

The Msunduzi Municipality

INTERNAL AUDIT UNIT

'Auditing o Enhance, Protect and Promote Service Delivery'

ANTI- FRAUD AND CORRUPTION STRATEGY

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1. GLOSSARY

For purposes of this document, unless the context indicates otherwise, the words in the left below have the meanings stated opposite them in the far right (and cognate expressions shall bear corresponding meanings):

“Anti-Fraud & Corruption Policy”	Anti-Fraud & Corruption Policy Adopted by the Msunduzi Council
“Code of Conduct”	Disciplinary Procedures & Code of Collective Agreement Adopted by SALGA read in conjunction with Schedule 1 of the Municipal Systems Act, Act 32 of 2000 (as amended) titled Code of Conduct for Councillors and Schedule 2 of the Municipal Systems Act, Act 32 of 2000 (as amended) titled Code of Conduct for the municipal staff members;
“Conditions of Service”	as defined in the Conditions of Services Collective Agreement
“Committee”	Risk Management Committee of Msunduzi
“Corruption”	As defined in this Strategy Document
“Fraud”	As defined in this Strategy Document
Human Resource Policies”	All Human Resource Policies that has a bearing to the contract of employment & adopted by the Msunduzi Council
“IAU”	Internal Audit Unit of Msunduzi Municipality established in terms of S165 of the MFMA
“MFMA”	Municipal Finance Management Act, Act 56 of 2003
“the municipality”	Msunduzi Municipality

“Protected Disclosures Act”	Protected Disclosures Act, Act 26 of 2000
“Risk Management Policy”	Risk Management Policy adopted by the Msunduzi Council
“SALGA”	South African Local Government Bargaining Council
“Strategy”	Refers to the Anti-Fraud & Corruption Strategy Adopted by the Msunduzi Council
“Theft”	As defined in this Strategy Document
“Treasury”	National Treasury
“Whistle Blowing Policy”	The Msunduzi Whistle Blowing Policy Adopted by Council

2. INTRODUCTION

- 2.1 This document shall be known as Anti-Fraud & Corruption Strategy for the Msunduzi Municipality (*the municipality*). It recognises basic prevention, detection and response to fraud and corruption initiatives within the municipality. Furthermore, it identifies key risks of fraud & corruption that will be addressed as these risks could jeopardise the successful implementation of the various components of the strategy.
- 2.2 The strategy as set out below are in line with and complement a principled ethos and strategic direction as articulated in the Constitution of the Republic of South Africa, Act 108 of 2006 (as amended)
- 2.3 Chapter 2 of the Constitution deals extensively with the Bill of Rights. The following sections under the Bill of Right are relevant to the imperative of the Constitution versus management of risks including the risk of fraud and corruption.
- 2.4 The Constitution describes one of the values of founding provisions as; Human dignity, the improvement of the quality of life of all citizens and free the potential of each person.
- 2.5 Section 195 of the Constitution, provided normative basic values and principles for public administration, including the following:
 - 2.5.1 A high standard of professional ethics must be promoted and maintained.
 - 2.5.2 Efficient, economic and effective use of resources must be promoted.
 - 2.5.3 People's needs must be responded to, and the public must be encouraged to participate in policy-making.
 - 2.5.4 Public administration must be accountable.
- 2.6 Criminal and other irregular conduct in organs of state and private bodies are detrimental to good, effective, accountable and transparent governance in organs of state and open and good corporate governance in private bodies and can endanger the economic stability of the Republic and have the potential to cause social damage;
- 2.7 Section 52 of the MFMA placed responsibility of provision of political guidance over fiscal and financial affairs of the municipality to the mayor. The mayor has

a responsibility of ensuring that the municipality performs its constitutional and statutory functions.

- 2.8 Section 61 of the MFMA states that the accounting officer of a municipality must:
- (a) Act with fidelity, honesty, integrity and best interest of the municipality in managing its affairs;
 - (b) Disclose to the municipal council and the mayor all material facts which are available to the accounting officer or reasonably discovered, and which in any way might influence the decisions or actions of the council or the mayor; and
 - (c) Seek, within the sphere of influence of the accounting officer, to prevent any prejudice to the financial interest of the municipality.
- 2.9 In terms of section 62 of the MFMA, the accounting officer is responsible for the management of the financial affairs of the municipality, and must for this purpose take reasonable steps to ensure:
- (d) That the resources of the municipality are used effectively, efficiently and economically;
 - (e) That unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented;
 - (f) That disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of chapter 15 of the MFMA.
- 2.10 Section 95 of the MFMA reaffirms the responsibilities of the Accounting Officer in so far as maintenance of effective, efficient and transparent system of financial and risk management and internal control.
- 2.11 Section 78 of the MFMA outlines the general responsibilities for senior management and other officials of the municipality. The responsibilities of these officials have a direct bearing in financial and risk management and internal controls.
- 2.12 The accounting officer is required in terms of section 112 (1) (m) of the MFMA to ensure that supply chain management practices are fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework of municipal supply chain management, which must cover at least the following:
- (m) measures for –

- (i) combating fraud, corruption, favouritism and unfair and irregular practices in municipal supply chain management;
 - (ii) Promoting ethics of officials and other role players involved in municipal supply chain management.
- (n) the invalidation of recommendations or decisions that were unlawfully or improperly made, taken or influenced, including recommendations or decisions that were made, taken or in any way influenced by municipal councilors or municipal officials.

