

BLOUBERG MUNICIPALITY



**OFFICE OF THE MUNICIPAL MANAGER
RISK MANAGEMENT UNIT
FRAUD PREVENTION POLICY
2014/2015**

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Contents	Page
1. Introduction.....	3
2. Background.....	4
3. Definition of fraud and corruption.....	4
4. Policy.....	4
5. Environment and culture.....	7
6. Procedure for reporting fraud and corrupt activities.....	7
7. Investigation of complaints.....	8
8. Protection of whistle blowers.....	8
9. Confidentiality and discretion.....	9
10. Staff development and training.....	9
11. Resolution of reported incidents.....	10
12. Implementation of the policy.....	11
13. Consequences for breaching the provisions of the policy.....	11
14. Publication of sanction.....	11
15. Conclusion.....	12
16. Approval and effective date of the policy.....	13

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1. INTRODUCTION

- 1.1. The purpose of this document is to set out the responsibilities of the employees and members of the public, with regard to Fraud Prevention Policy as well as fraud prevention plan and the action that will be taken by Blouberg Local Municipality (BLM) in the event of any contravention.
- 1.2. The Fraud Prevention Policy is about changing organisational features that allow the events to occur and possibly go unnoticed or unreported. The strategies incorporated in the fraud prevention strategy address issues such as accountability, transparency, efficiency, effective and clean administration. Further, these strategies focus on improving systems and procedures, changing the attitudes of the staff and members of the public and improving the overall integrity and performance of or as we are attempting here, to incorporate in several such as fraud prevention policy, fraud prevention plan and code of ethics, etc.
- 1.3. The Fraud Prevention Policy covers the prevention, detection and management of fraud and corruption and for fair dealing in matters pertaining to fraud and corruption. It aims to raise the awareness of fraud and corruption and its prevention in the BLM environment and to give guidance to both the reporting of suspected fraud and corruption and how the investigation of that report will proceed.
- 1.4. BLM has a duty to protect the public funds under its control against fraud and corruption both from within BLM and from external sources. This Fraud Prevention Policy is part of BLM's commitment to sound corporate governance.
- 1.5. BLM expects all employees at all levels to lead by example in the achievement of probity and accountability by ensuring adherence to legal requirements, regulations, rules, procedures, policies and practices.
- 1.6. BLM also expects that individuals and organizations (e.g. suppliers, contractors and stakeholders, etc) with whom it comes into contact, will act with integrity and without intent or actions to commit fraud or corruption or any other dishonest activities of a similar nature against BLM.
- 1.7. This policy is intended to set down the stance of BLM to fraud and corruption as well as to reinforce existing systems, policies, procedures, rules and regulations of BLM aimed at deterring, preventing, detecting, reacting to and reducing the impact of fraud and corruption.
- 1.8. BLM recognizes the fact that acts of fraud and corruption by its employees and external stakeholders affect the quality and quantity of service delivery because of limited resources, thus resulting in the BLM not meeting its objectives.
- 1.9. Fraud and corruption is an ever-present threat to these resources and hence must be a concern to all employees and persons employed in a similar capacity. Fraud and corruption may occur internally or externally and may be perpetrated by anybody including employees,

members of the public, Council members, consultants, suppliers, contractors or development partners, individually or in collusion with others.

2. BACKGROUND

- 2.1. The provisions of Section 65(1)(c)(1) and Section 95(c)(i) of the Municipal Finance Management Act ("MFMA") stipulates that the Accounting Officer / Authority is responsible for ensuring that a municipality and municipal entity has and maintains effective, efficient and transparent system of financial and risk management and internal control.
- 2.2. Furthermore, Public Sector Risk Management Framework requires that risk assessment is conducted on regular basis and a risk management strategy, which includes a fraud prevention plan, be used to direct internal audit effort. The strategy must be clearly communicated to all employees to ensure that risk management is incorporated into the language and culture of the municipality or municipal entity.

3. DEFINITION OF FRAUD AND CORRUPTION

3.1. FRAUD

Fraud is defined as unlawful and intentional making of a misrepresentation which causes actual prejudice or which is potentially prejudicial to another. The attempted fraud is treated as seriously as accomplished fraud.

3.2. CORRUPTION

Corruption in terms of section 3 of the Prevention and Combating of Corrupt Activities Act, Act 12 of 2004 is committed by any person who directly or indirectly:-

- (a) accepts 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
- (b) gives or agrees or offers to give to any other person any gratification, whether for the benefit of that other person or for the benefit of another person, in order to act, personally or by influencing another person so to act, in a manner –
 - (i) that amounts to the -
 - (aa) illegal, dishonest, unauthorized, incomplete, or biased; or
 - (bb) 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;

- (ii) that amounts to-
 - (aa) the abuse of a position of authority;
 - (bb) a breach of trust; or
 - (cc) the violation of a legal duty or a set of rules;
 - (iii) designed to achieve an unjustified result; or
- (iv) that amounts to any other unauthorised or improper inducement to do or not to do anything.

