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XHARIEP DISTRICT MUNICIPALITY

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RESPONSIBLE DEPARTMENT	RISK MANAGEMENT
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FRAUD AND CORRUPTION STRATEGY

SECTION A

1. INTRODUCTION

The fraud prevention strategy is designed to align Xhariep District Municipality with the MFMA with states that each municipality must develop an effective, efficient and transparent system of financial and risk management and internal control. Fight against corruption is a national priority and Xhariep District Municipality position itself to combat the scourge of fraud and corruption. The strategy demonstrates the stance of the municipality in preventing and detecting fraud and corrupt activities as well as corrective action when fraud has been committed.

2. DEFINITION OF FRAUD

"Fraud and corruption" Includes, but is not limited to, the following:

- (a) The following legal definitions:
 - (i) **Fraud**, i.e. "the unlawful and intentional making of a misrepresentation resulting in actual or potential prejudice to another";
 - (ii) **Theft**, i.e. the unlawful and intentional misappropriation of another's property or property which is in his/her lawful possession, with the intention to deprive the owner of its rights permanently";
 - (iii) Offences in respect of **corrupt activities** as defined in the Prevention and Combating of Corrupt Activities Act, 2004, i.e.:
 - The general offence of *corruption* which could be summarised as directly or indirectly accepting or agreeing to accept any gratification from another person; giving or agreeing to give any other person any gratification in order to influence that person directly or indirectly to exercise his powers, duties or legal obligations in a manner which is/amounts to:
 - Illegal, dishonest, unauthorised, incomplete, or biased;
 - Misuse or selling of information or material acquired;
 - Abuse of position of authority;
 - Breach of trust;
 - Violation of a legal duty or set of rules;
 - Designed to achieve an unjustified result; and
 - Any other unauthorised or improper inducement to do or not to do anything;
 - Conflicts of interests and other unacceptable conduct, e.g.:
 - Acquisition of private interests in contract, agreement in or investment in public body;
 - Unacceptable conduct relating to witnesses; and
 - Intentional interference with, hindering or obstruction of investigation of offence;
 - Corrupt activities in relation to:
 - Public officials;
 - Foreign public officials;

- Agents;
 - Judicial officers;
 - Members of the prosecuting authority;
 - Unauthorised gratification received or offered by or to a party to an employment relationship;
 - Witnesses and evidential material during certain proceedings;
 - Contracts;
 - Procuring and withdrawal of tenders;
 - Auctions;
 - Sporting events; and
 - Gambling games or games of chance;
 - Other offences relating to corrupt activities, viz:
 - Accessory to or after an offence;
 - Attempt, conspiracy and inducing another person to commit offence; and
 - Failure to report corrupt transactions;
- (b) Fraudulent and corrupt acts may include:
- (i) *Systems issues*: where a process/system exists which is prone to abuse by
 - employees, the public or other stakeholders, e.g.:
 - Procurement fraud, e.g. irregular collusion in the awarding of tenders or orders for goods and/or services;
 - Deliberate non-compliance with delegation of authority limits;
 - Collusion in contracts management;
 - Revenue fraud;
 - Travel and subsistence fraud; and
 - Disclosing confidential or proprietary information to outside parties;
 - (ii) *Financial issues*: i.e. where individuals or companies have fraudulently obtained money from the Department, e.g.:
 - Syndicate fraud, e.g. interception of warrant vouchers;
 - Creditors fraud, e.g. diverting payments to incorrect creditors;
 - Suppliers submitting invalid invoices or invoicing for work not done;
 - Payroll fraud, e.g. creation of "ghost employees";
 - Theft of funds; and
 - Making a profit from insider knowledge;
 - (iii) *Equipment and resource issues*: i.e. where the Department's equipment is utilised for personal benefit or stolen, e.g.:
 - Theft of assets, e.g. computers, face value forms, etc;
 - Personal use of resources, e.g. telephones, internet, e-mail; and

- Irregular destruction, removal, or abuse of records (including intellectual property);
- (iv) *Other issues*: i.e. activities undertaken by employees of the Department, which may be against policies or fall below established ethical standards, e.g.:
 - Soliciting gifts or favours from consultants or other suppliers, e.g. acceptance of "kick-backs";
 - Pursuing private business interests without permission;
 - Nepotism;
 - Favouritism.