3. THE OBJECTIVES OF THE STRATEGY

The primary objectives of the strategy as set out below:

- 3.1 Serves as a conceptual, analytical, planning and review tool;
- 3.2 Provides a common understanding of what constitutes fraud and corruption that needs to be communicated throughout the Municipal Council;
- 3.3 Provide guidelines in preventing, detecting, responding and reporting fraudulent, corrupt & irregular activities within the municipality;
- 3.4 Solidify development and application of systems, policies, procedures and control environment and improving the ability of the municipality to facilitate the reporting and monitoring of incidents of fraud and corruption;
- 3.5 Create a culture within the municipality where all employees and stakeholders continuously behave ethically in their dealings with or on behalf of the municipality;
- 3.6 Encourage all employees and stakeholders to strive towards the prevention, detection and responding to fraud & corruption impacting or having the potential to impact on the municipality and its activities;
- 3.7 Encourage all employees and stakeholders to report suspicions of fraudulent, corrupt & irregular activities within the municipality without fear of reprisals or recriminations;
- 3.8 Presents the key elements required for effective prevention of fraud and corruption and represent the approach of the municipality to managing risk of fraud and corruption; and
- 3.9 Provide a focus point for the apportionment of power, accountability and authority.

4. DEFINITION OF FRAUD

- 4.1 It is critical that the term “fraud” is defined further so that we all understand the concept and act accordingly. Fraud is not restricted to monetary or material benefits. For the purpose of this policy, fraud against the municipality is described as introducing a course of action by deceit or other dishonest conduct, involving acts or omissions of the making of false statements, orally or in writing, with the objective of obtaining money or other benefit from, or of evading a liability to another.
- 4.2 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:
- (a) Was deceit employed?
 - (b) Was the action unlawful?
 - (c) Did it result in money/benefits being received to which the person or entity was not entitled?
 - (d) Was an attempt made to do the above?
- 4.3 The following illustrations are provided as a guide:
- (a) Evasion, by deceit, of payments owing to the municipality by omission or false statement-
 - (b) *Example: falsifying an application or statement in order to reduce a liability to pay rates, electricity, water etc.;*
 - (c) Obtaining, by deceit, benefits or documents to which the recipient is not entitled
 - (d) *Example: welfare benefits, education benefits, travel allowances, licenses;*
- 4.4 Forgery-
- Example: a document, signature on a document or cheque, submission of falsified receipts or invoices, forged certificates of competency or qualification.*

- 4.5 Charging the municipality by deceit, for goods and services not delivered/rendered or only delivered/rendered in part-
Example: fraud in procurement, specifications not met, substandard material used, false invoices, collusive tendering, skimming or under-delivered of product or service.
- 4.6 Theft or unlawful removal of council property-
Example: stealing equipment such as computers, other technical devices, stores, and furniture, property which should have been officially disposed of, forms or certificates or other valuables assets. Unlawful use of the municipality's vehicles, telephones or other property or services.
- 4.7 Theft of information for financial or other advantage-
Example: unlawful disclosure of information to contractors, the media or others including for use by a third party, theft of documents.
- 4.8 Theft and making off without payment with the collusion of, or by a municipality employee-
Example: Any unlawful act by the municipality's employee with the intention of stealing from the municipality or assisting someone else to steal. Making off is where a person, knowing that immediate payment for any goods or service supplied is required, dishonestly makes off without having paid and with intent to avoid payment.
- 4.9 Abuse of the municipality's facilities-
Example: using the municipality's vehicle for unauthorized personal or business uses. Abuse of the municipality's fuel cards;
- 4.10 Obtaining property by deception and obtaining financial advantage by deception-
Example: the use of false or multiple identities to obtain benefits to which there is no lawful right. Passing off a cheque, obtaining benefits using false documents; or
The matter is an offence involving a particular false statement in contravention of the provision of specific South African Legislation.

