



**FRAUD  
PREVENTION  
POLICY AND  
FRAUD RESPONSE  
PLAN  
2022-2023**

# **Fraud Prevention Policy**

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## 1. DEFINITIONS AND ABBREVIATIONS

<b>1.1. Municipality</b>	means the Matjhabeng Local Municipality, and when referred to as:  a) A municipal entity, has the meaning assigned to it in section 1 of the Municipal Systems Act, and b) geographic area means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 [Act 27 of 1998].
<b>1.2. Accounting Officer</b>	means the person who is appointed by the Council as the head of the administration and accounting officer for the municipality in accordance with section 82 of the Structures Act.
<b>1.3. Code of Conduct for Councillors</b>	means the Code of conduct for Councillors contained in Schedule 1 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000);
<b>1.4. Code of Conduct for Municipal Staff Members</b>	means the Code of conduct for employees contained in Schedule 2 of the Local Government Municipal Systems, 2000 (Act No. 32 of 2000);
<b>1.5. Constitution</b>	means the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)
<b>1.6. Corporate crime</b>	means, <i>inter alia</i> , fraud, corruption, theft, maladministration, negligence and other unethical behaviour, which, if allowed to continue unchecked, would or may have a significant effect on the Municipality's risk profile;
<b>1.7. Corporate Governance</b>	means the structures and processes for the direction and control of the Municipality. Corporate governance concerns the relationships among the management, Council, Stakeholders and staff of the Municipality. Good corporate governance contributes to sustainable economic development by enhancing the performance of the Municipality and increasing access to outside capital;
<b>1.8. Corruption</b>	is defined as dishonest or fraudulent conduct by those in power, typically involving bribery;
<b>1.9. Council</b>	means the Municipal Council of the Municipality of Cape Town;
<b>1.10. Criminal Action</b>	means a legal proceeding in which the state prosecutes a person who is charged with a public offense.
<b>1.11. CFO</b>	means the Chief Financial Officer of the municipality;
<b>1.12. Fraud</b>	means a false representation of fact that deceives and is intended to deceive another so that he or she will act upon the false representation to his or her disadvantage.
<b>1.13. Internal Control</b>	means the process that is effected Council or EMT to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
<b>1.14. MFMA</b>	means the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) and the Supply Chain Management Regulations promulgated thereto;

<b>1.15. MLM</b>	Matjhabeng Local Municipality;
<b>1.16. MPAC</b>	means the Municipality's Municipal Public Accounts Committee, a committee established in order to ensure political accountability and legislative oversight of the Municipality's accounts;
<b>1.17. Protected Disclosure</b>	means a protected disclosure as defined in the Protected Disclosures, 2000 (Act 26 of 2000);
<b>1.18. Political Office Bearer</b>	means the Mayor and the Speaker elected by the Council to such a post or position in accordance with the provisions of the Structures Act;
<b>1.19. Council</b>	means the Municipal Council of the Matjhabeng Local Municipality, its legal successors in title and its delegates.
<b>1.20. SAPS</b>	means the South African Police Services;
<b>1.21. SCM</b>	means the Supply Chain Management Department of the Municipality;
<b>1.22. Staff</b>	means the Council, Political Office Bearers and the other employees of the Matjhabeng Local Municipality. In this document, unless the context otherwise indicates, words and expressions denoting:  a) The singular shall include the plural and vice versa; b) The male sex shall include the female sex and vice versa; and c) A reference to a natural person shall include a legal person and vice versa.
<b>1.23. System of Delegations</b>	means the Municipality's System of Delegations as contemplated in the Municipal Systems Act, 2000 (Act 32 of 2000) where a municipal council must develop a system of delegation that will maximise administrative and operational efficiency and provide adequate checks and balances and is approved and amended by the Council from time to time;
<b>1.24. Theft</b>	means the unlawful misappropriation of movable property or money with the intention to permanently deprive the owner of his/her property.

## **2. INTRODUCTION**

There is a continuing need to raise staff awareness of their responsibility to safeguard public resources against the risk of fraud. The overall purpose of the Fraud Prevention Policy is to detail responsibilities regarding the prevention of fraud. The procedures to be followed in the event of a corporate crime being detected or suspected are detailed in the Fraud Response Plan attached to this policy. Both documents relate to fraud and loss within the Municipality.