3. POLICY STATEMENT

The municipality's stance is "**Zero Tolerance to Fraud and Corruption**". All allegations will be investigated and tough action will be taken against perpetrators i.e. disciplinary steps, civil recovery of financial losses and criminal prosecution. The municipality shall publish its successes and name the perpetrators of fraud and corruption. The municipality shall implement appropriate prevention and detection controls, which include the existing financial and other controls as prescribed in the systems, policies, procedures, rules, and regulations of the Xhariep District Municipality.

4. CODE OF CONDUCT

A staff member of a municipality must at all times—

- loyally execute the lawful policies of the municipal council;
- perform the functions of office in good faith, diligently, honestly and in a transparent manner;
- act in the best interest of the municipality and in such a way that the credibility and integrity of the municipality are not compromised; and
- act impartially and treat all people, including other staff members equally without favour or prejudice.

Commitment to serving the public interest

A staff member of a municipality is a public servant in a developmental local system, and must accordingly—

- foster a culture of commitment to serving the public and a collective sense of responsibility for performance in terms of standards and targets;
- promote and seek to implement the basic values and principles of public administration described in section 195 (1) of the Constitution
- obtain copies of or information about the municipality's integrated development plan, and as far as possible within the ambit of the staff member's job description, seek to implement the objectives set out in the integrated development plan, and achieve the performance targets set for each performance indicator;

- participate in the overall performance management system for the municipality, as well as the staff member's individual performance appraisal and reward system, if such exists, in order to maximise the ability of the municipality as a whole to achieve its objectives and improve the quality of life of its residents.

Personal gain

A staff member of a municipality may not—

- use the position or privileges of a staff member, or confidential information obtained as a staff member, for private gain or to improperly benefit another person:

or

- take a decision on behalf of the municipality concerning a matter in which that staff member, or that staff member's spouse partner or business associate, has a direct *or* indirect personal or private business interest.

Except with the prior consent of the council of a municipality a staff member of the municipality may not—

(a) be a party to a contract for—

- (i) the provision of goods or services to the municipality; or
- (ii) the performance of any work for the municipality otherwise than as a staff member;

(b) obtain a financial interest in any business of the municipality; or

(c) be engaged in any business, trade or profession other than the work of the municipality.

Disclosure of benefits

- A staff member of a municipality who, or whose spouse, partner, business associate or close family member, acquired or stands to acquire any direct benefit from a contract concluded with the municipality, must disclose in writing full particulars of the benefit to the council.
- This item does not apply to a benefit which a staff member, or a spouse, partner, business associate or close family member, has or acquires in common with all other residents of the municipality.

Unauthorised disclosure of information

- A staff member of a municipality may not without permission disclose any privileged or confidential information obtained as a staff member of the municipality to an unauthorised person.
- For the purpose of this item "privileged or confidential information" includes any Information:
 - (a) determined by the municipality's council or any structure or functionary of the municipality to be privileged or confidential;
 - (b) discussed in closed session by the council or a committee of the council;

- (c) disclosure of which would violate a person's right to privacy; or
- (d) declared to be privileged, confidential or secret In terms of any law.
- (3) This item does not derogate from a person's right of access to information in terms of national legislation.

Undue influence

A staff member of a municipality may not-

- (a) unduly influence or attempt to influence the council of the municipality. or a structure or functionary of the council, or a councilor, with a view to obtaining any appointment, promotion, privilege, advantage or benefit. or for a family member, friend or associate;
- (b) mislead or attempt to mislead the council, or a structure or functionary of the council, in its consideration of any matter: or
- (c) be involved in a business venture with a councilor without the prior written consent of the council of the municipality.

Rewards, gifts and favours

A staff member of a municipality may not request, solicit or accept any reward.

gift or favour for-

- (a) persuading the council of the municipality. or any structure or functionary of the council, with regard to the exercise of any power or the performance of any duty;
- (b) making a representation to the council, or any structure or functionary of the council;
- (c) disclosing any privileged or confidential information: or
- (d) doing or not doing anything within that staff member's powers or duties

A staff member must without delay report to a superior official or to the speaker's Office and the council any offer which, if accepted by the staff member would constitute a breach

Council property

A staff member of a municipality may not use, take, acquire, or benefit from any property or asset owned, controlled or managed by the municipality to which that staff member has no right.

Payment of arrears

A staff member of a municipality may not be in arrears to the municipality for rates and service charges for a period longer than 3 months, and a municipality may deduct any outstanding amounts from a staff member's salary after this period.

