FRAUD AND CORRUPTION PREVENTION STRATEGY AND RESPONSE PLAN

'n Unieke en sorgsame vallei van uitmuntende diens, geleenthede en groei.

Intlambo ekhethekileyo nenkathalo, egqwesayo kuniko-zinkonzo, ivulela amathuba kwaye iphuhlise.

A unique and caring valley of service excellence, opportunity and growth.

BREEDE VALLEY MUNICIPALITY

Fraud and Corruption Prevention Strategy and Response Plan

Previous date adopted: Fraud Prevention Strategy and Response Plan

27 June 2016   C37/2016

COUNCIL RESOLUTION:

No date for 2017-2018.

No date for 2018-2019.

COUNCIL RESOLUTION   13 June 2019   C46/2019

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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 the Breede Valley Municipality's Vision and supports its values of openness, honesty 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 then 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 (e.g. Housing, water and sanitation);
• Poor communication and accountability relationships with communities;
• Problems with political administrative interfaces;
• Corruption and Fraud;
• Poor financial management (e.g. 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 organisational 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.

Breede Valley Municipality has include the 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.

2. Objectives

The objective of this strategy is to covers 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 Councillors to Council, the public and creditors, and misuse of confidential information.

Adherence to this plan will ensure that timely and effective action is taken to prevent further losses, maximize the recovery and minimise losses and the recurrence thereof, identify the fraudsters and maximize the success if any disciplinary/legal action is taken.

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3. Leadership

Council and Management must provide policies, procedures and internal controls for Breede Valley Municipality that ensures the public, staff members and government that the municipality promote a responsive, accountable, effective and efficient municipality.

This strategy and response plan is also established to give effect to the various legislative instruments relating to fraud and corruption, as to set down the stance of zero tolerance to fraud and corruption, and to assist internal audit and risk management to reinforce existing policies, systems and procedures.

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4. Internal Control Activity

Breede Valley Municipality's aim is to have sound financial systems and procedures which incorporate efficient and effective internal controls. The municipality have to develop and maintain a fraud and corruption prevention hotline that is free to all stakeholders within Breede Valley Municipality.

Control activities are policies and procedures, which are the actions of people to implement the policies, to help ensure that management's risk responses are carried out.

Types of Control Activities

Many different descriptions of types of control activities have been put forth. Internal Controls can be preventative, detective or corrective by 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 create boundaries and parameters to authority and responsibility, and also provide some scope of organizational precedent for action.

Legislative compliances checklist should be developed, monitored and maintained. The roles and responsibilities is 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 minimised 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 councillors.

5.2 Information sessions about Corporate Governance

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

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

- Openness;

- Integrity; and

- 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. Therefore, management needs to be aware of these principles and inculcate them 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:

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- References shall cover a reasonable, continuous period; and any gaps should be explained;

- An official employer's reference shall be sought;

- Doubts 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 associations with existing Councillors 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 not strengthen the Municipality's legal position in the event of attempted or actual corruption, because this 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 Councillors to declare and register their interests is 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 recognise 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 frauds will not occur. The Municipality can, however, implement detection measures to highlight irregular transactions.

Correct investigation techniques ensure that any matters highlighted through audit and detection methods are handled in an unbiased, professional manner. Matters need to be handled having regard to Industrial Relations guidelines to minimise 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 Council's 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 the Council and they should 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;

- Corruption-
    - Conflict of Interests;
    - Kickbacks;
    - Personal Interests;
    - Bribery;
    - Extortion.

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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 programmes 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.

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9. Directive on fraud response

9.1 Alleged fraud incidents

9.1.1 In the event of fraud, attempted fraud or other illegal act being suspected, officials must immediately report the matter to their line manager. If there is concern that line management may be involved, the matter should be reported to the next appropriate level.

9.1.2 Additionally, the Municipal Manager should be informed. Where confidentiality is sought, staff may report their suspicions direct to the Enterprise Risk Management Department vis the Whistle Blowing Hotline, (telephone no 080 348 2600). The Fraud Hotline operates 24/7 and all information received is treated in the strictest of confidence.