This policy will provide Matjhabeng Local Municipality's employees [both management and staff] and other stakeholders [such as the public, service providers and nongovernmental organizations] with some essential information regarding the anti-corruption campaign and the responsibilities of the various role players in combating corruption.

This policy is established to facilitate the development of controls that will aid in the detection and prevention of fraud and corruption against Matjhabeng Local Municipality.

Matjhabeng Local Municipality recognizes the fact that: -

- 2.1. Criminal and other irregular conduct within Matjhabeng Local Municipality is detrimental to good, effective, accountable and transparent governance and can endanger the economic stability of Matjhabeng Local Municipality and have the potential to cause social damage;
- 2.2. There is a need for procedures in terms of which staff may, without fear of reprisals, disclose information relating to suspected or alleged criminal or other irregular conduct affecting Matjhabeng Local Municipality;
- 2.3. Every staff member has a responsibility to disclose criminal and any other irregular conduct in the workplace; and
- 2.4. The Matjhabeng Local Municipality has a responsibility to take all reasonable steps to ensure that "Whistle Blowers" who disclose such information are protected from any reprisals as a result of such disclosure.

## **3. OBJECTIVES**

The objective of this policy is to develop and foster a climate within the Matjhabeng Local Municipality (MLM) where all staff strives for the ultimate eradication of fraud, corruption, theft and maladministration by means of the application of the full spectrum of both pro-active and re-active measures at their disposals.

It is the intent of Matjhabeng Local Municipality to promote consistent organizational behavior by providing guidelines and assigning responsibilities for the development of controls and conduct of investigations.

This policy also sets down the stance of the Matjhabeng Local Municipality to fraud and corruption as well as re-enforcing existing regulations aimed at preventing, reacting to, and reducing the impact of fraud, corruption, theft and maladministration where these dishonest acts subsist.

The Protected Disclosures Act came into effect on 16 February 2001. In order to remain in compliance with the Act, the Municipality will:

- 3.1. Strive to create a culture which will facilitate the disclosure of information by staff relating to criminal and other irregular conduct in the workplace in a responsible manner by providing clear guidelines for the disclosure of such information and protection against reprisals as a result of such disclosure; and
- 3.2. Promote the eradication of criminal and other irregular conduct within Matjhabeng Local Municipality.

The Policy is intended to encourage and enable staff to raise concerns within Matjhabeng Local Municipality rather than overlooking a problem or blowing the whistle to inappropriate channels.

Furthermore the policy aims to: -

- a) Provide avenues for staff to raise concerns and receive feedback on any action taken;
- b) Inform staff on how to take the matter further if they are dissatisfied with the response; and
- c) Reassure staff that they will be protected from reprisals or victimization for whistle blowing in good faith.

#### **4. LEGAL FRAMEWORK**

The following legislation and policies, amongst others, have been considered:

- 4.1. Prevention and Combating of Corrupt Activities Act, no 12 of 2004;
- 4.2. Municipal Finance Management Act, no 56 of 2003 [MFMA];
- 4.3. Protected Disclosure Act;
- 4.4. Protection of Personal Information Act;
- 4.5. Code of conduct for the Public Service;
- 4.6. Constitution Chapter 2;
- 4.7. Administration of Justice Act, no 3 of 2000;
- 4.8. Municipal Structures Act, no 117 of 1998;
- 4.9. Municipal Systems Act, no 32 of 2000;
- 4.10. Access to Information Act, no 2 of 2000; and
- 4.11. National Treasury guidelines.

#### **5. SCOPE OF THE POLICY**

This policy should be read in conjunction with the Code of Conduct for municipal staff members, the principles of which are fully supported herein. The Council wishes to make it clear that Matjhabeng Local Municipality has zero tolerance for the commission or concealment of fraudulent or illegal acts. Allegations of such acts will be investigated and pursued to their logical conclusion, including legal action, criminal prosecution, and disciplinary action where warranted.



This policy applies to all fraud, corruption, theft, maladministration or suspected irregularities of this nature involving the following persons or entities:

- 5.1. All employees of the Matjhabeng Local Municipality;
- 5.2. Consultants, suppliers, contractors and other providers of goods or service to the Matjhabeng Local Municipality; and
- 5.3. Non-Governmental Organizations and other parties receiving benefits from the Matjhabeng Local Municipality;
- 5.4. Political Office Bearers; and
- 5.5. Councilors.