Participation in elections

A staff member of a municipality may not participate in the election of the council of the municipality, other than in an official capacity or pursuant to any constitutional right.

Sexual harassment

A staff member of a municipality may not embark on any action amounting to sexual harassment.

Reporting duty of staff members

Whenever a staff member of a municipality has reasonable grounds for believing that there has been a breach of this Code, the staff member must without delay report the matter to a superior officer or to the speaker of the council.

Breaches of Code

Breaches of this Code must be dealt with in terms of the disciplinary procedures of the municipality envisaged in section.

5. ROLES AND ACCOUNTABILITIES

5.1 COUNCIL

- Understand fraud and corruption risks.
- Maintain oversight of the fraud risk assessment by ensuring that fraud risk has been considered as part of the municipality's risk assessment and strategic plans. This responsibility should be addressed under a periodic agenda item at council meetings when general risks to the municipality are considered.
- Monitor management's reports on fraud risks, policies, and control activities, which include obtaining assurance that the controls are effective. The council also should establish mechanisms to ensure it is receiving accurate and timely information from management, employees, internal and external auditors, and other stakeholders regarding potential fraud occurrences.
- Oversee the internal controls established by management.
- Set the appropriate tone at the top through the Municipal manager's job description, hiring, evaluation, and succession-planning processes.
- Have the ability to retain and pay outside experts where needed.

5.2 MANAGEMENT

- Setting the tone at the top for the rest of the organization. As mentioned, an organization's culture plays an important role in preventing, detecting, and deterring fraud.
- Reporting to the council on what actions have been taken to manage fraud risks and regularly reporting on the effectiveness of the fraud risk management program.
- Managers are responsible for the prevention and detection of fraud and corruption and must report all incidents and allegations to the Chief Risk Officer. The CRO will initiate an investigation into the matter, in consultation with senior management. When Management refers cases for investigation, they must do it in

writing, including all relevant information. Where applicable, they must also include relevant documents which may support the allegation.

- Managers must ensure that risk assessments are conducted annually in their units and that agreed risk management plans are implemented.
- Managers are responsible to ensure the implementation of the approved recommendations made by auditors and CRO, which includes disciplinary actions, criminal and civil actions.
 - In respect of all reported incidents of fraud and corruption, management is required to immediately review, and where possible, improve the effectiveness of the controls, which have been breached in order to prevent similar irregularities from taking place in future.
 - Managers shall ensure that all employees attend fraud & corruption related training and that information is communicated to all employees for compliance and implementation.

5.3 EMPLOYEES

All levels of staff, including management, should:

- Have a basic understanding of fraud and be aware of the red flags.
- Understand their roles within the internal control framework. Staff members should understand how their job procedures are designed to manage fraud risks and when noncompliance may create an opportunity for fraud to occur or go undetected.
- Read and understand policies and procedures (e.g. the fraud policy, code of conduct, and whistleblower policy), as well as other operational policies and procedures, such as procurement manuals.

5.4 RISK MANAGEMENT

- Analysing and monitoring fraud and corruption risk as part of the municipality's risk assessment;
- Investigating allegations of fraud and corruption with due care and in compliance with all relevant legislation.
- Recommending and supporting disciplinary actions relating to fraud and corruption against employees;
- Referring allegations of fraud and corruption to a relevant law enforcement agency or other appropriate agencies/bodies. In this regard, the municipality will pursue a formal arrangement to ensure that the support of relevant law enforcement agencies is guaranteed;
- Initiating and supporting criminal proceedings against employees, contractors and other parties involved in fraud and corruption; and
- Providing a detailed report to the management once an investigation of a matter is finalized, who will then submit the report to management?
- Keeping a database on all investigations.

5.6 ROLE OF INTERNAL AUDIT

- Monitoring implementation of recommended control to minimise fraud and corruption;
- Evaluate the effectiveness of fraud and corruption control measures;
- Advise management on the integrity of information;
- Design additional steps in the audit programs to assist in detecting, addressing and preventing re-occurrence of similar incidents;
- Monitor implementation of recommended actions resulting from conclusions of fraud investigation;
- Highlight legislation, policies and procedures, that might have been violated as a result of the outcome of an investigation; and
- The Internal Audit shall report all identify or suspected fraud & corruption matters.

