DRAFT DOCUMENT

FRAUD PREVENTION PLAN

Financial Year 2025-2026

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1. INTRODUCTION

The Fraud Prevention Policy does not attempt to provide a complete approach to risk management but it forms part of the integrated approach to risk management in terms of the National Treasury per as King Report IV Risks Management Framework and Treasury Regulations. While some aspects of managing fraud risks are specific, many of the control designed to address fraud risks will have a wider application and will therefore form a part of a general approach to risk management and financial management. Top management must set the tone of the Municipality and promote an anti-fraud culture.

The Fraud Prevention Policy is designed to protect public resources, protect the integrity, security and reputation of the Municipality and maintain a high level of services to the community consistent with good governance as per the King Report on Corporate Governance.

Heads of functional units are responsible for fostering an environment within their responsibilities. Fraud Prevention Policy is a major responsibility of all staff and articulating clear standards and procedures to encourage the minimization and deterrence of fraud. The early detection may lead to prosecution of offences.

Fraudulent conduct breeds in an environment where systems, standards and procedures are open to exploitation. It is in the best interests of better fraud prevention for municipality's decision making to be visible and unambiguous to the employees.

Transparency is the cornerstone of public sector accountability. Fraud Prevention Policy is concerned ultimately with the effective utilization of resources and the minimization of waste, abuse, mismanagement, fraud and corruption. Effective accountability mechanisms for the use of public funds act to bolster the fraud prevention environment. Measures to prevent fraud should be continually be monitored, reviewed and developed particularly as new systems, benefit programs, contracting or arrangements are introduced or modified.

2. OBJECTIVES OF FRAUD PREVENTION POLICY

2.1 Provision of focus point and allocation of accountability and authority
2.2 Provide a common understanding on what constitutes fraud
2.3 Raises vigilances that staff and managers need to be actively involved on an on-going basis in preventing and detecting fraud.
2.4 Increasing awareness, encouraging involvement and developing a staff reporting process
2.5 Uncover the facts which refer to the processes and skills required to manage fraud allegations
2.6 Deterring fraud, which refers to the process required, ensuring disciplinary or criminal action is instigated as appropriate, pursuing heavy penalties and advising staff of the outcome.
2.7 Fraud Awareness Programme will be rolled out to employees of the municipality with the

primary objective of sensitising both management and staff to fraud, common fraudulent practices and fraud indicators

3. DEFINITION OF FRAUD

Fraud **is a** course of an action by deceit or other dishonest conduct, involving acts or omissions of the making of false statements, orally or in writing. The objective of obtaining money or other benefit from, or of evading a liability for personal gain or to damage with the knowledge that the deception could result in some unauthorized benefit to himself or some other person."

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:

- Was the deceit employed?
- Did it result in money / benefits being received to which the person?
- Was the action unlawful?

4. FRAUD TRIANGLE

Basic elements that breed fraudulent activities to occur which are recognized by the Municipality are as follows:

4.1 Need / Pressure:

There would always be a need that the fraudster would want to fulfill for personal achievement. In this case, the fraudster would be an employee within the Municipality.

4.2 Opportunity**:**

After the need has arisen from an individual / group of individuals to pursue, different angles are evaluated to find a way in which opportunity may arise and use it. These opportunities are within the environment within which the individual operates. It may be because of weak controls or misuse of power within the Municipality.

4.3 Justification / Rationalization:

When an individual or group of individuals have found the opportunity to institute his /her their plan, they find a reason why they should commit such activity. Managers of the F Municipality must ensure that the opportunities for fraud are minimized. Segregation of duties, rotation of staff for sensitive duties, effective procedures and checks should prevent or deter fraud from occurring. While some people would never contemplate perpetrating a fraud, others may, if they thought they could get away with it. A high chance of being caught by detective controls will deter fraud activities. Others arise because of a system weakness such as a lack of proper control over placing of purchase orders or failures to follow proper control procedures.

It may be artlessness in carrying out a check. It may be that too much trust has been placed in one individual with no effective separation of duties. Fraudulent activities which result from collusion, may be more difficult to prevent.