It is the policy of the Matjhabeng Local Municipality that fraud, corruption, theft, maladministration or any other dishonest activities of a similar nature will not be tolerated. In addition, these will be investigated and followed up by the application of all remedies available within the full extent of the law.

Appropriate prevention and detection controls will be applied. These include the existing controls and checking mechanisms as prescribed in existing policies, procedures and other relevant prescripts to the activities of the Matjhabeng Local Municipality, and systems of internal control.

It is the responsibility of staff of the Matjhabeng Local Municipality to report all incidents of fraud, corruption, theft, maladministration or any other dishonest activities of a similar nature to his manager. If staff is not comfortable reporting such matters to his manager, he should report the matter to his manager's superior, with final recourse to the Accounting Officer. Staff should report incidents by using the appropriate lines of authority.

All Managers are responsible for the detection, prevention and investigation of fraud, corruption, theft, maladministration or any dishonest activities of a similar nature, within their areas of responsibility.

The Matjhabeng Local Municipality will take appropriate legal recourse to recover losses or damages arising from fraud, corruption, theft or maladministration.

## **6. DEFINITION OF CORRUPTION**

Corruption is any conduct or behavior 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 behavior also includes the misuse of material or information, abusing a position of authority or a breach of trust or violation of duty.

## **7. DEFINITION OF FRAUD**

In South Africa fraud is defined as "the unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another". The use of the term is 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 behavior of which a dishonest representation and / or appropriation forms an element.

## **8. DIMENSIONS OF CORRUPTION**

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

### **8.1. Bribery**

Bribery involves the promise, offering or giving of a benefit that improperly affects the actions or decisions of a staff member. This benefit may accrue to the staff member, another person or an entity. A variation of this manifestation occurs where a political party or government is offered, promised or given a benefit that improperly affects the actions or decisions of the political party or government

### **8.2. Embezzlement**

This involves theft of resources by persons entrusted with authority and control of such resources.

### **8.3. Fraud**

This involves actions or behavior by a staff member or other person or entity that fools others into providing a benefit that would normally accrue to the staff member, or other persons or entity.

### **8.4. Extortion**

This involves coercing a person or entity to provide a benefit to a staff member, another person or an entity in exchange for acting [or failing to act] in a particular manner.

### **8.5. Abuse of power**

This involves a staff member using his or her vested authority to improperly benefit other staff member, person or entity [or using vested authority to improperly discriminate against another staff member, person or entity].

### **8.6. Conflict of interest**

This involves a staff member acting or failing to act on a matter where the staff member has an interest or another person or entity that stands in a relationship with the staff member has in interest.

### **8.7. Abuse of privileged information**

This involves the use of privileged information and knowledge that a staff member possesses as a result of his or her office to provide unfair advantage to another person or entity to obtain a benefit, or to accrue a benefit him or herself.

## **9. ACTIONS CONSTITUTING FRAUD, CORRUPTION, THEFT AND MALADMINISTRATION**

The term fraud, corruption, theft and maladministration refer to, but are not limited to:

- 9.1. Any dishonest, fraudulent or corrupt act;
- 9.2. Theft of funds, supplies, or other assets;
- 9.3. Maladministration or financial misconduct in handling or reporting of money or financial transactions;
- 9.4. Making a profit from insider knowledge;
- 9.5. Disclosing confidential or proprietary information to outside parties;
- 9.6. Irregularly accepting or requesting anything of a material value from contractors, suppliers, or other persons providing services / goods to the Matjhabeng Local Municipality;
- 9.7. Irregularly offering or giving anything of a material value to contractors, suppliers, or other persons providing services / goods to the Matjhabeng Local Municipality;
- 9.8. Destruction, removal, or abuse of records, furniture, and equipment;
- 9.9. Deliberately omitting to report or act upon reports of any such irregular or dishonest conduct;
- 9.10. Acts of financial misconduct contemplated in terms of chapter 15 of the Municipal Finance Management Act;
- 9.11. Incidents of unauthorized, irregular or fruitless and wasteful expenditure as defined in the Municipal Finance Management Act; and
- 9.12. Any similar or related irregularity;
- 9.13. Any Financial Misconduct prescribed under Chapter 15 of the MFMA.