5. DEFINITION OF CORRUPTION

5.1 General offence of corruption is described by Prevention and Combating of Corrupt Activities Act, Act No. 12 of 2003 as follows:

5.1.1 Any person who, directly or indirectly –

5.1.1.1 Accept or agrees or offers to accept any gratification from any other person whether for the benefit of himself or herself or for the benefit of another person: or

5.1.1.2 Gives or agrees or offers to give to any other person any gratification whether for the benefit of that other person or the benefit of another party in order to act personally or by influencing another person so to act in a manner –

a) that amounts to the –

- i. Illegal, dishonest, unauthorized, incomplete or biased; or
- ii. Misuse or selling of information or material acquired in the course of the exercise, carrying out or performance of any powers, duties or functions arising out of a constitutional, statutory, contractual or any other legal obligation.

b) that amounts to –

- i. the abuse of a position of authority;
- ii. a breach of trust; or
- iii. The violation of a legal duty or a set of rules.
- iv. designed to achieve an unjustified result; or
- v. that amounts to any other unauthorized or improper inducement to do or not to do anything is guilty of the offence of corruption.

5.1.2 Corruption can manifest itself in one or more of the following dimensions:

- (a) Bribery – involves a promise, offering or giving of a benefit that improperly affects the actions or decisions of a council employee. A variation of this manifestation occurs where the political party or council is offered or promised or given a benefit that improperly affects the actions or decisions of a political party or council.

Example: a chairperson of a bid adjudication committee accepts a benefit in a form of cash payment or through electronic fund transfer to in a form a cheque or in any form in order to award a bid or contract or influence the bid adjudication committee to award in a favour of person or entity that gave benefit;

- (b) Extortion - involves coercing a person or entity to provide the benefit to councilor or council employee, another person or an entity in exchange for acting or failing to act in a particular manner.

Example: a council employee threatens to disconnect a municipal service (electricity or water) to the restaurant on the basis of a fabricated illegal interference or connection of electricity unless he is provided with regular free meals; or

- (c) Abuse of power – involves a public office bearer using her or his vested authority to improperly benefit another public office bearer or person or entity or to improperly discriminate against another.

Example: promoting a “favourite” employee without following the regulated processes.

6. HOW FRAUD AND CORRUPTION OCCURS

- 6.1 There are four basic elements are necessary for a fraud to occur:
- (a) People to carry out the fraud - they may be within the organisation, outside the organisation, or a group of people working inside or outside the organisation.
 - (b) Assets to acquire fraudulently;
 - (c) Intent to commit fraud; and
 - (d) Opportunity.
- 6.2 Managers must ensure that the opportunities for fraud and corruption are minimised. Separation of incompatible duties, effective procedures and checks should prevent or deter fraud and corruption from occurring. While some people would never contemplate perpetrating fraud or corruption, others may if they thought they could get away with it. A high chance of being caught by detective controls will deter.
- 6.3 Some incidents of fraud and corruption arise because of system weaknesses such as a lack of proper checking of requisitions or orders against an existing contract or quotation awarded. Other incidents of fraud and corruption are the result of failures to follow proper control procedures. It may be carelessness in carrying out checks. It may be that too much trust has been placed in one individual with no effective separation of incompatible duties. Fraud and corruption, which result from collusion, may be more difficult to prevent.
- 6.4 Incidents of computer fraud, defined as those where the computer was instrumental in the perpetration of the fraud, may arise because of the absence of human review of transactions. The lack of human involvement may allow transactions to be processed, which would be queried, in a manual system.
- 6.5 An organisation can therefore be exposed to the risk in a number of different ways:
- 6.5.1 Internal Fraud and Corruption*
- This is fraud and corruption perpetrated by individuals inside the organisation and is most often carried out by employees that have access to moveable or liquid assets, such as cash or stock. It is likely that the risk of fraud and its scale will increase if the member of staff is 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.

6.5.2 *External Fraud and Corruption*

This is fraud and corruption, which is perpetrated by individuals outside the organisation 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.

6.5.3 *Collusion*

This type of fraud involves two or more parties, either both internal or 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. **APPROACH TO THE DEVELOPMENT OF THE STRATEGY**

7.1 The strategy is informed by four pillars

- (a) **Instilling & maintaining** a culture which is intolerant to fraud and corruption. This talks to the campaigns and actions that will result to deterrence to fraud and corruption. Pledge respect for the civil rights of all citizens, including employees and management of the municipality.
- (b) **Prevention** which is the catalyst to the strategy as it is a proactive method of fighting this pandemic which is impacting negatively to service delivery and economic growth of our country. This pillar talks to management of risks and implementing of control activities that are adequately designed to prevent risks from materializing.
- (c) **Detection** which demands that the system of internal control designed and implemented by management are able to detect any risks from materializing.
- (d) **Correction measure** which dictates that if the first three pillars fail are there adequate measures in place to correct what went wrong or which serve as a deterrent. These refer to a number of processes including but

not limited to reporting, investigating, prosecuting, recovery and blacklisting.

- 7.2 In developing this strategy, the four pillars became part and parcel. This strategy was informed by a comprehensive Organizational Wide Risk Assessment which also focused on risks relating to fraud and corruption. The strategy then informed policies that are critical and integral part of the strategy, i.e. Risk Management Policy, Whistle Blowing Policy and Anti-Fraud & Corruption Policy.

