FRAUD MANAGEMENT STRATEGY

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Department	**Fraud Management Strategy**
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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:

- Provide a common understanding of what constitutes fraud;
- Raises vigilance that employees, managers and Councilors need to be actively involved on an ongoing basis in preventing and detecting fraud. Without their support, fraud prevention will fail.
- Their support can be achieved by increasing awareness, encouraging involvement and developing an employee fraud reporting process;
- Uncover the facts, which refer to the processes and skills, required to manage a fraud allegation;
- Deterring fraud, which refers to the processes, required ensuring disciplinary or criminal action is instigated as appropriate, pursuing heavy penalties and advising employees of the outcome.
- Anti-fraud and anti-corruption Awareness Programme will be held at list once a year if not frequently and other initiatives will be intensified going forward, with the primary objective of sensitising management, employees and Council.

4. Definition of fraud

Fraud is defined as the unlawful and intentional making of a misrepresentation which causes actual prejudice or which is potentially prejudicial to another. The term fraud is used to describe offences such as but not limited to, deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion.

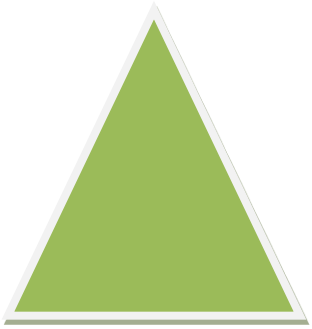
This definition includes monetary gain and any benefit that could be gained from the Municipality, including intangibles, such as information. A basic test for fraud could include the following questions:

- Was *intention* to deceive employed?
- Was the act *unlawful*?
- Was there a *false representation*?
- Did the Municipality suffer *damage/loss*?

5. Fraud Triangle

Basic elements that breed fraudulent activities to occur which are recognized by the Municipality is illustrated in following Fraud Triangle:

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.

6. How fraud will incur

The Municipality can therefore be exposed to the risk in a number of different ways:

a. Internal Fraud

This is fraud perpetrated by individuals inside the Municipality and is most often carried out by employees that have access to moveable or liquid assets. It is likely that the risk of fraud and its scale will increase if the employees are able to conceal the irregularities by also having access to accounting records. It may be opportunistic, though it may also be planned and committed over a long period.

b. External Fraud

This is fraud, which is perpetrated by individuals outside the Municipality and covers activities such as burglary, theft, deception and computer hacking by external parties. It is very often systematic and continuous, stemming from the inherent problem of safeguarding some type of systems against attack.

c. Collusion

This type of fraud involves two or more parties, either both internal and external working together. This type of fraud can be difficult to detect, as controls may at first appear to be working satisfactorily.

7. Code of conduct

In today's business environment, pressure is increasing on Municipalities to make the right financial decisions, and to make those decisions faster than ever before. The success of the Municipality depends on the quality of the decisions and the behaviour of individuals at all levels throughout the organization. The top management sets the culture of the Municipality.

When the senior management themselves are involved in fraudulent activities or unacceptable standards of business behaviour, employees at all levels are more easily able to justify their own dishonesty. It follows therefore, that if the municipality is to combat fraud, management should first look inwards and adopts standards that are fully honest and fair.

This section is intended to reaffirm the importance of high standards of business conduct. Adherence to the Code of Conduct by all employees is the only sure way to merit the confidence of the public to the Municipality. It must be emphasized that while observance of this code is important, common sense also plays a vital role. Each employee should apply this code with common sense and the attitude of seeking full compliance with the letter and spirit of the rules presented.

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.

The following range of controls will be considered by the Municipality when preventing and detecting fraud:

9.1. Physical security

This is a preventive measure which controls or monitors access to assets, documentation or IT systems to ensure that there is no unauthorized use, loss or damage. All assets will be held securely and access to them restricted as appropriate. The control should apply not only to the premises but also to computers, databases, banking facilities, documents and any other areas, which are critical to the operation of the Municipality's activities.

Access to computer systems is an important area, which should be very tightly controlled, not only to prevent unauthorized access and use, but also to protect the integrity of the data. Computer and data owners should secure information held on their systems especially personal information, which concerns third parties. The threat to computers can come from both inside and outside of the Municipality as computer hackers may gain access in order to extract or corrupt information.

9.2. Organizing

Organizing involves the allocation of responsibility to individuals or groups so that they work together to achieve objectives in the most efficient manner. Major principles in organizing relevant to fraud are:

- Clear definition of the responsibilities of individuals for resources allocated, activities, objectives and targets. This includes defining levels of authority and is a preventive measure, which sets a limit on the amounts, which may be authorized by individual officers. To be effective, checks need to be made to ensure that transactions have been properly authorized;
- Establishing clear reporting lines and the most effective spans of command allow adequate supervision;
- Avoiding undue reliance on any one individual.