## **10. FRAUD PREVENTION APPROACH**

A comprehensive approach to the management of fraud and corruption risks with specific focus on the following:

- 10.1. Understanding fraud risks that can undermine the municipality's objectives;
- 10.2. Determining whether fraud and corruption prevention programs and controls are also adequately effective in reducing instances of fraud;
- 10.3. Gaining insight into better ways of designing and evaluating controls to prevent, detect and respond appropriately to fraud and corruption;
- 10.4. Reducing exposure to liability, sanctions and litigation that may arise from violations of law or stakeholder expectations;
- 10.5. Deriving practical value from the development of a sustainable process of managing fraud, corruption risk, and improving performance;
- 10.6. Achieving the highest level of business integrity through sound corporate governance, internal control and transparency.

## **11. RESPONSIBILITY TO CONDUCT INVESTIGATIONS**

The responsibility to conduct investigations relating to the actions listed in this policy resides with the Managers within the Matjhabeng Local Municipality who can have the advisory and supporting assistance from units / departments which include the following:

- 11.1. External and Internal Audit Services;
- 11.2. State Attorney;
- 11.3. External investigating agencies, for example the South African Police Services, where matters fall within their mandate;
- 11.4. External consultants, for example Forensic Accounting consultants;
- 11.5. Office of the National Director of Public Prosecutions;
- 11.6. Special Investigating Units established under any law;
- 11.7. The Public Protector; and
- 11.8. Any other authority as determined by Council.

Matjhabeng Local Municipality will make all evidence collected during the course of an investigation available to legal and law enforcement agencies and will pursue the prosecution of all parties involved in criminal activities.

## **12. REPORTING PROCEDURES AND RESOLUTION OF REPORTED INCIDENTS**

It is the responsibility of all staff of the Matjhabeng Local Municipality to report all incidents of fraud, corruption, theft, maladministration and other suspected irregularities of this nature to his manager. If the applicable staff member is not comfortable reporting such matters to his manager, he should report the matter to his manager's superior, with final recourse to the Accounting Officer.

Concerns are better raised in writing. The background and history of the concern, giving names, dates and places where possible should be set out and the reason why the individual is particularly concerned about the situation. The earlier the concern is reported, the easier it is to take action and initiate recovery procedures where necessary.

Staff members are not expected to prove the truth of an allegation; they will need to demonstrate to the person contacted that there are sufficient grounds for concern.

It is the responsibility of the Managers to report all the non-achievements in terms of the SDBIP in order to update the Risk register with the recurring and emerging risks.

It is the responsibility of the Managers to report all incidents of fraud, corruption, theft, maladministration and other suspected irregularities of this nature to the Accounting Officer. This reporting must take place as follows:

- a) Verbally, immediately after discovery of such an incident; and
- b) This verbal report must be followed by detailed written report to be submitted within 24 hours of the discovery of such an incident.

It is the responsibility of the Accounting Officer to immediately report all incidents of fraud, corruption, theft, maladministration and other suspected irregularities of this nature to the provincial Treasury. This reporting must take place as follows:

- a) Telephonically within twenty-four hours of receiving the report from the Manager in regard to an incident; and
- b) This telephonic report must be followed by a detailed written report to be submitted within seven days after discovery of such an incident.

If the matter could lead to the laying of criminal charges, the Accounting Officer will report within 24 hours to the South African Police Services.

Where staff member is alleged to have committed an act of fraud, corruption, theft, or maladministration the Manager must institute disciplinary proceedings, within a reasonable period, in terms of the disciplinary code and procedure of the Matjhabeng Municipality.

As soon as disciplinary hearing concerning charges of financial misconduct are completed, the outcome must be reported within 48 hours to the Accounting Officer. Should the Accounting Officer be the effected party the outcome of the hearing will be reported to the Mayor.

The following will be reported on:

- a) The name and position of the staff member against whom proceedings are instituted;
- b) The disciplinary charges, indicating the financial misconduct the staff member as alleged to have committed;
- c) The findings of the disciplinary hearing;
- d) Any sanction imposed on the staff member; and
- e) Any further action to be taken against the staff member, including criminal charges or civil proceedings.

The Accounting Officer is also required to ensure that losses or damages suffered by the Matjhabeng Municipality as a result of an act committed or omitted by a staff member must be recovered from such a staff member if he is liable in law. The Accounting Officer must determine the amount of the loss or damage and, in writing request that staff member to pay the amount within 30 days or in reasonable installments. If the staff member fails to comply with the request, the legal process will then be initiated by the Accounting Officer.