8. KEY COMPONENTS OF THE STRATEGY

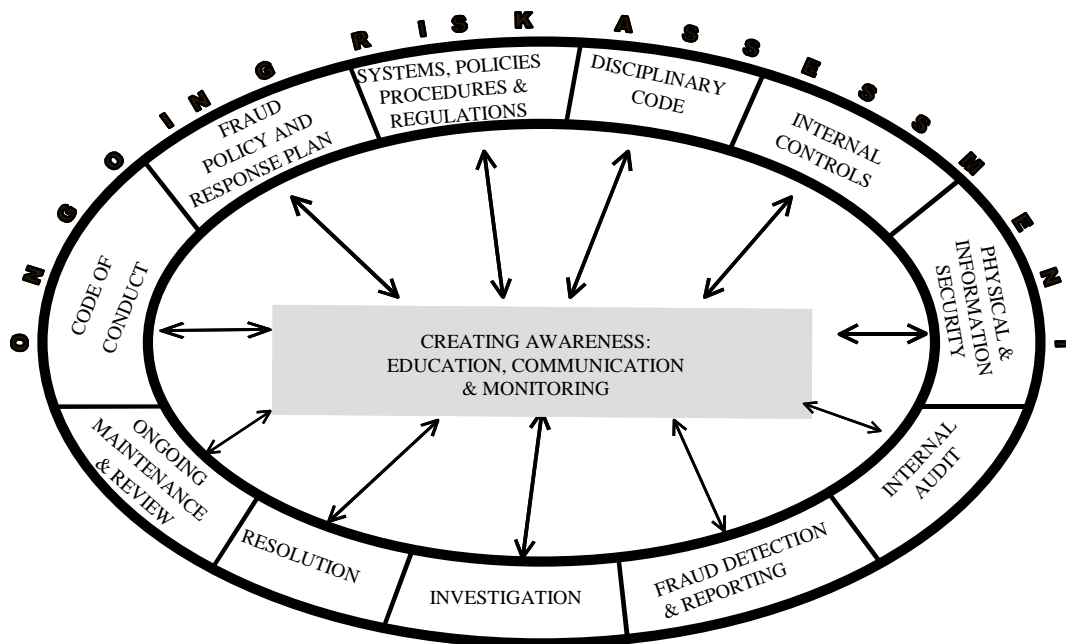
- 8.1 The above objectives are not intended to detract from the premise that all the components are equally essential for the successful realization of the Strategy. The Strategy is structured to address the culture, prevention, detection, corrective measures and reporting and the investigation of fraudulent, corrupt and irregular activities. The following represents the components of the strategy for the municipality:

- (a) A Disciplinary Procedure & Code of Collective Agreement Conduct in which the management of the municipality believes and requires their employees to subscribe;
- (b) Schedule 1 of the Municipal Systems Act, Act 32 of 2000 (as amended) titled Code of Conduct for Councillors;
- (c) Schedule 2 of the Municipal Systems Act, Act 32 of 2000 (as amended) titled Code of Conduct for the municipal staff members;
- (d) Legislation and frameworks by the organs of state that are responsible for monitoring and supporting the municipalities;
- (e) The municipality's 's systems, policies, procedures, regulations, rules and resolutions;
- (f) Systems of internal controls to prevent and detect fraud;
- (g) Physical and information security safeguard and management;
- (h) Ongoing risk assessment, which includes fraud susceptibility assessments and detection approaches;
- (i) Management of risks;
- (j) Reporting and monitoring of allegations;
- (k) Anti-Fraud & Corruption Policy;
- (l) A Whistle Blowing Policy in order to strive to create a culture which will facilitate the disclosure of information by employees relating to criminal

and other irregular conduct in the work place in a responsible manner and to limit the risk of non-compliance with the provisions of the Protected Disclosures Act;

- (m) Creation of awareness amongst employees and other stakeholders through communication and education relating to specific components of the Plan; and
- (n) Ongoing maintenance and review of the strategy which includes the effective functioning of the Risk Management Committee to steer and take responsibility for the strategy, and to ensure effective implementation and maintenance;

8.2 An illustration of the main components of the strategy is contained in the figure below:



9. PREVENTING FRAUD & CORRUPTION

9.1 **Schedule 1 & 2 of the Municipal Systems Act, Act 32 of 2000 (as amended) titled Code of Conduct for Councillors & the municipal staff members.**

9.1.1 A Disciplinary Procedures and Code of Conduct (“Code of Conduct”) was developed, based on the guidelines contained in Labour Relations Act. The Code of Conduct is intended to set down clear guidelines relating to the municipality’s expectations of the highest ethical

standards of conduct and integrity by its employees and other stakeholders.