9.3 Supervision and Checking of Outputs

Supervision is the functions by which managers of the Municipality will scrutinize the work and performance of their employees. It provides a check that employees are performing to meet standards and in accordance with instructions. It includes checks over the operation of controls by employees at lower levels.

These acts as both preventive and detective measures and involve monitoring the working methods and outputs of employees. These controls are important where employees are

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

9.4 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.

9.5 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.

9.6 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.

9.7 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.

9.8 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.

9.9 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.

9.10 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

stage and before implementation. Fraud risks should be identified as part of this process and the necessary improvements in control introduced.

10 Fraud Risk Management

Managing the risk of fraud is the same in principle as managing any other activity risk. It is best approached systematically, both at the strategic level e.g. by using fraud policy statements and personnel policies, and at the operational level.

When considering fraud risks in specific operations of the Municipality, there are a number of steps, which should be taken, which are in line with risk management components adopted by Municipality:

10.1 Identify risk areas

Establish the areas that most vulnerable to the fraud risk. Patterns of loss and areas of potential loss should be identified so that vulnerable areas can be pin-pointed. It may be useful to survey the employees involved in operating the system to establish all the risks of which they are aware.

10.2 Assess the risk

Identify and assess what measures are already in place to prevent fraud, determine the level of residual risk, using the assessment methodology identified in the risk management strategy.

When the residual risk is above the Municipality's tolerance level, the corrective action must be devised.

10.3 Identify need for revised controls

The first step is to identify key position within the municipal that are highly vulnerable to fraud within the municipality. Secondly, evaluate adequacy of existing controls and establish what further controls or changes to existing controls are required to reduce or eliminate the risk. Detailed in the latter part of this document is the type of controls which should be put in place to address such risks of fraud.

When revising these controls or devising the corrective action, responsible official will be identified and reasonable target date will also be given.

10.4 Implement the revised controls

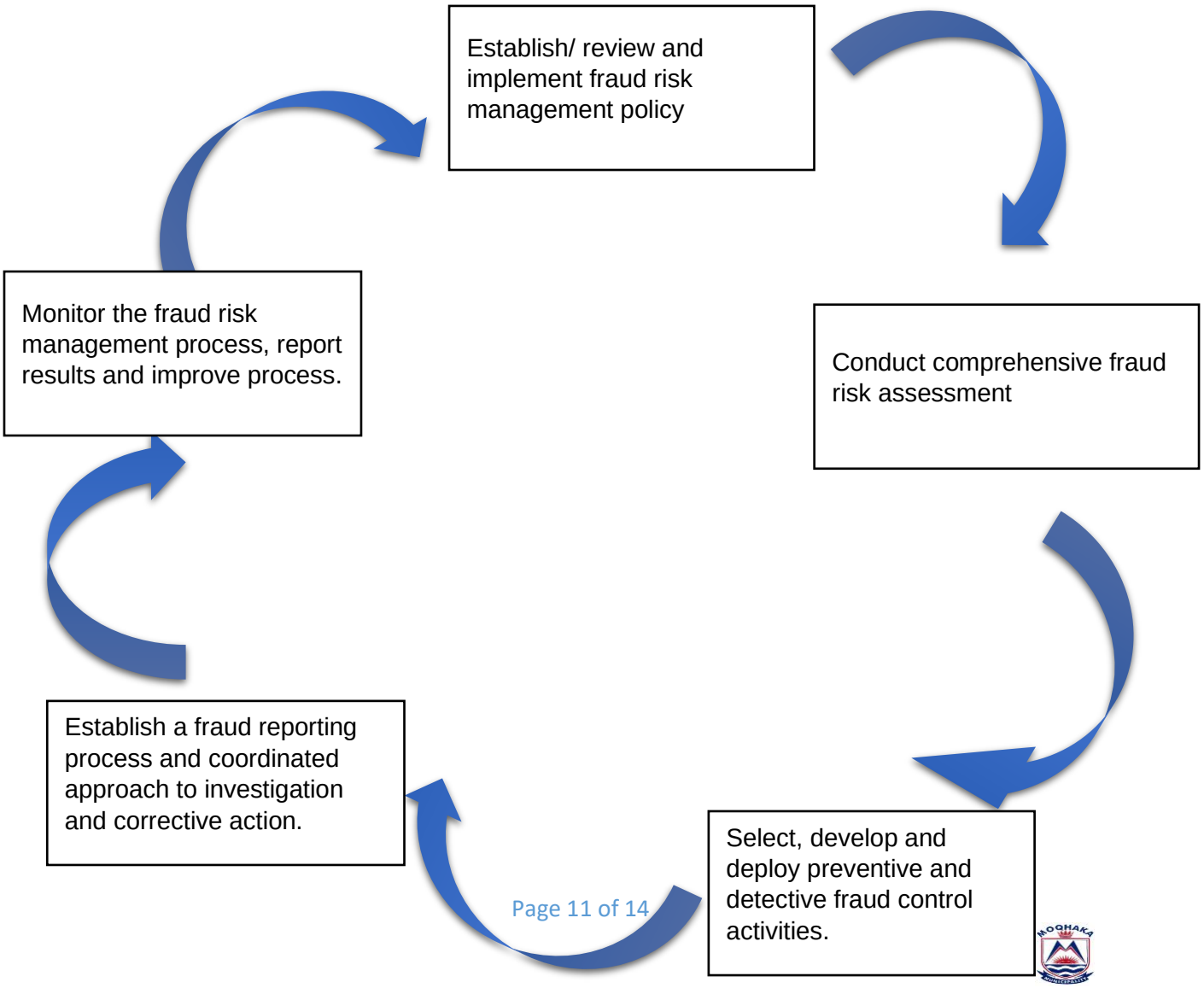
The identified person that is responsible for each risk must implement the revised controls within the set target date.

