a reason why they should commit such activity.

Top Management of the Municipality must ensure that the opportunities for fraud are minimized. Segregation of duties, rotation of employees for sensitive duties, effective procedures and checks should prevent or deter fraud from occurring. While some people would never contemplate perpetrating a fraud, others may, if they thought they could get away with it. A high chance of being caught by detective controls will deter fraud activities. Others arise because of a system weakness such as a lack of proper control over placing of purchase orders or failures to follow proper control procedures.

It may be artlessness in carrying out a check. It may be that too much trust has been placed in one individual with no effective separation of duties. Frauds, which result from collusion, may be more difficult to prevent.

## 8. Fraud Indicators and warning signs

Top management of the Municipality will also be alert to any warning signs that might indicate that fraud is taking place. These may include:

- Unusually high personnel debts;
- Living beyond one's need;
- Desire to beat the system;
- Employees under stress without high workload;
- Always working late;
- Reluctance to take leave;
- Refusal of promotion;
- Unexplained wealth;
- Sudden change of lifestyle;
- New employees resigning quickly;
- Cosy relationship with suppliers / contractors;
- Suppliers / contractors who insist on dealing with one particular employee. Indicators that the Municipality may be a target for fraudsters;
- A department that lacks competent employees;
- No clear lines of authority and responsibilities;
- Inadequate segregation of duties;
- Operation on crisis bases;
- Failure to discipline violations of policies, norms and standards;
- Too much trust placed on key employees, and
- Inadequate background and reference checking before hiring new employees.

## 9. Fraud prevention and detection measure

When risks and deficiencies in the level of control are identified, it is necessary to choose the most appropriate type of controls. Fraud should be deterred wherever possible. Similarly, prevention is always preferable to detection. Strong preventive controls should therefore be applied wherever possible. However, preventive controls may not be sufficient to guard against determined fraudsters and detective controls are therefore important. Detective controls are established to detect errors; omission and fraud after the events have taken place.

dealing with cash or accounting records. Random spot checks by managers can be an effective anti-fraud measure.

### 8.4. Audit trail

This is largely a detective control, although its presence may have a deterrent effect and thus prevent a fraud. An audit trail will ensure that all transactions could be traced through a system from employees to finish. In addition to allowing detection of fraud it enables the controls to be reviewed.

### 8.5. Monitoring

Management information will include measures and indicators of performance in respect of efficiency, effectiveness, economy and quality of service. Effective monitoring, including random checks, should deter and detect some types of fraudulent activity.

### 8.6. Evaluation

Policies and activities will be evaluated periodically for economy, efficiency and effectiveness. The management of the operation will perform evaluations, but they are usually more effective when performed by an independent team. Such evaluations may reveal fraud.

### 8.7. Staffing

Adequate staffing is essential for a system to function effectively. Weaknesses in staffing can negate the effect of other controls. Posts involving control of particularly high value assets or resources may need the application of additional vetting procedures. Rotation of employees between posts can help prevent or detect collusion or fraud.

### 8.8. Asset

Asset registers used for management accounting purposes can help detect losses, which may be caused by fraud and theft. The continuous monitoring of liquid assets (mayor's regalia, paintings, etc.) has to be done on regular basis.

### 8.9. Budgetary and other Financial Controls

Use of budgets and delegated limits for some categories of expenditure and other accounting controls should ensure that expenditure is properly approved and is properly accounted for by the responsible manager. This should limit the scope for fraud and should cause some types of fraud to be detected. Restrict access and follow the trails for officials who frequently view the analysis of the votes more often used to allocate tenders of high tender value.