- 9.1.2 The Code is applicable to all employees (including management and members of the Council) of the municipality and its entities, other Parties contracting with the municipality in order to contextualize the Code of Conduct as a component of the strategy.
- 9.1.3 The municipality expects all its employees, councilors and organizations that are in any way associated with the municipality to display uncompromising honesty, integrity, diligence and professionalism in their dealings with the municipality and its stakeholders. All employees and councilors are expected to lead by example in these matters.
- 9.1.4 The following are the generic risks which are inherent in this area:
 - (a) A councillor may not perform the functions of office in good faith, honestly and a transparent manner which may compromise the decisions of the Council
 - (b) A councillor may not at all times act in the best interest of the municipality and in such a way that the credibility and integrity of the municipality are not compromised when making decisions.
 - (c) The Council decisions could be challenged in a court of law due to the failure of a councilor to disclose to the municipal council, or to any committee of which that councilor is a member, any direct or indirect personal or private business interest that the councilor, or any spouse, partner or business associate of that councilor may have in any matter before the Council or the committee.
 - (d) Decisions of Bid Committees could be challenged in a court of law or a project delayed due to protracted delays in courts resulting from the interference by a councillor or councillors in the award decisions thus compromise service delivery
 - (e) Decisions of Council could be delayed due to political interference to the administration in the municipality in one way or the other thus compromising efficient and effective administration and service delivery.
 - (f) Decisions of Council could be compromised and be subjected to protracted and costly forensic investigations due to a councillor who may have used, took, acquired or benefitted from any

property or asset owned, controlled or managed by the municipality to which that councillor had no right (e.g. selling of sites and houses).

- (g) Employees of the municipality and other stakeholders with low integrity and/ or standards of professional duties who are constantly seeking to enhance their personal benefit.
- (h) An employee may not perform the functions of office in good faith, honestly and a transparent manner which may compromise the decisions of the Municipal Council.
- (i) An employee may not at all times act in the best interest of the municipality and in such a way that the credibility and integrity of the municipality are not compromised when making decisions.
- (j) The Municipal Council decisions could be challenged in a court of law due to the failure of an employee to disclose to the municipal council, or to any committee of which that employee is a member, any direct or indirect personal or private business interest that the employee, or any spouse, partner or business associate of that employee may have in any matter before the Municipal Council or the committee.
- (k) Decisions of Bid Committees could be challenged in a court of law or a project delayed due to protracted delays in courts resulting from the interference by an employee or employees in the award decisions thus compromise service delivery
- (l) Decisions of the Municipal Council could be delayed due to unwarranted administrative interference to the Bid Committees in the municipality in one way or the other thus compromising efficient and effective administration and service delivery.

9.1.5 Compliance by the parties referred to in paragraph 6.1.2 above with the Code, both in its spirit and content, would address the risks listed in paragraph 6.1.4 above. However, appreciating the fact that striving to achieve such a status immediately would be idealistic, the municipality will pursue the tactics to improve professional ethics and the conduct of its employees and stakeholders as clearly demonstrated on the Matrix of action and responsibilities which forms part of this document.

Annexure A

9.2 Msunduzi' s Systems, Policies, Procedures, Regulations, Rules and Resolutions

9.2.1 The municipality has a number of systems, policies, procedures, regulations, rules and resolutions designed to ensure compliance with prevailing legislation and to limit risk, including the risks of fraud & corruption and to enforce efficiency and effectiveness and accountability in its operations. Fundamentally, all stakeholders and in particular, the employees of the municipality must understand and comply with these.

9.2.2 The following are some of the relevant pieces of legislation, policies, procedures, rules and regulations:

- (a) Municipal Structures Act;
- (b) Municipal Systems Act;
- (c) Municipal Finance Management Act;
- (d) Property Rates Act;
- (e) Financial Regulations;
- (f) MFMA Supply Chain Management Regulations;
- (g) MFMA Circulars issued by National Treasury;
- (h) Municipal Budget and Reporting Regulations;
- (i) Municipal Planning, & Performance Management Regulations;
- (j) Municipal Performance Management Regulations;
- (k) Human Resource Management Policies;
- (l) Supply Chain Management Policy;
- (m) Indigent Policy;
- (n) Credit Control Polices;
- (o) Individual Financial Policies and Procedures;
- (p) Disciplinary Procedures & Code of Collective Agreement Adopted by SALGA
- (q) Conditions of Services Collective Agreement
- (r) Risk Management Policy

9.2.3 In addition to the above, several operational measures have been designed to control all business activities.

9.2.4 In addition to the above, several operational measures have been designed to control all business activities. The municipality has identified the key risks of in the areas that are susceptible to fraud and corruption which are due to weak systems of internal control and lack of effective

policies and procedures and generally bad attitude towards protecting the municipal assets. The symptoms that would indicate fraud and corruption are the following:

- (a) A lack of accountability and management of performance.
- (b) Inadequate skills on planning, budgeting; public financial management, including expenditure management.
- (c) Poor interface between financial and non-financial information (in-year-monitoring and quality annual reporting).
- (d) Inability to manage cash-flow significantly.
- (e) Duplication of payments in some instances and amounts not accounted for (lack of financial accountability).
- (f) Lack of systems to manage audit queries and implement recommendations, both internal and external auditors.
- (g) Inadequate systems with regard to corporate governance (especially, conflict of interest and accountability frameworks, and effective Integrated national and provincial departments and municipalities.
- (h) Inadequate skills on credit and debt management, including basic financial accounting and filling or record keeping in most instances
- (i) Lack of reviews by supervisors and managers and vigilance in reviews.
- (j) Inadequate safeguarding of assets;
- (k) Lack of control of stores.
- (l) A lack of security clearance of new employees;
- (m) A lack of control over payment documentation;
- (n) Lack of effective procedures relating to consumer refunds; and
- (o) A lack of control over cash takings.