4. POLICY

4.1. POLICY STATEMENT

- 4.1.1. Blouberg Local Municipality has measures for the prevention, detection and management of fraud and corruption or any other dishonest activities of a similar nature and for fair dealing in matters pertaining to such.
- 4.1.2. BLM commits itself clearly that it is firmly committed to dealing with fraud and corruption or any other dishonest activities of a similar nature and deal equally with officials from inside and outside the organization. In addition there will be no distinction made in investigation and action between allegations of financial misconduct and other allegations of impropriety.
- 4.1.3. The policy statement, however, will not compromise the Council's equal opportunities policy or any obligations as an employer under the Code of Ethics/Conduct for BLM employees.

4.2. POLICY OBJECTIVES

- To develop an anti fraud and corruption free culture amongst staff of BLM and residents of Limpopo, in which we operate.
- To operate policies and systems which minimise fraud and corruption or any other dishonest activities of a similar nature.
- To develop partnership with other agencies and bodies in the fight against fraud and corruption or any other dishonest activities of a similar nature.
- To develop a highly-skilled anti-fraud profession.
- To ensure that Blouberg Local Municipality management is aware of its responsibilities for identifying exposures to fraudulent and corrupt activities or any other dishonest activities of a similar nature and for establishing controls and procedures for preventing such fraudulent and or corrupt activities and/or detecting such fraudulent and corrupt activities when they occur;
- To provide guidance to employees and members of the public as to what action(s) should be taken where they suspect any fraudulent and or corrupt activity(ies);
- To provide a clear statement to staff or any other persons having a business with BLM, forbidding any illegal activity(ies);
- To provide clear guidance as to responsibilities for detecting and reporting investigations into fraudulent and or corrupt activities;

- To provide assurances that any reasonable suspicion of fraudulent and or corrupt activity(ies) will be fully investigated;
- Provide for a swift investigation of fraudulent and corrupt activities;
- To provide adequate protection and guidance as to appropriate action to employees in circumstances where they are victimised as a consequence of reporting, or being a witness to, fraudulent and/or corrupt activities;
- To provide a suitable environment for employees to report matters that they suspect may concern corrupt conduct, criminal conduct, criminal involvement or serious improper conduct.

4.3. SCOPE OF THE POLICY

- 4.3.1. This Policy applies to all BLM employees and prohibits all acts of fraud and corruption or any other dishonest activities of a similar nature impacting or having a potential prejudice to BLM or members of the public.
- 4.3.2. Any investigation required will be conducted without regard to the suspected wrongdoer's length of service, position/title, seniority or relationship to the BLM.
- 4.3.3. Actions constituting fraud and corruption include, but not limited to:
 - Accepting cash by enforcement officers to avoid imposition of the Municipal Finance Management Act.
 - Use of BLM's information technology systems and equipment to commit fraud.
 - Abuse of authority or official power for private enrichment at the expense of the municipality.
 - Creation of fictitious vendors.
 - Deliberate omitting to report any acts of dishonesty.
 - Deliberate withholding of any information which could assist in investigating any irregularity.
 - Disclosing confidential or proprietary information to outside parties for financial gain or other reason.
 - Improper disclosure to other persons of security measures or activities engaged in or contemplated by the BLM.
 - Unlawful payment or receipt of double salary payments.
 - Duplicate payments for invoices.
 - Extortion involving BLM employees in the performance of their duties.
 - Failure to put into place internal controls thus causing financial loss to BLM.
 - Issuing of false / inflated invoices.
 - Making misrepresentations regarding sick leave, overtime or educational qualifications.
 - Forgery or alteration of any document or account including cheque, bank draft, stock records or any other financial document relating to transactions with BLM.
 - Creation of and/or making payments to ghost employees.
 - Illegal or irregular sale of BLM property.
 - Irregular allocation of BLM subsidy houses / rental accommodation.
 - Irregular destruction, removal or inappropriate use of records, documents, furniture, fixtures, material and equipment.
 - Issuing of invalid business licenses.

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- Misappropriation or theft of funds, securities, supplies or other assets.
- Committing any fraudulent act with regard to and at any stage of the supply chain management process.
- Using BLM's funds to purchase items for personal use.
- Conflict of interest.
- Any dishonest, fraudulent or corrupt act or other similar or related inappropriate conduct.