5. TYPES OF FRAUD RISK

The Municipality can therefore be exposed to the risk in a number of different ways:

5.1. **Internal Fraud**

This is fraud perpetrated by individuals inside the Municipality and is most often carried out by staff that has access to moveable or liquid assets. 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.

5.2. **External Fraud**

This is fraud, which is perpetrated by individuals outside the Municipality 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.

5.3. **Collusion**

This type of fraud involves two or more parties, either both internal and external working together. This type of fraud can be difficult to detect, as controls may at first appear to be working satisfactorily.

6. VALUES OF THE MUNICIPALITY

The Municipality has values that portray a specific conduct that employees encouraged to conform to, with a view of promoting specific Municipality's culture.

6.1 Transparency: We practice good corporate governance, openness and strive to understand the needs of our community at all times.

6.2 Commitment: We are dedicated to the services we render to the community. We are committed to realize the objective of local government in South Africa.

6.3 Accountability: We respect and value our people and ensure that we are Accountable and responsible on all aspects of our work.

6.4 Integrity: We perform our work diligently with integrity and courage to ensure that our communities are able to trust and believe in us.

6.5 Democracy: We encourage adherence to the constitution of the country, by allowing everyone to exercise their rights.

7. CODE OF CONDUCT

In today's business environment, pressure is increasing on Municipality to make the right financial decisions, and to make those decisions faster than ever before. The success of the Municipality is dependent on the quality of the decisions and the behavior of individuals at all levels throughout the organization. The top management sets the culture of Municipality, when the senior management themselves are involved in fraudulent activities or unacceptable standards of business behavior, employees at all levels are more easily able to justify their own dishonesty. It follows therefore, that if the Municipality is to combat fraud, management should first look inwards and adopts standards that are scrupulously honest and fair.

This section is intended to reaffirm the importance of high standards of business conduct. Adherence to the Code of Conduct by all employees is the only sure way to merit the confidence of the public to the Municipality. It must be emphasized that while observance of this code is important, common sense also plays a vital role. Each employee should apply this code with common sense and the attitude of seeking full compliance with the letter and spirit of the rules presented.

8. FRAUD INDICATORS AND WARNING SIGNS

8.1 Managers of the Municipality will also be alert to any warning signs that might indicate that fraud is taking place. These may include:
8.1.1 Unusually high personnel debts
8.1.2 Living beyond one's need
8.1.3 Desire to beat the system
8.1.4 Staff under stress without high workload
8.1.5 Always working late
8.1.6 Reluctance to take leave
8.1.7 Refusal of promotion
8.1.8 Unexplained wealth
8.1.9 Sudden change of lifestyle
8.1.10 New staff resigning quickly
8.1.11 Cosy relationship with suppliers and contractors
8.1.12 Suppliers and contractors who insist on dealing with one particular member of staff.

8.2 Indicators that the Municipality may be a target for fraudsters:
8.2.1 A Municipality that lacks competent employees;
8.2.2 No clear lines of authority and responsibilities;
8.2.3 Inadequate segregation of duties;
8.2.4 Operation on crisis bases;
8.2.5 Failure to discipline violations of policies, norms and standards;

8.2.6 Too much trust placed on key employees, and
8.2.6 Inadequate background and reference checking before hiring new employees.

9. FRAUD PREVENTION POLICY AND DETECTION MEASURES

When risks and deficiencies in the level of control are identified, it is necessary to choose the most appropriate type of controls. Fraud should be deterred wherever possible. Similarly, prevention is always preferable to detection. Strong preventive controls should therefore be applied wherever possible. However, preventive controls may not be sufficient to guard against determined fraudsters and detective controls are therefore important. Detective controls are established to detect errors; the Municipality when preventing will consider omission and fraud after the events have taken place. The following range of controls and detecting fraud:

9.1 **Physical security**

This is a preventive measure which controls or monitors access to assets, documentation or IT systems to ensure that there is no unauthorized use, loss or damage. All assets will be held securely and access to them restricted as appropriate. The control should apply not only to the premises but also to computers, databases, banking facilities, documents and any other areas, which are critical to the operation of the Municipality activities.