9.1.3 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.

9.1.4 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.

9.1.5 It is for line management to undertake an initial fact-finding exercise with the labour relations officer. This discreet preliminary enquiry should be carried out as speedily as possible and certainly within 24 hours of the suspicion being raised.

9.1.6 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.

9.1.7 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.

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9.2. Formal Reporting Stage

9.2.1 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 preliminary report should be submitted to the Labour Relations Officer within reasonable timeframe of enquiry. The facts should than be reported immediately to the Municipal Manager. Where there is a risk of financial loss to the Municipality, the Chief Financial Officer should also be notified.

9.2.2 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.

9.2.3 In case of alleged Organisation fraud, the Municipal Manager may task the Enterprise Risk Management Department to investigate it in with the Municipality's System of Delegation. In case of labour relations aspects, the Labour Relations Officer should initiate the investigation process.

9.2.4 Should the Enterprise Risk Management Department advise that further expertise is required, for example Attorneys, Forensic Accountants or Forensic Investigators, the Manager: Integrated Risk Management will engage the Municipal Manager for the appropriate assistance and/or support.

9.2.5 In case of disputes or appeals the Municipal Manager should assigned any reported incident to the Senior Manager: Legal Services for evaluation.

9.2.6 In case of complaints on service delivery aspects, complainants should first report it to the User Department, than to the Director responsible for the Department.

9.2.7 In case the complainant is still not happy or satisfied with the resolutions, if the complaint lodged the complaint to the Municipal Manager, he/she should than decide on you will provide administrative support to advice and/or evaluate the relevant information for decision making purpose.

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9.3. Responding effectively to fraud when it occurs

9.3.1 Depending on the significance of the fraud, the fraud investigation process involves some or all of the following:

9.3.1.1 Ensuring the actions to take if fraud is discovered are clearly described in the organisation's Fraud Response Plan.

9.3.1.2 The Manager: Integrated Risk Management provides advice for Organisation fraud investigation; this includes the decision to conduct an investigation whether in-house or on a co-sourced or outsourced basis.

9.3.1.3 Establishing clear terms of reference for the investigation.

9.3.1.4 Setting up a mechanism to report, on progress of the investigation, to appropriate senior levels of management as and when required to do so.

9.3.1.5 Coordinating the investigation and ensuring that it complies with and meets its objectives.

9.3.1.6 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) Coordinating police involvement;

f) Coordinating 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.

9.3.1.7 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.

9.3.1.8 Management can make recommendations 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 Labour Relations Division. Arrangements for interviewing suspects must be made and if criminal proceedings are initiated the South African Police Services must be involved.

9.3.1.9 Adhering to a "fair and reasonable" approach in interviews at all times.

9.3.1.10 Setting up adequate measures to protect the Municipality throughout the investigation process particularly when issuing statements to the media.

9.3.1.11 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.

9.4. Liaison with the South African Police Service

9.4.1 Enterprise Risk Management Department will be responsible to liaise and/or follow up with the South African Police Service to ensure monitoring and reporting on progress made in cases as required by the Municipal Manager.

9.5. Post Event Action

9.5.1 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.

9.5.2 Internal Audit is available to offer advice and assistance on matters relating to internal control, if considered appropriate.

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9.6. Communication

9.6.1 The following communication may be observed:

9.6.1.1 The Enterprise Risk Management Department/Management may communicate in the appropriate media or forum, as determined by the Municipal Manager, the outcome of disciplinary, criminal and civil hearings resulting from an investigation.

10. Monitoring and Reporting

The municipality will on on-going basis, monitor, measure and report on 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.

11. Review and approval of this Strategy and response plan

The Risk, Fraud and Corruption Management Committee (RFACMC) shall annually review this strategy and response plan to determine its adequacy and effectiveness for current circumstances and recommend to Council for approval of any amendments that may be required.

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OFFICIAL'S SIGNATURE   MUNICIPAL MANAGER'S SIGNATURES

_____   _____

DATE: DATES:

_____   _____

MMC'S SIGNATURE   THE SPEAKER'S SIGNATURE

_____   _____

DATE: DATE:

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