### **13. PROTECTION OF WHISTLE BLOWERS**

Whistle blowing is the process by which staff or other individuals can raise a concern about serious malpractice within an organization. It is similar to an early warning system and a means of enabling stakeholders to find out when something is going wrong in time to take corrective action.

Staffs that are victimized and subjected to an occupational detriment for blowing the whistle on improprieties now have a legal remedy against their employer.

The Protected Disclosures Act, 26 of 2000 makes provision for the protection of staff that makes a disclosure that is protected in terms of this Act.

Any disclosure made in good faith and substantially in accordance with any procedure prescribed by the staff's employer for reporting is considered a protected disclosure under this act. A staff

member making such a disclosure is protected from being subjected to an occupational damage on account of having made a protected disclosure.

A staff member who suspects or reports suspected dishonest activity or such activity which he has witnessed should be given the opportunity to remain anonymous should he so require. Allegations made by staff that are false and made with malicious intentions, should be discouraged by Managers. Where such malicious or false allegations are discovered, the person who made the allegations must be subject to firm disciplinary action. Such disclosures are not protected by the Protected Disclosures Act.

#### **14. HARASSMENT OR VICTIMISATION**

Matjhabeng Municipality acknowledges the fact that the decision to report a concern can be a difficult one to make, not least because of fear of reprisal from those responsible for the irregularity. Matjhabeng Municipality will not tolerate harassment or victimization and will take action to protect staff when they raise a concern in good faith.

Any act of harassment or victimization should be reported to the Head of Department. This does not mean that if a staff member is already subject of disciplinary or other action, that action will be halted as a result of their whistle blowing.

#### **15. CONFIDENTIALITY**

All information relating to irregularities that is received and investigated by Managers will be treated confidentially. The progression of investigations will be handled in a confidential manner and will not be disclosed or discussed with any other person[s] other than those who have a legitimate right to such information. This is important in order to avoid harming the reputations of suspected persons who are subsequently found innocent of wrongful conduct.

No person is authorized to supply any information with regard to the issues covered within this policy to the media without the express permission of the Accounting Officer.

#### **16. ANONYMOUS ALLEGATIONS**

Matjhabeng Municipality encourages staff to put their names to allegations. Concerns expressed anonymously are difficult to investigate; nevertheless, they will be followed up at the discretion of Matjhabeng Municipality. This discretion will be applied by taking into account the following:

- 16.1. Seriousness of the issue raised;
- 16.2. Creditability of the concern; and
- 16.3. Likelihood of confirming the allegation.

#### **17. FALSE ALLEGATIONS**

Staff or other parties must understand the implications [resources and costs] of undertaking investigations and should therefore guard against making allegations, which are false and made with malicious intent.

## **18. APPLICATION OF PREVENTION CONTROLS AND DETECTION MECHANISMS**

In all instances where incidents of fraud, corruption, theft, maladministration and other similar irregularities of this nature take place, all Managers are required to immediately review the controls which have been breached in order to prevent similar irregularities from taking place in future, within a period of 48 hours after the occurrence of the initial incident.

The Head of the Internal Audit Unit may be contacted for assistance in this regard. In compliance with the MFMA, Fraud Prevention Plans [FPP] will be developed and implemented by all heads of department.

## **19. TRAINING, EDUCATION AND AWARENESS**

In order for the Policy to be sustainable, it must be supported by a structured education, communication and awareness program. It is the responsibility of all heads of department and managers to ensure that all staff, are made aware of, and receive appropriate training and education with regard to this Policy.

## **20. ADMINISTRATION**

The custodian of this policy is the Accounting Officer who supported in its implementation by all Heads of Department. The Accounting Officer is responsible for the administration, revision, interpretation and application of this policy. It will be reviewed annually and revised as required.