### 8.10. Systems Development

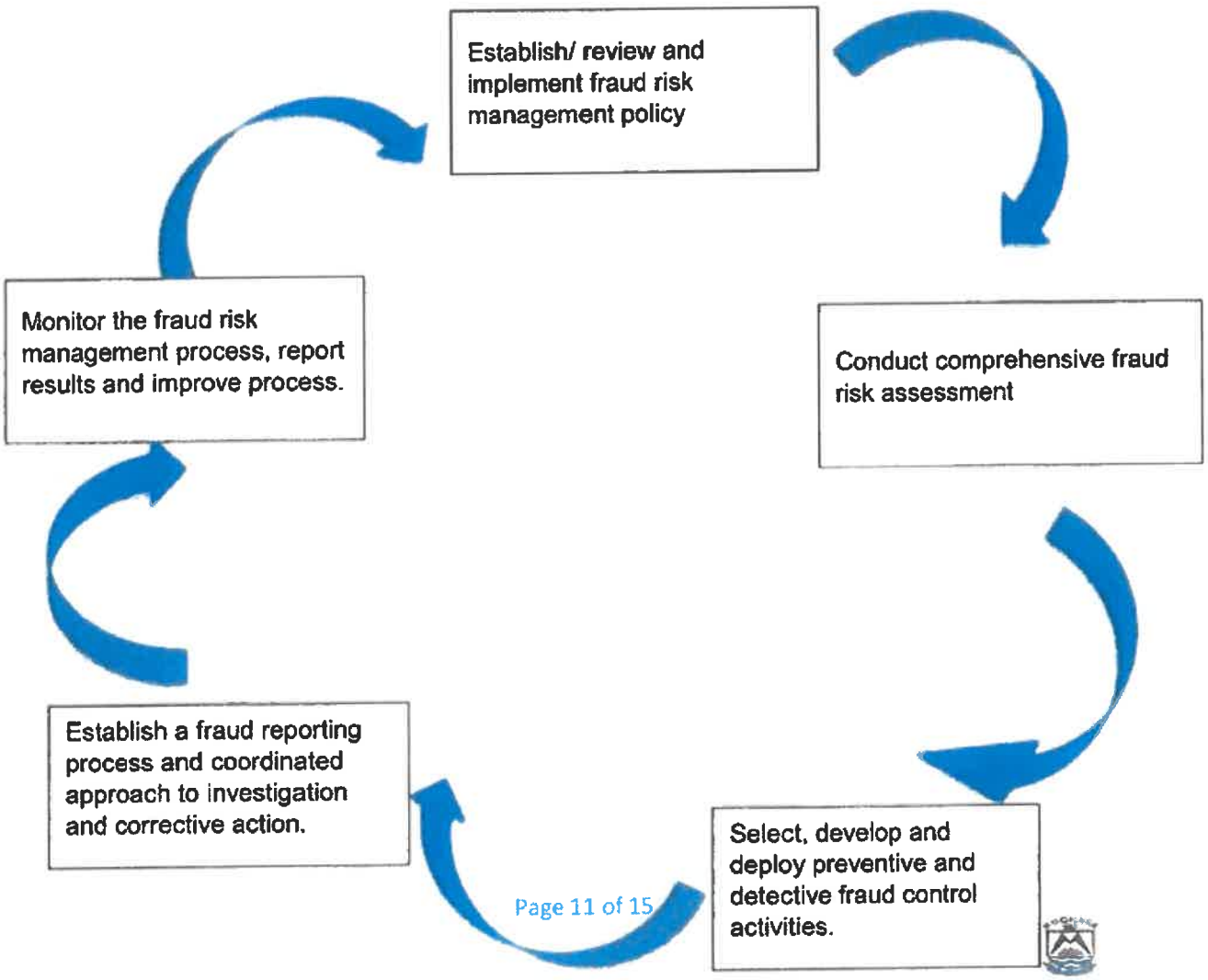
Controls over the development of new systems and modifications to existing systems or procedures are essential to ensure that the effect of changes is properly assessed at an early

### *9.5. Monitor the effectiveness of controls*

Monitor the revised controls for their effectiveness and to determine whether the fraud risk is lessened as a result of the implementation of revised controls. This could be achieved by a number of means including internal audit reviews of system controls and spot checks by managers to ensure that controls (such as supervisory controls or reconciliation's) are in operation.

## 10. Fraud Risk Management Cycle

The risk management cycle should be treated as an iterative process. If the implementation of revised controls is not sufficient to eliminate the threat of fraud, then the cycle must begin again. There are a number of main types of control, which can be applied to individual systems and to the Municipality as a whole. Some of these are preventive, some detective and some have a combined role.



- Promotional aids such as flyers and posters that indicate the Municipality stand on fraud;
- Promote the Municipality values during the orientations;
- Presentations to employees quarterly;
- Making use of induction processes;

### *12.2. Encourage involvement*

Increased awareness fraud prevention matters will lead to increased involvement of employees in taking proactive steps when realizing fraud indicators.

The Municipality will integrate fraud prevention with normal business processes by including it in all levels of the Municipality planning processes by incorporating fraud prevention action plans.

### *12.3. Evaluation of fraud prevention plan*

The implementation of this fraud prevention strategy will be monitored bi-annually to determine the extent to which it has been effectively discharged. The monitoring will be performed by the Chief Risk Officer and be submit to risk management committee for review and independently reviewed by the internal audit unit in line with the internal audit coverage plan.

### *12.4. Employees screening*

Newly appointed employees will be screened / vetted, as part of prevention measures, to prevent the Municipality from appointing high risk candidates.

### 12.5. *Analytical review of fraud statistics*

As part of detection mechanism, the Municipality will analyse the trends of fraud activities incurred to identify the possible weakness in processes where fraudulent activity took place. The activity will be performed by the Chief Risk Officer bi-annually.

## 13. Reporting

The incidents or allegation of fraud can be reported to Chief Risk Officer who will have to liaise with the Manager Internal Audit. Once the incidents or allegation has been reported to the office of the Municipal Manager will be informed and the undertaken has to be taken to protect the whistle-blower. The report can be lodged telephonically to 056 216 9281/ 9280 or preferably be directed to 0800 701 701.