Access to computer systems is an important area, which should be very tightly controlled, not only to prevent unauthorized access and use, but also to protect the integrity of the data. Computer and data owners should secure information held on their systems especially personal information, which concerns third parties. The threat to computers can come from both inside and outside Municipality as computer hackers may gain access in order to extract or corrupt information.

9.2 **Organizing**

Organizing involves the allocation of responsibility to individuals or groups so that they work together to achieve objectives in the most efficient manner. Major principles in organizing relevant to fraud are:

9.2.1 Clear definition of the responsibilities of individuals for resources allocated, activities, objectives and targets. This includes defining levels of authority and is a preventive measure, which sets a limit on the amounts, which may be authorized by individual officers. To be effective, checks need to be made to ensure that transactions have been properly authorized:

9.2.3 Establishing clear reporting lines and the most effective spans of command allow adequate supervision.

9.2.4 Avoiding undue reliance on any one individual.

9.2.5 Ensure that background that is more comprehensive checking is carried out on Prospective employees, including at least verification of previous employment details, Academic qualifications and citizenship and criminal records. The municipality must obtain the necessary legal advice on what is acceptable.

9.3 **Supervision and Checking of Outputs**

9.3.1 Supervision is the functions by which managers of the Municipality will scrutinize the work and performance of their staff. It provides a check that staff are performing to meet standards and in accordance with instructions. It includes checks over the operation of controls by staff at lower levels. These acts as both preventive and detective measures and involve monitoring the working methods and outputs of staff. These controls are vital where staff is dealing with cash or accounting records. Random spot checks by managers can be an effective anti-fraud measure.

9.3.2 Ensure that more comprehensive background checking is carried out on potential service providers.

9.3.3 Ensure awareness of all legislative obligations placed and that these are properly communicated to all appropriate levels throughout the Municipality.

9.4 **Audit trail**

9.4.1 This is largely a detective control, although its presence may have a deterrent effect and thus prevent a fraud. An audit trail will ensure that all transactions could be traced through a system from start to finish. In addition to allowing detection of fraud it enables the controls to be reviewed.

9.4.2 Actively and continuously searches for evidence of fraud and corruption through appropriate prevention and detection mechanisms.

9.4.3 Perform a data interrogation exercise periodically on payroll records and procurement transactions with the intention to identify patterns of potentially fraudulent behavior internal control implementation weaknesses and possible conflict of interest situations.

9.4.4 Ascertain the frequency with which the interrogation should be carried out on an On-going basis and plan for this, including establishing an expenditure budget.

9.5 **Monitoring**

Management information will include measures and indicators of performance in respect of efficiencies, effectiveness, economy and quality of service. Effective monitoring, including random checks, should deter and detect some types of fraudulent activity.

9.6 **Evaluation**

Policies and activities will be evaluated periodically for economy, efficiency and effectiveness. The management of the operation will perform evaluations, but they are usually more effective when performed by an independent team. Such evaluations may reveal fraud.

9.7 **Staffing**

Adequate staffing is essential for a system to function effectively. Weaknesses in staffing can negate the effect of other controls. Posts involving control of particularly high value assets or resources may need the application of additional vetting procedures. Rotation of staff between posts can help prevent or detect collusion or fraud.

9.8 **Asset**

Asset registers used for management for accounting purposes can help detect losses, which may be caused by fraud.

9.9 **Budgetary and other Financial Controls**

Use of budgets and delegated limits for some categories of expenditure and other accounting controls should ensure that expenditure is properly approved and properly accounted for by the responsible manager. This should limit the scope for fraud and should cause some types of fraud to be detected.

9.10. **Systems Development**

Controls over the development of new systems and modifications to existing systems or procedures are essential to ensure that the effect of changes is properly assessed at an early stage and before implementation. Fraud risks should be identified as part of this process and the necessary improvements controls be introduced.

10. FRAUD RISK MANAGEMENT

Managing the risk of fraud is the same in principle as managing any other activities risk. It is best approached systematically, both at the Municipality level e.g. by using Fraud Prevention Policy statements and personnel policies, and at the operational level. When considering fraud risks in specific operations of the Municipality, there are a number of steps, which should be taken, which are in line with risk management components adopted by Municipality.