9.2.5 As indicated these are just symptoms and root causes highlighted in 6.2.4 above. The analysis suggests, amongst other issues, that the policy and procedure framework of the municipality is still in a state of transformation as weaknesses appear to be prevalent in nearly all operational functions of the municipality.

9.2.6 The municipality recognizes that its employees are often best placed to identify weaknesses in systems and procedures. The municipality is therefore committed to harnessing this knowledge through the

development of a structured training program aimed at encouraging employee commitment and effort in reporting such weaknesses.

9.3 Internal Controls

9.3.1 This section of the strategy relates to basic internal controls to prevent and detect fraud and corruption. The systems, policies, procedures, rules and regulations of the municipality prescribe various controls, which if effectively implemented, would limit fraud and corruption within the municipality. These controls may be categorized as follows, it being recognized that the categories contain overlapping elements:

- (a) **Prevention controls** which are divided into two sub-categories, namely authorization and physical.

- (b) **Detection controls** which is divided into four sub-categories, namely arithmetic and Accounting, Physical, Supervision and Management Information and Segregation of Duties. These are arithmetic and accounting and basic controls within recording function which check that transactions to be recorded and processed have been authorized and they are completely and correctly recorded and accurately processed. Such controls include checking and arithmetical accuracy of the records, the maintenance and checking of totals, reconciliation and accounting for documents. Physical controls relate to the security of records. They therefore underpin arithmetic and accounting controls. Their similarity to preventive controls lies in the fact that these controls are also designed to limit access to unauthorized persons. Supervision which relates to supervisions by managers of day-to-day transactions and the recording thereof.

- (c) **Preventative controls** which refers to authorization pertaining to all transactions requiring authorization or approval by a responsible person with appropriate authority limits. There is also physical controls which are concerned mainly with the custody of assets and involve procedures and security measures designed

to ensure that access to assets is limited to personnel, who have been duly authorized in writing.

- (d) **Management of information** relates to the review of monthly management accounts and budgetary control and analysis of suspense accounts and month-end closure. These controls are normally exercised by management outside the day-to day routine of the system.
- (e) **Segregation of duties** which indicates lack of segregation of duties or the overriding of existing internal controls is a generic risk which exposes the municipality to the inherent risk of fraud and corruption and manipulation of data. One of the primary means of control is the separation of those responsibilities or duties, which, if combined, enable one individual to record and process a complete transaction, thereby providing him/her with the opportunity to manipulate the transaction irregularly and commit fraud and/or corruption or irregularity. Segregation of duties reduces the risk of intentional manipulation or error and increases the element of checking. Functions that should generally be separated include those of authorization, execution, custody and recording and, in the case of computer-based accounting systems, systems development and daily operations. Placed in context with fraud and corruption, segregation of duties lies in separating either the authorization or the custodial function from the checking function.

9.4 **Physical and Information Security**

Physical

- (a) Recognising that effective physical security is one of the "front line" defences against fraud and corruption, the municipality will take regular steps to improve physical security and access control at its offices in order to limit the risk of theft of assets.

- (b) The municipality will also consider conducting a regular review of the physical security arrangements at its offices and improve on weaknesses identified.

Information Security

- (a) The municipality acknowledges that the key risks of fraud and corruption in this area are the following:
 - i. Risk of leaking of confidential information;
 - ii. Control over passwords and the frequency at which these are changed;
 - iii. Adequacy of knowledge by internal employees, of information systems, which necessitates reliance on external parties;
 - iv. Lack of a documented and tested disaster recovery and business continuity plans; and
 - v. Backup data is not stored off-site.
- (b) The municipality will ensure that employees are sensitised on a regular basis to the fraud and corruption risks associated with poor management of information security in order to enhance their understanding thereof and the risks to the municipality associated with poor control over confidential information.
- (c) Regular reviews of information and computer security will also be considered. Weaknesses identified during these reviews will be appropriately addressed.
- (d) Regular communiqués will be forwarded to employees pointing out the content of the ICT Policy and procedures, with particular emphasis on Internet and e-mail usage and the implications (e.g. disciplinary action) of abusing these and other computer-related facilities. Where employees are found to have infringed on prevailing policy in this regard, disciplinary action will be taken.