5. ENVIRONMENT AND CULTURE

5.1. The management must create an environment and culture in which employees believe that dishonest acts will be detected and investigated. To this end, they must:

- participate in in-house training program covering fraud and corruption detection, fraud and corruption prevention and training on the code of ethics;
- ensure that staff understand that the internal controls are designed and intended to prevent and detect fraud and corruption or any other dishonest activities of a similar nature;
- encourage staff to report suspected fraud and corruption directly to those responsible for investigation without fear of disclosure or retribution; and
- require vendors and contractors to agree in writing as a part of the contract process, to abide by the BLM policies and procedures, and thereby avoid any conflict of interest.

5.2. Measures to prevent fraud and corruption should be continually monitored, reviewed and developed particularly as new systems, programs, contracting or arrangements are introduced or modified.

6. PROCEDURES FOR REPORTING FRAUDULENT AND OR CORRUPTIVE ACTIVITIES

6.1. Line managers are responsible for daily operations and for the internal control systems within their organisational responsibilities. Where managers do not have the expertise to evaluate internal controls they should call upon the support from Internal Audit.

6.2. It is the responsibility of members of the public and employees (including line managers) to report all incidents of fraud, corruption or any other dishonest activities of a similar nature to the Office of Municipal Manager and Risk Management Unit or tip off anonymous at:

- Toll free Hotline 0800 20 50 53
- Email: cdm@tip-offs.com
- Post: KZN 138, Umhlanga Rocks, 4320
- Fax 0800 00 77 88

All cases reported on the toll free hotline are communicated to the Chairperson of the Audit and Risk Committee.

- 6.3. All complaints implicating the investigations unit should be reported to the Municipal Manager.

7. INVESTIGATION OF COMPLAINTS

- 7.1. The Risk Management Unit will investigate all complaints of fraud and corruption with the assistance of different units and individuals. Where required the municipality will outsource investigations.
- 7.2. The Human Resources Unit must provide adequately qualified prosecutor (initiator) and presiding officers to deal with disciplinary enquiries relating to serious misconduct.
- 7.3. For the purpose of this policy "serious misconduct" means:
- Theft, unauthorized possession of or malicious damage to the employer's property.
 - Any act of gross dishonesty.
 - Gross negligence.
 - Wrongful disclosure of privileged information.
 - Any act of fraud, corruption or bribery.
 - Any other act of misconduct that would constitute just cause for dismissal for a first offence.

8. PROTECTION OF WHISTLE-BLOWERS

- 8.1. The Protected Disclosures Act, Act 26 of 2000 makes provisions 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:

- prejudice, or threaten to prejudice, the safety or career of; or
- intimidate or harass, or threaten to intimidate or harass; or
- do any act that is, or is likely to be, to the detriment of, another person because the other person:-
 - (i) has assisted, is assisting or will or may in the future assist the investigations or any law Enforcement Agency in the performance of its functions; or
 - (ii) has furnished, is furnishing or will or may in the future furnish information to the investigation office, or any Law Enforcement Agency; or
 - (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 an allegation has been referred; or

- (iv) has exercised a power, or performed a duty, conferred or 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."

- 8.2. All whistle-blowers' identities will remain confidential or anonymous to prevent victimization.
- 8.3. Action to cover up the wrongdoing and or to retaliate against, or victimize witnesses is strictly forbidden, and such action constitutes a conduct within the jurisdiction of BLM, which is punishable.
- 8.4. The Whistle-blowing Policy supplementing this policy will be prepared by the Risk Management Unit and be cascaded to all employees after having been approved by the Council of BLM.

9. CONFIDENTIALITY AND DISCRETION

- 9.1. The Risk Management unit will treat all information that it collects or receives in confidence except as is necessary for a thorough investigation and resolution of the complaint and/or as required by law or a standard of ethical conduct.
- 9.2. People will be made aware of the issue and the investigation only on a limited need-to-know basis.
- 9.3. 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.

10. STAFF DEVELOPMENT AND TRAINING

- 10.1. It is estimated that in each year organizations are losing significant amounts of money as a result of fraud and corruption committed not only by individual defrauding the system but also from organized gangs operating within and outside the organization. In order to deal with such a kind of challenges, continuous learning, development and the sharing of good practice will result in highly skilled anti-fraud personnel working in a professional framework to the highest standards of performance and integrity.
- 10.2. Courses/workshops on the topic of fraud and corruption detection and prevention, will in each year be co-ordinated by the Risk Management unit working together with Internal Audit Unit to empower the employees of BLM to be able to combat fraud and corruption.
- 10.3. The training on the Code of Ethics as a preventive measure on fraud and corruption will be rolled out to the management and employees of BLM in conjunction with the Skills Development unit.