10.1 **Identify risk areas**

Establish the areas that most vulnerable to the fraud risk. Patterns of loss and areas of potential loss should be identified so that vulnerable areas can be pin-pointed. It may be useful to survey the staff involved in operating the system to establish all the risks of which they are aware.

10.2 **Assess the risk**

Identify and assess what measures are already in place to prevent fraud, determine the Level of residual risk, using the assessment methodology identified in the risk management strategy. When the residual risk is above the Municipality's tolerance level, the corrective action must be devised.

10.3. **Identify need for revised controls**

Evaluate adequacy of existing controls and establish what further controls or changes to existing controls are required to reduce or eliminate the risk. Detailed in the latter part of this document is the type of controls which should be put in place to address such risks of fraud. When revising this controls or devising the corrective action, responsible official will be identified and reasonable target date will also be given.

10.4 **Implement the revised controls**

The identified person that is responsible for each risk must implement the revised controls within the set target date.

10.5 Monitor the effectiveness of controls

Monitor the revised controls for their effectiveness and to determine whether the fraud risk is lessened as a result of the implementation of revised controls. This could be achieved by a number of means including internal audit reviews of system controls and spot checks by managers to ensure that controls (such as supervisory controls or reconciliation's) are in operation. The implementation of fraud prevention plan must be monitored bi-monthly to determine the extent to which it has been effectively discharged.

10.6 **Analytical review of fraud statistics**

As part of detection mechanism, the municipality will analyze the trends of fraud activities incurred to identify the possible weakness in process where fraudulent activity took place. Independent person will perform the activity.

11. **ROLES AND RESPONSIBILITIES**

11. **Management Team**

11.1 Management of the Municipality must ultimately held accountable for the implementation of Fraud Prevention Policy in their respective area of responsibility. Management must also ensure that employees are aware of fraud prevention and their role should they be alerted fraudulent activities.

11.2 Risk and Compliance Manager

Risk and Compliance Manager together or in consultation with Public and Safety Manager must develop Fraud Prevention Plan and it must be reviewed annually by Risk Management Committees the extent to which the Municipality's Fraud Prevention Policy is in line with related acts and guidelines and monitor effective implementation.

11.3. Risk Management Committee

The committee must review the adequacy and effective fraud prevention and response plan and recommend for approval by the Municipal Council.

12. PROCEDURES FOR REPORTING

12.1The Municipality and the Municipal Council expects employees, stakeholders, service providers and ratepayers to report any reasonable suspicions, allegations and incidents of fraud of whatever value, to the Municipality.

12.2 The Municipality encourages members of the public or providers of goods and services who suspect fraud to contact the Accounting Officer, any other member of management within the Municipality or any Council member.

12.3 Every employee who becomes aware of fraud or acts of dishonesty must report this to his/her immediate supervisor. If the immediate supervisor is a party to the fraud, the next level of management must be informed. In addition to the Office of the Accounting Officer and the Head of Internal Audit must be informed.

12.4 A reporting channel **(National Hotline on 0800 701 701**) through which employees, suppliers, contractors and other third parties can report irregular activities, free from victimization or repercussions, is implemented by the Municipality. The primary means of detecting fraud will and should always remain a sound system of internal control and regular internal audits. These measures should be supplemented with a fraud- reporting channel where information regarding fraud, theft and corruption is collected, and decisive corrective and protective steps are taken to limit the Municipality's exposure to further or future loss. Vital to this function is the assurance of anonymity, commitment to investigate all irregularities, protection of the whistleblower and consistent application of the fraud policy, regardless of the seniority of the alleged offender.

12.5 For issues raised by employees, members of the public and service providers, the action taken by Municipality will depend on the nature of the concern. The matters raised may be:

(a) Investigated internally; or

(b)Referred to the South African Police Service (SAPS) or other law enforcement agency.

12.6 Any alleged fraud committed by an employee or any other person will be pursued thorough investigation (set out in clause 13 below), and to the full extent of the law, including (where appropriate) consideration of:

a) In case of employees, taking disciplinary action within a reasonable period of time after the incident Instituting civil action to recover losses
b) Initiating criminal prosecution by reporting the matter to SAPS or any other relevant law enforcement agency
c) Any other appropriate and legal remedy available.

