



FRAUD AND CORRUPTION PREVENTION STRATEGY

FRAUD AND CORRUPTION PREVENTION STRATEGY – CEDERBERG MUNICIPALITY (WC012)

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1. INTRODUCTION

This fraud and corruption prevention strategy outlines the plan on how the Municipality will go about implementing its fraud and corruption prevention policy. It links closely to Cederberg Municipality's Vision and supports its values of honesty, transparency and performing to the highest standards. Financial sustainability, maintaining a track record of successive unqualified audits and zero tolerance to fraud and corruption will remain crucial priorities, which must progress towards clean audit outcomes.

National Government has expressed concern about the state of local governments, and has identified various initiatives to redress the perilous state in which many municipalities across the country find themselves, incl. the following:

- Huge service delivery and backlog challenges (example. Housing, water and sanitation);
- Poor communication and accountability relationships with communities;
- Problems with political administrative interfaces;
- Corruption and Fraud;
- Poor financial management (negative audit reports);
- Many service delivery protests;
- Weak civil society formations;
- Intra- and inter-political party issues negatively affecting governance and service delivery;
- Insufficient municipal capacity due to scarcity of skills.

Fraud prevention is about changing organizational features that allow fraud to occur and possibly go unnoticed or unreported. Fraud control is an essential element of sound corporate governance and internal risk controls.

2. OBJECTIVE

The objective of this strategy is to cover a wide range of activities from such minor transgressions as the misappropriation of office stationery by a staff member to more serious crimes such as misrepresentations by Senior Management and Councilors to Council, the Public and Creditors, and Misuse of confidential information.

3. LEADERSHIP

Council and Management must provide policies, procedures and internal controls for Cederberg Municipality that ensure the public, staff members and government it promotes responsiveness, accountability, effectiveness and efficiency.

The strategy is also designed to give effect to the various legislative instruments relating to fraud and corruption, which promotes a stance of zero tolerance to fraud and corruption. It also assists internal audit and risk management to reinforce existing policies, systems and procedures.

4. INTERNAL CONTROL ACTIVITIES

It is the aim of Cederberg Municipality to have sound financial systems and procedures which incorporate efficient and effective internal controls. The municipality has to develop and maintain a fraud and corruption prevention hotline that is free to all stakeholders within its area of jurisdiction.

Control activities relate to policies and procedures, which are being executed through the actions of people by implementing those policies. This assists in ensuring that management's risk responses are carried out.

Types of Control Activities

Internal Controls can be preventative, detective or corrective in nature.

- Preventative Controls are designed to keep errors or irregularities from occurring in the first place;
- Detective Controls are designed to detect errors or irregularities that may have occurred;
- Corrective Controls are designed to correct errors or irregularities that have been detected.

Internal Control

Internal control is an integral part of risk management. Control procedures relate to the actual policies and procedures in addition to the control environment that management has established to achieve the department's objectives. Policies and procedures help to create boundaries and

parameters for authority and responsibility. It also provides some scope of organizational precedent for action to be taken.

Legislative compliance checklists should be developed, monitored and maintained. The roles and responsibilities are clearly set out in the Fraud and Corruption Prevention Policy.

This is the most important measure because the risk of processing an irregular transaction is minimized where every transaction is reviewed systematically.

5. PREVENTATIVE CONTROLS

5.1 PROMOTION OF THE CODE OF CONDUCT FOR COUNCILLORS AND STAFF MEMBERS

The purpose of a code of conduct as set out in schedule 1 and 2 of the Municipal Systems Act is to guide employees in their day to day activities. The Human Resource Management Department is responsible for the promotion of this code to all staff members and councilors.

5.2 INFORMATION SESSIONS ABOUT CORPORATE GOVERNANCE

The principles of corporate governance need to be adhere to within the Municipality.

The value system of the Municipality should be promoted through a Batho Pele Booklet system, pamphlets, newspapers etc. Some of the principles are *inter alia*, the following, but not limited to:

- Openness
- Integrity;
- Accountability.

These principles apply equally to all public sector entities, irrespective of whether governing bodies are elected or appointed, and whether or not they comprise a group of people or an individual. Hence management needs to be aware of these principles and inculcate this culture to all staff members.

5.3 PROMOTION OF THE WHISTLE BLOWING HOTLINE

The Enterprise Risk Management department is responsible for the management and promotion of the Whistle Blowing mechanisms within the Municipality.