5.7 SHARED AUDIT AND PERFORMANCE COMMITTEE

- The audit committee should be composed of independent members and should have at least one financial expert, preferably with an accounting background. The committee should meet frequently enough, for long enough periods, and with sufficient preparation to adequately assess and respond to the risk of fraud, especially management fraud, because such fraud typically involves override of the organization's internal controls. It is key that the audit committee receive regular reports on the status of reported or alleged fraud.
- An audit committee of the municipality should maintains an active role in the oversight of the municipality's assessment of fraud risks and uses internal auditors, or other designated personnel, to monitor fraud risks.
- Audit committee also provides the external auditors with evidence that the committee is committed to fraud risk management and will discuss with the external auditor the auditors' planned approach to fraud detection as part of the financial statement audit.
- At each audit committee meeting, the committee should meet separately from management with appropriate individuals, such as the chief internal audit executive and senior financial person.
- The audit committee should not only focus on what the auditors are doing to detect fraud, but more importantly on what management is doing to prevent fraud, where possible.
- The audit committee should also seek the advice of legal counsel whenever dealing with issues of allegations of fraud. Fraud allegations should be taken seriously since there may be a legal obligation to investigate and/or report them.

SECTION B

1. RISK ASSESSMENT

IDENTIFIED FRAUD RISKS	LIKELIHOOD (H, M, L)	SIGNIFICANCE (H, M, L)	DEPARTMENT/ PEOPLE	CONTROLS
Control environment allows or tempt the employees to conduct fraudulent activities that will bring negative image to the municipality.	H	H	All departments	Develop Policies and procedures that must be communicated to all stakeholders. Development of comprehensive fraud prevention plan and all stakeholders must be educated and trained on all fraud related policies
Access to financial systems and manipulate information due to poor administration of users passwords.	H	H	Finance department	ICT unit must be established or dedicated official to be appointed for ICT unit.
Cash theft/ embezzlement	H	H	Finance department	Daily reconciliation of cash received and daily banking.
Procurement fraud may be committed due to poor segregation of duties	H	H		Appoint official at an appropriate level.
No credible supplier database	H	H	Finance department	Develop supplier database and rotation of suppliers.
Assets misappropriation/ theft	H	H	SCM	Monthly verification of assets..
Use of privileged information for personal gain	H	H	All departments	Declaration of confidentiality by all employees
Kickbacks/bribes	H	H	All departments	Gift and donation register and record of offers turned down.

IDENTIFIED FRAUD RISKS	LIKELIHOOD (H, M, L)	SIGNIFICANCE (H, M, L)	DEPARTMENT/ PEOPLE	CONTROLS
Subsistence and travelling claims	H	H	All departments	Pre-approval of trips undertaken including financial implications. attendance or report be attached to claim forms
Accounting records may be misrepresented e.g. journal entries	H	H		Each transaction must have a preparer, reviewer and approver. Daily review of transactions after capturing
Issue of debit/ credit notes	H	H		Each transaction must have a preparer, reviewer and approver. Daily review of transactions after capturing
Misuse of IT systems e.g. Internet, telephones	H	H	IT	Daily monitoring of IT users. Limit access to social networks like facebook and twitter
Unauthorised access to IT systems/Programs and system manipulation.	H	H	IT	User code must be monitors and re-issued periodically
Overtime/stand-by claims	H	H	All departments	Approval of stand-by and overtime must be granted prior the actual task.
Leaves (sick and Annual)	H	H	HR	Proper reconciliation and administration of leaves.

IDENTIFIED FRAUD RISKS	LIKELIHOOD (H, M, L)	SIGNIFICANCE (H, M, L)	DEPARTMENT/ PEOPLE	CONTROLS
Ghost employees	H	H	HR/ Finance	Monthly reconciliation of payroll and employees signing for their payslips.
Theft of goods and material in storerooms	H	H	Technical services	Monthly stocktaking and control register for issue and received stock.
Conflict of interest	M	H	All employees/ service providers	Disclosure of interest by all parties.
Private work	M	M	All employees	Seek approval from Municipal manager before engaging in private work.
Collusion between employees	M	M	All employees	Proper supervision and control over employees
Overriding of internal controls	H	H	All employees	Proper supervision and control over employees.
Fronting	H	H	Finance	SCM unit to have updated supplier register. Supplier screening and treasury regulations and circulars must be adhered to.
Cover quoting	H	H	Finance	
Price fixing/ inflating	H	H	Finance	
Ghost suppliers	H	H	Finance	

2. ASSIGNING INVESTIGATIONS

Municipal manager must approve investigations by writing an approval letter to investigate any case.