11. RESOLUTIONS OF REPORTED INCIDENTS

- 11.1. Allegations of fraud and corruption or any other dishonest activities of a similar nature that are reported by members of the public or employees will be investigated by the Risk Management unit and/or referred to the relevant agencies, depending on the nature of the incident.
- 11.2. Members of the Risk Management unit and/or forensic investigators shall have free and unrestricted access to all entity records and premises, whether owned or rented; and the authority to examine, copy, and/or remove all or any portion of the content of files, desks, cabinets, computers and other storage facilities on the premises without prior knowledge or consent of any individual who may use or have custody of any such items when it is within the scope of their investigation.
- 11.3. All employees must promptly co-operate and comply with requests from the Risk Management unit with regards to information required to assist investigation.
- 11.4. Where an investigation has revealed that an employee has committed fraud, corruption or any other related incidents, the following may be recommended by the Risk Management unit:
- Taking disciplinary action.
 - Instituting recovery of financial losses.
 - Initiating criminal investigation process by reporting the matter to the appropriate law enforcement agencies.
 - Identifying internal controls to be improved.
 - Any other appropriate action available.
- 11.5. The Head of the unit, upon receiving the report from the Risk Management unit shall acknowledge such and inform the Risk Management unit of their intentions with respect to the recommendations of the report within 10 days.
- 11.6. In respect of all reported incidents of fraud, corruption, or any other related incidents, the managers of respective units must review and improve the effectiveness of internal controls which have been breached within a reasonable period in order to prevent similar irregularities from occurring in the future.
- 11.7. The Heads of units and their respective managers must ensure that losses or damages suffered by BLM as a result of all reported acts of fraud or corruption or any other dishonest activities of a similar nature committed by an employee or any other person in their own units, are recovered from such an employee or other person if he/she is found to be liable.

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12. IMPLEMENTATION OF THE POLICY

- 12.1.** It is the responsibility of all heads of units (including managers at all levels) to ensure that all employees are made aware of and receive appropriate education and training on fraud prevention plan and Code of Ethics/Conduct and that such has been cascaded.
- 12.2.** The Risk Management unit with the assistance of the Communications unit shall be responsible for communicating the relevant sections of this policy and plan thereto to the members of the public and other external stakeholders.
- 12.3.** Once the Fraud Prevention Policy and Fraud Prevention Strategy are in place, the Risk Management Unit shall with the assistance of the Risk Management Committee, be responsible for the ongoing maintenance and review of fraud plan/strategy.
- 12.4.** The scope of this committee should further include but not limited to:
- The evaluation of reports of fraud and corruption and highlighting of areas of risks within BLM;
 - The consideration of fraud and corruption threats to BLM and making of recommendations to appropriate structures;
 - Monitoring of actions taken to implement recommendations relating to incidents of fraud and corruption or other similar or related inappropriate conduct;
 - Reviewing and making of appropriate amendments to the fraud prevention policy and fraud plan should they be required and
 - Ensuring that ongoing implementation strategies are developed and carried out.

13. CONSEQUENCES FOR BREACHING THE PROVISIONS OF FRAUD PREVENTION POLICY

- 13.1.** Breach of any provisions of this policy by any Blouberg Local Municipality employee or any person having dealings with BLM shall amount to misconduct and shall lead to disciplinary action and/or laying of criminal charges with dismissal consequences.

14. PUBLICATION OF SANCTION

- 14.1.** A brief summary of the conditions will be published in order to send a deterrent message to other employees but the Accounting Officer or Information / Communication Officer will decide whether it is just for any information relating to corrective actions taken or sanctions imposed regarding incidences of fraud, corruption or any other dishonest activities of a similar nature, should be brought to the direct attention of any person or made public through any means.



- 14.2. All fraud prevention activities, including the adoption of this policy, will be publicized to make employees and the public aware of the Council's commitment to taking action on fraud and corruption, when it occurs.

15. CONCLUSION

- 15.1. Blouberg Local Municipality has a clear commitment to minimizing the possibility of fraud, corruption or any other dishonest activities of a similar nature. It pledges not only to prevent fraud and corruption or any other dishonest activities of a similar nature but to take all action necessary to identify such and pursue the recovery of losses and the punishment of those responsible.
- 15.2. BLM employees are expected to have the highest standards of conduct and to be vigilant in combating fraud and corruption or any other dishonest activities of a similar nature in all its guises.
- 15.3. BLM has embarked on implementing a clear network of systems and procedures to assist in the fight against fraud and corruption or any other dishonest activities of a similar nature. The Fraud Prevention Plan and awareness campaigns will keep pace with any future developments, in both preventative and detection techniques regarding fraudulent or corrupt activities or any other dishonest activities of a similar nature that may affect its operations.

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16. APPROVAL AND EFFECTIVE DATE OF THE POLICY

The fraud prevention policy shall come into effect immediately upon approval by the Council of Blouberg Local Municipality.

Recommended by the Risk Management Committee:

Signature:




Date:

1/7/2014

Approved by the Accounting Officer / Authority:

Signature:



Date:

01/7/2014