10. DETECTING, REPORTING & INVESTIGATING FRAUD & CORRUPTION

10.1 Internal Audit

10.1.1 The internal audit function of the municipality is performed by Internal Audit Unit. The primary function of Internal Audit Unit is to assist the municipality in improving the efficiency and effectiveness of operations, risk management, control and governance. This is further intended to promote good corporate governance (including promoting ethical conduct and the prevention, detection and reporting of fraud & corruption) within the municipality.

10.1.2 Also, Internal Audit Unit continuously considers ways of communicating and promoting a better understanding by managers, of the role and responsibilities of the Internal Audit Unit, including the role and functions of Risk Management, which are as follows:

- (a) Detection and investigation of fraud and corruption and recoveries;
- (b) Conducting risk assessment which will include risks of fraud and corruption and susceptibility assessments of high fraud and corruption risk areas; and
- (c) Promoting integrity of employees within the municipality.

10.1.3 The key weaknesses that would result to fraud and corruption are the following:

- (a) Lack of procedures to dissuade employees from becoming victims of fraud and corruption and inadequate controls to identify instances and the affected employee/s when this does happen; and
- (b) Lack of or inadequate communication by management, of risks and weaknesses in internal controls, identified by Internal Audit Unit, to the employees of the municipality.

10.1.4 As indicated previously, the municipality will continue to regularly re-emphasize to all employees that consistent compliance by employees with internal control is in itself one of the fundamental controls in place to prevent fraud and corruption. Managers will be encouraged to recognize that internal control shortcomings identified during the course of audits are, in many instances, purely symptoms and that they should

strive to identify and address the causes of these internal control weaknesses, in addition to addressing the control weaknesses.

10.1.5 The need to comply with the Code and to act with honesty and integrity will be regularly emphasized and communicated to all employees.

10.2 **On-going risk assessment**

10.2.1 The municipality acknowledges the fact that it faces diverse business risks from both internal and external environments. Risk assessment will be conducted on continuous basis in order to identify emerging risks from new programs and projects.

10.2.2 This is intended to ensure that fraud and corruption prevention controls and detection mechanisms are developed. This will include the conducting of presentations to managers and staff to ensure that they have a more detailed understanding of these areas, thus enhancing the prospect of detecting irregularities sooner.

10.3 **Fraud & Corruption Detection & Reporting**

10.3.1 The municipality recognizes that in order to effectively prevent fraud and corruption, all fraudulent, corrupt and irregular activities detected by employees and other stakeholders should be reported and investigated. In this regard, the municipality has implemented the Msunduzi Whistle-blowing Hotline which is intended to achieve the following:

- (a) To deter potential fraudsters by making all employees and other stakeholders aware that the municipality is not a soft target, as well as encouraging their participation in supporting, and making use of this facility;
- (b) To raise the level of awareness that the municipality is serious about fraud;
- (c) To detect incidents of fraud and corruption by encouraging whistle blowers to report incidents which they witness;
- (d) To assist the municipality in managing the requirements of the Protected Disclosures Act by creating a channel through which whistle blowers can report irregularities which they witness or which come to their attention;

- (e) To further assist the municipality in identifying areas of risk of fraud and corruption in order that preventive and detective controls can be appropriately improved or developed.
- 10.3.2 The municipality supports the Msunduzi Whistle- blowing Hotline and encourages its employees to utilize this service to supply information relating to fraudulent, corrupt and irregular activities. The Msunduzi Whistle- blowing Hotline is also an integral mechanism for the reporting of fraud in terms of the Fraud and Corruption Policy.
- 10.3.3 Hence, the municipality will ensure that the responsibility of responding to and investigating information secured through the Msunduzi Whistle- blowing Hotline and through any other medium, is thoroughly investigated and that proper records are kept of all allegations relating to the municipality. This will assist the municipality in managing its susceptibility to areas of fraud & corruption risk.

10.4 **The Fraud & Corruption Policy**

- 10.4.1 A Fraud and Corruption Policy (Appendix C) has been developed, using the KwaZulu-Natal Government Fraud Control Policy as the basis, for the municipality. The Anti-Fraud and Corruption Policy contains provisions for the reporting of allegations of fraud which include the following:
- (a) Making a report to the employee's immediate manager;
 - (b) Where the person reporting the information wishes to make a report anonymously, such a report may be made to the Accounting Officer or the Chief Audit Executive or to the Member of the Executive Council responsible for Cooperative Governance and Traditional Affairs.
- 10.4.2 Furthermore, the Fraud and Corruption Policy includes the following issues:
- (a) The policy stance of the municipality to fraud and corruption, i.e. Zero Tolerance to fraud and corruption;
 - (b) The definition of fraud, corruption and some manifestations in the municipality 's context is as defined in this strategy document;

- (c) The available channels to report, investigate and resolve incidents of fraud and corruption which impact the municipality ;
- (d) Provisions relating to the protection of whistle blowers;
- (e) The handling of confidentiality relating to allegations and investigations of fraud and corruption;
- (f) Publication of sanctions imposed on persons found guilty of fraud; and
- (g) Responsibility for the administration of the Policy.