10.5 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.

11 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.



12 Roles and responsibilities

12.1 Management

Management of the Municipality is ultimately held accountable for the implementation of fraud prevention strategy in their respective area of responsibility. Management must also ensure that employees are aware of fraud prevention and their role should they be alerted to fraudulent activities.

12.2 *Chief Risk Officer*

Chief risk officer together or in consultation with Security Manager must develop fraud prevention strategy and it must be reviewed annually by Risk Management and Risk Management Committee to determine the extent to which the Municipality's fraud prevention strategy is in line with related acts and guidelines and monitor effective implementation.

12.3 Risk Management Committee

The committee must review the adequacy and effective fraud prevention strategy and fraud management policy and recommend for approval by the Accounting Officer.

12.4 Internal Audit

Internal Auditors play an important role in the management of fraud, this includes but not limited to:

- Providing independent assurance over the adequacy of the control environment. This includes providing the assurance over the effectiveness of the internal controls implemented to mitigate the identified fraud risks;
- Detect fraud when executing their audit assignments; and
- Assist Security Service unit together with the disciplinary board in the investigations of reported fraud cases when requested so by the Accounting Officer;

12.5 Employees

Officials must familiarize themselves with regard to the Municipal fraud prevention strategy and fraud management policy.

13 Implementation plan of this fraud prevention plan

The following actions will be considered by the department to ensure that fraud prevention strategy is effectively implemented:

13.1. Increase awareness

The Municipality will use the following campaigns to promote fraud prevention awareness within the Municipality:

- ❖ 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;

13.2 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.

13.2 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.

13.3 Employees screening

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

13.4 *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.

14 Reporting

14.1 Non-Anonymous Reporting

14.1.1 Report in writing, verbally or telephonically to the line Manager;

14.1.2 Report in writing, verbally or telephonically to the Chief Security; and

14.1.3 Report in writing to the Municipal Manager.

14.1.4 Reporting on means of complaint boxes

15. Anonymous Reporting

15.1.1The confidential National Fraud Hotline: **0800 701 701.**

15.1.2 Anonymous Letter to the Manager: Security Services.

15.1.3 Report on means of complaint boxes

16. Fraud Investigation

At an early stage, it will be necessary to decide what type of investigation to hold, who is to lead it and what the main objectives are. The investigation of fraud is a specialist subject and should not be undertaken by people without the necessary skills and training. Safeguarding public funds is important and therefore steps should be taken to prevent further losses and to ensure recovery of funds where losses have already occurred.

The disciplinary committee on financial misconduct will be used to investigate all the internal fraud allegation or incidents and conduct preliminary investigation. In rear circumstances the preliminary investigation can be conducted internally before the resource are deployed to initiate the full or detailed investigation.

Where the Investigator's report reveals that employees have committed a fraud, the Municipal Manager in consultation with the Legal advisor and Senior Manager: Corporate Services will pursue disciplinary or legal action.
Where the Municipality has suffered loss, efforts will be made to seek restitution from the individual(s) responsible for fraud.

17. Conclusion

Successful fraud prevention involves creating an environment, which inhibits fraud. Taking immediate and vigorous action if fraud is detected is not only necessary to prevent future losses but also helps deter other frauds. A manager who is alert to the possibility of fraud and who acts accordingly on a day-to-day basis is a powerful deterrent against fraud.

18. REVIEW OF THE FRAUD MANAGEMENT STRATEGY

The custodian of this Policy is the Municipal Risk Management unit. The policy will be reviewed annually and submitted for approval to the council

19. Approval

As approved/ adopted by means of council resolution **No 1.69** in an ordinary/special council, held at **Kroonstad** on the **07 November 2024**