3. EXTERNAL ASSISTANCE FOR INVESTIGATIONS

Where expert advice is needed the municipality may appoint external service providers.

4. FRAUD AWARENESS

- Fraud and corruption policy will be communicated to all employees and service providers
- Regular education and training on fraud and corruption will be done to all employees.
- Pamphlets and newsletters will be communicated to all stakeholders
- Pop-up screen on fraud and corruption will be used to sensitized employees.

5. AFFIRMATION PROCESS

- Xhariep District Municipality's requirement for councilors, management, employees, and contractors to acknowledge they have read, understood, and complied with the code of conduct, a fraud control policy, and other such documentation to support the municipality's fraud risk management program.
- The affirmation process may be handled electronically or via manual signature.
- The municipality will require personnel to acknowledge that they are not aware of anyone who is in violation of the policies.
- Management should establish consequences for refusal to sign-off and apply such action consistently.

6. CONFLICT OF INTEREST

- The municipality will require councilors, management, employees, and contractors to self-disclose potential or actual conflicts of interest (**Declaration form**)

7. REWARDS, GIFTS AND FAVOURS

- Employees must not accept gifts, rewards and favours relating to their work.
- All gifts more than R350 p.a. must be disclosed and recorded in the **Gift register**. Gift from service providers, suppliers and contractors must be disclosed.

8. FRAUD RISK ASSESSMENT

- Regular risk assessments will be conducted on fraud and corruption

9. PREVENTION AND DETECTION

- Code of conduct and ethics
- Disciplinary code and procedures
- Performing background investigations
- Anti-fraud training and education
- Evaluate performance and compensation of all stakeholders

- Conduct exit interviews
- Authority limits (delegations)
- Segregation of duties and supervision
- Internal controls
- Surprise audits
- Data analysis
- Whistle blowing
- Identify hidden relationships among people, organizations, and events.
- Identify suspicious transactions.
- Assess the effectiveness of internal controls

10. REPORTING PROCEDURES AND WHISTLEBLOWING

- National anti-corruption hotline: 0800 701 701
- All internal cases should be reported to the Chief risk officer or supervisors
- Telephone: 073 620 5007, email: tshofelam@xhariep.gov.za or fax 086 623 8309
- Chief Risk Officer will notify the municipal manager and approval letter for investigation will be issued by Municipal manager.

11. INVESTIGATION PROCESS

The following are the phases of an investigation process when a suspicion of fraud and corruption is reported:

10.1 Reporting

Management, employees and the general public can report allegations of fraud and corruption directly to the Chief Risk Officer. Alternatively they may report cases at the National Anti- Corruption Hotline (0800 701 701)

The National Anti- Corruption Hotline managed by the Public Service Commission, will then refer the matter to the MM who will refer it to the CRO.

10.2 Examination

The Risk Management will perform an preliminary examination to determine whether the matter should be subjected to a full investigation.

Should a matter not be referred for investigation, an examination report with findings and recommendations will be submitted to Management for implementation of corrective action.

10.3 Investigation

All serious and material cases regarding municipal manager will be referred to COGTA and Office of the Premier. During the investigation, the Office of the Premier and COGTA may involve other role players i.e. Consultants, SAPS, NPA and Security Services. *(Sec 57 managers will be investigated externally i.e. Office of Premier and COGTA)*

10.4 Consideration of findings and recommendation

After each investigation the CRO will submit a detailed report with findings and recommended actions to management for consideration.

10.5 Action

Once management has accepted the findings and recommendation, it will be referred to the Municipal Manager and Corporate Service Department for disciplinary action and/or SAPS/NPA for criminal prosecution.

10.6 Monitoring and Feedback

The CRO will monitor progress on actions taken and provide feedback to Management and the Audit and Risk Management Committee

12. CORRECTIVE ACTION

All incident/ cases will be a red flag to strengthen/improve weak controls

13. CONTINUOUS MONITORING

The municipality will on ongoing bases, monitor and measure implementation of fraud management to evaluate, remedy, and continuously improve the organization’s fraud detection techniques. If deficiencies are found, management should ensure that improvements and corrections are made as soon as possible. Management should institute a follow-up plan to verify that corrective or remedial actions have been taken.

14. REVIEW OF THE STRATEGY

This Fraud Prevention Plan will be reviewed annually and appropriate changes made should these be required.

PREPARE BY:

Chief Risk Officer

Date

APPROVED BY:

Municipal Manager

Date

Council

Date