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## APPENDIX I

### Indicators of Fraud, explaining the opportunities that could lead that fraud be committed:

- Missing expenditure vouchers and unavailable official records;
- Crisis management coupled with a pressured business climate;
- Excessive variations to budgets or contracts;
- Refusals to produce files, minutes or other records;
- Increased employee absences;
- Borrowing from fellow employees;
- An easily led personality;
- Covering up inefficiencies;
- Lack of management oversight;
- No supervision;
- Staff turnover is excessive;
- Figures, trends or results which do not accord with expectations;
- Bank reconciliations are not maintained or can't be balanced;
- Excessive movement of cash funds;
- Multiple cash collection points;
- Remote locations;
- Unauthorised changes to systems or work practices;
- Employees with outside business interests or other jobs;
- Large outstanding bad or doubtful debt;
- Offices with excessively flamboyant characteristics;
- Employees suffering financial hardships;
- Placing undated/post-dated personal cheques in petty cash;
- Employees apparently living beyond their means;
- Heavy gambling debts;
- Signs of drinking or drug abuse problems;
- Conflicts of interest;
- Lowest tenders or quotes passed over with scant explanations recorded;
- Employees with an apparently excessive work situation for their position;
- Managers bypassing subordinates;
- Subordinates bypassing managers;
- Excessive generosity;
- Large sums of unclaimed money;
- Large sums held in petty cash;
- Lack of clear financial delegations;
- Secretiveness;
- Apparent personal problems;
- Marked character changes;
- Excessive ambition;
- Apparent lack of ambition;
- Poor morale;



- Excessive control of all records by one officer;
- Poor security checking processes over staff be hired;
- Unusual working hours on a regular basis;
- Refusal to comply with normal rules and practices;
- Personal creditors appearing at his workplace;
- Non-taking of leave;
- Excessive overtime;
- Large backlogs in high-risk areas;
- Lost assets;
- Unwarranted organisation structure;
- Absence of controls and audit trails;
- Socializing with service providers - meals, drinks, holidays;
- Seeking work for clients;
- Favorable treatment of clients – e.g. allocation of work;
- Altering contract specifications;
- Contract not completed to specification;
- Contractor paid for work not done; and Grants not used for specified purpose.

## APPENDIX II

### Common Methods and Types of Fraud:

- Payment for work not performed;
- Altering amounts and details on documents;
- Collusive bidding;
- Overcharging;
- Writing off recoverable assets or debts;
- Unauthorised transactions;
- Selling information;
- Altering stock records;
- Cheques made out to false persons;
- False persons on payroll;
- Unrecorded transactions;
- Transactions (expenditure/receipts/deposits) recorded for incorrect sums;
- Cash stolen;
- Supplies not recorded at all;
- False official identification used;
- Damaging/destroying documentation;
- Using copies of records and receipts;
- Using imaging and desktop publishing technology to produce apparent original invoices;
- Charging incorrect amounts;
- Transferring amounts between accounts frequently;
- Delayed terminations from payroll;
- Bribes;
- Over claiming expenses;
- Skimming and rounding;
- Running a private business with official assets; and
- Using facsimile signatures.

## APPENDIX III

### Examples of Good Management Practices Which May Assist in Combating Fraud:

- All income is promptly entered in the accounting records with the immediate endorsement of all cheques;
- Regulations governing contracts and the supply of goods and services are properly enforced;
- Accounting records provide a reliable basis for the preparation of financial statements;
- Controls operate which ensure that errors and irregularities become apparent during the processing of accounting information;
- A strong internal audit presence;
- Management encourages sound working practices;
- All assets are properly recorded and provision is made known or expected losses;
- Accounting instructions and financial regulations are available to all staff and are kept up to date;
- Effective segregation of duties exists, particularly in financial accounting and cash/securities handling areas;
- Close relatives do not work together, particularly in financial, accounting and cash/securities handling areas;
- Promotion of ethical behaviour;
- Act immediately on internal/external auditor's report to rectify control weaknesses;
- Review, where possible, the financial risks of employees;
- Issue accounts payable promptly and follow-up any non-payments;
- Set standards of conduct for suppliers and contractors;
- Maintain effective security of physical assets, accountable documents (such as cheque books, order books), information, payment and purchasing systems;
- Review large and unusual payments;
- Perpetrators should be suspended from duties pending investigation;
- Proven perpetrators should be dismissed without reference and prosecuted;
- Undertake test checks and institute confirmation procedures;
- Maintain good physical security of all premises;
- Randomly change security locks and rotate shifts at times (if feasible and economical);
- Conduct regular staff appraisals;
- Review work practices open to collusion or manipulation;
- Develop and routinely review and reset data processing controls;
- Regularly review accounting and administrative controls;
- Set achievable targets and budgets, and stringently review results;
- Ensure staff take regular leave;
- Rotate staff in key risk areas;
- Ensure all expenditure is authorised;
- Conduct periodic analytical reviews to highlight variations to norms;
- Take swift and decisive action on all fraud situations; and
- Ensure staff members are fully aware of their rights and obligations in all matters concerned with fraud.