10.4.3 The Anti- Fraud and Corruption Policy is included as **Appendix C** to this Strategy, which will be circulated to all employees of the municipality. Appropriate presentations on the implications of the Protected Disclosures Act will be included in strategies to create awareness of the Fraud and Corruption Policy.

10.4.4 It must be noted that in terms of the Fraud and Corruption Policy, all employees are obliged to report any irregularity affecting the municipality that they notice or become aware of. Failure to do so could result in appropriate action being taken against such person(s).

10.4.5 In order to facilitate the identification of additional risks and the consequent development of appropriate strategies to address these, the municipality will continue to ensure that the system it has established is used to keep records of all allegations brought to its attention. This will be crucial in effectively addressing the risk of whistle blowers being victimized, by managers and fellow employees, in contravention of the Protected Disclosures Act.

10.5 **The Whistle Blowing Policy**

10.5.1 In order to further limit the risk of employees being victimised for whistle blowing, in contravention of the Protected Disclosures Act, the municipality has developed a Whistle Blowing Policy (**Appendix D**), which will be circulated to all employees of the municipality.

10.5.2 The Whistle Blowing Policy is based on the Protective Disclosures Act, which guarantees protection to employees against victimisation following disclosure of fraudulent, corrupt and irregular activities by

employees, and is intended to encourage and enable employees to raise serious concerns without fear of victimisation.

11. FURTHER IMPLEMENTATION AND MAINTENANCE

11.1 Creating awareness

11.1.1 This component of the **strategy** comprises of two approaches, namely education and communication. The strategic weaknesses identified in this area are the following:

- (a) Lack of a formalized strategy to create awareness amongst employees of the manifestations of fraud and corruption and the risks of fraud and corruption that the municipality is exposed to; and
- (b) Lack of knowledge of approaches to prevent and detect fraud in specific processes and transactions.

11.2 Education

The municipality will ensure that regular presentations and formal training are carried out for employees to enhance their understanding of the manifestations of fraud and corruption, prevention and detection techniques and the components of the strategy, in general. These presentations and training will include on-going formal lectures to management and team leaders in all functional disciplines, with a particular emphasis on human resources and finance management.

11.3 Communication

11.3.1 Communication is crucial in creating awareness of the Plan amongst employees and other stakeholders. This is intended to facilitate a culture where all stakeholders strive to make the Plan a success and to sustain a positive, ethical culture within the municipality. This will increase the

prospect of fraud being reported and improve the municipality's prevention and detection ability.

11.3.2 The municipality will consider various means of communicating its fraud prevention initiatives, including the following:

- (a) Conducting workshops and creating awareness of the strategy;
- (b) Developing a poster campaign aimed at all stakeholders to advertise the municipality's stance to fraud and corruption and its expectations with regard to the ethics and integrity of all stakeholders;
- (c) Circulating appropriate sections of the Code to other stakeholders, e.g. consultants and contractors;
- (d) Publicizing "lessons learned" out of investigations into allegations of fraud and corruption amongst employees;
- (e) Circulating successes related to the strategy and fraud and corruption modus operandi;
- (f) Printing the stance of the municipality to fraud and corruption on pay slips;
- (g) Placing notices or other communiqués related to the strategy in toilets and other areas to which employees and the public have access;
- (h) Giving copies of the Code to all suppliers of goods and services;
- (i) Developing a fraud and corruption prevention suggestion box where all employees could make suggestions on how to prevent fraud and corruption and further improve the strategy; and
- (j) Developing promotional items communicating the strategy or components thereof, e.g.:
 - T-shirts and other promotional material;
 - Mugs/cups;
 - Motor vehicles; and
- (k) Using municipal newsletter/flier to communicate issues relating to the prevention and detection of fraud and corruption, including matters reported and action taken.

11.4 On-going maintenance and review

11.4.1 In order to ensure that the process of on-going development and implementation of the strategy is consultative and viewed as such by all stakeholders within the municipality.

11.4.2 The Risk Management Committee has been established and will be responsible for the on-going maintenance and review of the strategy. This will include:

- (a) Evaluating reports of fraud and corruption and highlight areas of risk within the municipality;
- (b) Considering fraud and corruption threats to the municipality and addressing these;
- (c) Monitoring action taken to implement recommendations relating to incidents of fraud and corruption;
- (d) Steering and taking responsibility for the strategy;
- (e) Reviewing and making appropriate amendments to the strategy; and
- (f) Ensuring that on-going implementation strategies are developed and carried out.

11.4.3 The strategy will be reviewed on an annual basis, whilst progress with the implementation of the various components will be reviewed on a quarterly basis. With regard to the latter, specific priorities stemming from the strategy, actions to be taken, responsible persons and feedback dates relating to progress made will also be set. A matrix of tasks and responsibilities (Appendix E) has been developed to facilitate this.