12.7 Managers are required to ensure that losses or damages suffered by the Municipality as a result of all reported acts committed or omitted by an employee or any other person are recovered from such an employee or other person if he or she is found to be liable.

12.8 The responsible manager with the assistance of other relevant managers will also ensure that the following steps are taken with regard to financial misconduct in line with the provisions of the MFMA and Municipal Systems Act:

a) Ensuring that disciplinary proceedings are carried out in accordance with the relevant prescripts;
b) Ensuring that disciplinary proceedings are instituted within 30 days
c) Annually submitting to the Auditor-General a schedule of:

i. The outcome of any disciplinary hearings and/or criminal charges;
ii. The names and ranks of officials involved; and iii The sanctions and any further actions taken against these officials

d) In terms of section 62(1)(e) of the MFMA, the Accounting Officer, must ensure 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.

e.) Take the following into account when determining the appropriateness of disciplinary steps against an official:

i. The circumstances of the transgression;
ii. The extent of the expenditure involved;
iii. The nature and seriousness of the transgression; and
iv. Reporting losses to the SAPS, the Accounting Officer and the Chief Financial Officer.

13. **RESPONSIBLITY TO CONDUCT INVESTIGATIONS**

13.1 The responsibility to initiate investigations in cases of alleged fraud resides with Municipal Manager

13.2 The Municipal Manager will report to the South African Police Services all cases of alleged on:

a) Irregular expenditure that constitute a criminal offence
b) Theft and fraud that occurred in the municipality.

13.3 The Municipal Manager is responsible for supplying appropriate feedback on the progress of investigations to all relevant parties on a "need to know basis."

14.1 **PROTECTION OF WHISTLE-BLOWERS**

14.1 No employee will suffer any penalty or retribution for good faith reporting of any suspected or actual incident of fraud.

14.2 Every employer has a responsibility to take all necessary steps to ensure that employees who disclose such information are protected from any reprisals as a result of such disclosure.

14.3 All managers should discourage employees or other parties from making allegation that are false or malicious. Where such allegations are discovered, the person who made the allegations must be subjected to firm disciplinary action or, in the case of external parties, other appropriate action.

14.4 The Protection Disclosures Act, Act 26 of 2000 makes provision for procedures in terms of which employees may disclose information regarding unlawful or irregular conduct by their employers or other employees in the employ of their employers without fear of victimization. A person shall therefore not:

a. prejudice, or threaten to prejudice, the safety or career of
b. intimidate or harass, or threaten to intimidate or harass
c. do any act that is, or is likely to be, to the detriment of another person because

d. the other person:

i. has assisted, or is assisting or will or may in the future assist the Municipality with the investigation
ii. has furnished, is furnishing or will or may in the future furnish information to the Municipality
iii. has been or is, or has been or is employed by, or acting on behalf of, an independent agency or appropriate authority to whom or which and allegation has been referred; or
iv. has exercised a power, or performed a duty, conferred imposed on the other person or is exercising or performing, or will or may in the future exercise or perform, any such power or duty.

14.5 All whistle-blowers' identities must remain confidential or anonymous to prevent victimization.

14.6 Action to cover up to the wrongdoing and or to retaliate against, or victimize witnesses is strictly forbidden, and such action constitutes a conduct within the jurisdiction of the Municipality, which is punishable.

15. CONFIDENTIALITY

15.1 All reports of fraud must be treated confidentially. The progress of investigations will not be disclosed or discussed with any person(s) other than those who have a legitimate right to such information in order to avoid compromising the reputations of suspected persons who are subsequently exonerate of any wrongful conduct.

15.2 No employee is authorized to supply any information with regard to reports of fraud, covered within this policy, to the media, or any other party, without the permission of the Municipal Manager.

15.3 In order to avoid damaging the reputations of innocent persons initially suspected of Wrongful conduct, the results of investigations will not be disclosed or discussed by anyone other than those who have a legitimate need to know.

15.4 The Management team will decide whether any information relating to corrective actions taken or sanctions imposed regarding incidents of fraud should be brought to the attention of other employees or made public through any other means.

16. **POLICY APPROVAL**

This policy will be considered by the Risk Management Committee and approved by the Municipal Council