**Annexure A**  
**FRAUD RESPONSE PLAN**

## 1. INTRODUCTION

- 1.1. The Municipality has prepared this Fraud Response Plan to act as a procedural guide and provide a checklist of the required actions, which must be followed, in the event of a fraud, or attempted fraud, being suspected.
- 1.2. Adherence to this plan will ensure that timely and effective action is taken to prevent further losses, maximise the recovery and minimise losses and the recurrence thereof, identify the fraudsters and maximise the success if any disciplinary/legal action is taken.
- 1.3. The overarching theme of this plan is '**IF IN DOUBT, ASK FOR ADVICE**'. This applies at any point in an investigation.
- 1.4. In the event of fraud, attempted fraud or other illegal act being suspected, officials must immediately report the matter to their line manager/head of branch. If there is concern that line management may be involved, the matter should be reported to the next appropriate level. Additionally, the Executive Director: Strategic Support Services should be informed. Where confidentiality is sought, staff may report their suspicions direct to the Strategic Support Services and all information received is treated in the strictest of confidence.
- 1.5. The Municipality will treat all disclosures in a confidential and sensitive manner. The identity of the individual may be kept confidential provided this does not hinder or frustrate any investigation. However, there will be occasions where the identity needs to be revealed. For example, where the individual is required to give evidence at a formal hearing, where allegations of misconduct or criminal activity are involved.
- 1.6. In making a disclosure, the individual should take care to ensure the accuracy of the information. Concerns which are found to have been raised frivolously, mischievously or maliciously or for personal gain may result in disciplinary action being taken against the informant.
- 1.7. It is for line management to undertake an initial fact-finding exercise. This discreet preliminary enquiry should be carried out as speedily as possible and certainly within 24 hours of the suspicion being raised.
- 1.8. The purpose of the initial fact-finding exercise is to determine the factors that gave rise to suspicion and to clarify whether a genuine mistake has been made or if it is likely that 'fraud has been attempted or has occurred. This may involve discreet enquiries with staff or the examination of documents. It is imperative that such enquiries should not prejudice subsequent investigations or corrupt evidence, therefore, IF IN DOUBT, ASK FOR ADVICE. The Executive Director: Strategic Support Services can be contacted for advice on how to correctly proceed at the preliminary enquiry stage and on what further enquiries are necessary.
- 1.9. If the preliminary enquiry confirms that fraud has not been attempted nor perpetrated, however, internal controls are deficient, management should review their control systems

with a view to ensuring they are adequate and effective. The relevant Risk and Control Framework should be updated. Internal Audit is available to offer advice and assistance on matters relating to internal controls, if required.

## **2. FORMAL REPORTING STAGE**

- 2.1. If the preliminary enquiry confirms the suspicion that fraud has been attempted or perpetrated, management must ensure that all original documentation is preserved in a safe place for further investigation. This is to prevent the loss of evidence, which may be essential to support subsequent disciplinary action and/or prosecution. The facts should be reported immediately to the Executive Director: Strategic Support Services. Where there is a risk of financial loss to the Municipality, the Chief Financial Officer should also be notified.
- 2.2. To remove any threat of further fraud or loss, management should immediately change or strengthen procedures and if appropriate, suspend any further payments pending full investigation.
- 2.3. The Executive Director: Strategic Support Services will recommend to either the Municipal Manager or the Executive Mayor (dependent on the delegated authority required under the circumstances) the appropriate course of action, which may include a full formal investigation. The scope of the investigation should be determined by the Municipal Manager, in line with the Municipality's System of Delegations. Should the Executive Director Strategic Support Services advise that further expertise is required, for example Attorneys, Forensic Accountants or Forensic Investigators, the Municipal Manager will engage the appropriate assistance together with the project management of the above.