Since one of the possible detection mechanisms available to identify cases of fraud is Whistle Blowing. It is important to inform such officials of their rights as protected by the Protected Disclosure Act No 26 of 2000.

5.4 EMPLOYEE SCREENING

Potential new members of staff should be screened before appointment, particularly for posts with financial responsibility. For example:

- References shall cover a reasonable, continuous period; and any gaps should be explained;
- An official employer's reference shall be sought;
- Doubt about the contents of the reference should be resolved before confirming the appointment;
- Relevant qualifications shall be checked before making an offer of employment;
- Recruitment procedures shall require applicants to declare any association with existing Councilors or staff. Members of recruitment panels shall similarly be required to declare such associations.

5.5 STANDARD TENDER AND CONTRACT DOCUMENTATION

Senior managers involved in the issue of tender and contract documentation shall ensure anti-corruption clauses are included in documentation. This will strengthen the Municipality's legal position in the event of attempted or actual corruption, because it is covered by legislation. However, it may act as an effective reminder to contractors, suppliers and the Municipality's own employees that selflessness is required in commercial relationships.

The following is an example of an anti-corruption clause for inclusion in standard tender and contract documentation:

'You shall not give, provide, or offer to our staff and agents any loan, fee, reward, gift (except items of negligible intrinsic value) or any emolument or advantage whatsoever. In the event of any breach of this condition, we shall, without prejudice to any other rights we may possess, be at liberty forthwith to terminate the contract and to recover from you any loss or damage resulting from such termination.'

5.6 DECLARATION OF INTERESTS

Open cultures are less conducive to fraud and irregularity than secretive ones. For this reason the need for Councilors to declare and register their interests are required. There is a need for

staff to declare and register their interests where appropriate. Staff at many levels will have an opportunity to influence the choice of suppliers and contractors. Management procedures should recognize this and should ensure that the selection of suppliers and contractors always reflects the best interests of the Municipality and not the personal or family interest of any member of the Municipality.

6. DETECTION CONTROLS

No system of preventative measures can guarantee that fraud will not occur. The Municipality can, however, implement detection measures to highlight irregular transactions.

Correct investigative techniques ensure that any matters highlighted through audit and detection methods are handled in an unbiased, professional manner. Matters need to be handled professionally having regard to Industrial Relation guidelines in order to minimize the risk of claims for unfair dismissal, should this course of action be taken. The requirements of the Whistle blowers policy must also be considered.

7. RISK ASSESSMENT

Risk Management is about the identification, evaluation and minimization of identifiable risks. The Councils' risk assessment process must be ongoing and be sufficiently robust to enable all key fraud risks to be identified. Risk assessment should address both the internal and external environments of Council. It should also cover all functions and operations to establish the level, nature, form and likelihood of risk exposure.

Fraud risk indicators may include the following, but not limited:

- Asset misappropriation-
 - Theft of Cash
 - False payment requests;
 - Cheque fraud;
 - Billing schemes; and Misuse of accounts (stealing of passwords).

- Non-Cash-
 - Improper revenue recognition;
 - Misstatement of assets, liabilities and/or expenses;
 - Other accounting misstatements;

- Journal entry fraud by using journal entries to fraudulently adjust financial statement / figures;
 - Falsified employment credentials;
 - Falsified internal or external documents;
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- Corruption-
 - Conflict of Interest;
 - Kickbacks;
 - Personal Interests;
 - Bribery;
 - Extortion.

8. AWARENESS, TRAINING AND DEVELOPMENT

Ensure that staff understands that the internal controls are designed and intended to prevent and detect fraud and corruption or any other dishonest activities of a similar nature. Awareness, training and development programs should be included in the Risk Management Implementation plan.

Fraud risk awareness programs will be conducted throughout the municipality. The use of information systems techniques like pop up messages will also be exercised to promote employee commitment to fraud prevention and to create awareness.

Awareness techniques include the following, but not limited:

- Training sessions / Workshops;
- Group meetings;
- Posters, pamphlets and newsletters;
- Payroll bulletins;
- Intranet, Internet and Email facilities.

9. MONITORING AND REPORTING

The municipality will on an on-going basis, monitor measure and report on implementation of fraud management to evaluate, remedy, and continuously improve the organization's fraud detection techniques. In the event 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.

10. REVIEW AND APPROVAL OF THE STRATEGY

The Risk Committee shall annually review this strategy and determine its adequacy and effectiveness for current circumstances and recommend to Council for approval of any amendments that may be required.