## **3. RESPONDING EFFECTIVELY TO FRAUD WHEN IT OCCURS**

- 3.1. Depending on the significance of the fraud, the fraud investigation process involves some or all of the following:
  - 3.1.1. Ensuring the actions to take if fraud is discovered are clearly described in the organization's Fraud Response Plan.
  - 3.1.2. The Executive Director: Strategic Support Services provides the direction for any fraud investigation; this includes the decision to conduct an investigation whether in-house or on a co-sourced or outsourced basis.
  - 3.1.3. Establishing clear terms of reference for the investigation.
  - 3.1.4. Appointing a Forensic Practitioner to take charge of the investigation.
  - 3.1.5. Setting up a mechanism to report on progress of the investigation, to appropriate senior levels of management as and when required to do so.
  - 3.1.6. Controlling the investigation and ensuring that it complies with and meets its objectives.
  - 3.1.7. The overall investigation process involves:
    - a) maintaining confidentiality;
    - b) recovering assets;

- c) forensic investigations and protection of evidence;
- d) interviewing witnesses and dealing with employees under suspicion;
- e) controlling police involvement;
- f) managing civil proceedings in conjunction and under the auspices of the Legal Department;
- g) liaising with experts and regulators;
- h) preparing media statements; and
- i) reporting progress and findings to senior management.

- 3.1.8. Ensuring that effective controls are in place to preserve all forms of evidence. This is a key factor if the fraudster is to be prosecuted successfully as evidence must be legally admissible in court.
- 3.1.9. Making recommendation at an early stage on the action to be taken with persons under suspicion and whether suspension or dismissal is necessary in consultation with the Industrial Relations Department. Arrangements for interviewing suspects must be made and if criminal proceedings are initiated the South African Police Services must be involved.
- 3.1.10. Adhering to a “fair and reasonable” approach in interviews at all times.
- 3.1.11. Setting up adequate measures to protect the Municipality throughout the investigation process particularly when issuing statements to the media.
- 3.1.12. Initiating a thorough review of all operating procedures in areas affected by the fraud. Comprehensive reports on the findings and recommendations must be presented to management on completion of the investigation.

#### **4. LIAISON WITH THE SOUTH AFRICAN POLICE SERVICE**

The Executive Director: Strategic Support Services should ensure that legal assistance and police assistance is sought where necessary.

#### **5. POST EVENT ACTION**

- 5.1. Where fraud, or attempted fraud, has occurred, management must make any necessary changes to systems and procedures to ensure that similar frauds or attempted frauds will not recur.
- 5.2. Internal Audit is available to offer advice and assistance on matters relating to internal control, if considered appropriate.

#### **6. COMMUNICATION**

- 6.1. The following communications may be observed:
  - 6.1.1. The Director Strategic Support Services may communicate in the appropriate media or forum, as determined by the Executive Director: Strategic Support Services, the outcome of disciplinary, criminal and civil hearings resulting from a forensic investigation; and
  - 6.1.2. The Fraud Response Plan should be reviewed annually to determine whether it needs to be updated and if so, changes should be circulated throughout the organisation.

## 7. REPORTING ARRANGEMENTS

- 7.1. The Municipality's Audit and Performance Committee should be kept informed on a quarterly basis of the developments of the prioritised investigations within the Strategic Support Services Department.
- 7.2. The Municipal Manager will ensure that the legislative requirements and obligations of reporting criminal conduct to the South African Police Services are satisfied.
- 7.3. The Municipal Manager reports to MPAC and/or the subcommittees regarding any forensic investigation which falls within the committee's jurisdiction.
- 7.4. All fraud, corruption and/or criminal conduct should be reported to the Municipality Manager and/or the Executive Mayor in terms of the Municipality's System of Delegations.

## 8. CONCLUSION

- 8.1. Any queries in connection with this fraud response plan should be made to the Executive Director: Strategic Support Services.
- 8.2. Advice and assistance on internal control issues can be sought from the Manager: Internal Audit.
- 8.3. Advice and assistance on matters relating to risk management can be sought from the Manager: Risk Management.

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Prepared by the Manager: Risk Management:

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

Reviewed by the Senior Manager: Strategic Support Services:

Signature : \_\_\_\_\_

Date : \_\_\_\_\_



Recommended by the Municipal Manager:

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

Recommended by the Audit and Performance Committee:

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

Approved by the Municipal Council:

**COUNCIL RESOLUTION NUMBER:** \_\_\_\_\_