



**FRAUD PREVENTION STRATEGY POLICY  
UTHUKELA ECONOMIC DEVELOPMENT AGENCY  
2025/2026 FINANCIAL YEAR**

<b>POLICY TITLE</b>	<b>FRAUD PREVENTION STRATEGY</b>
<b>IMPLEMENTATION DATE</b>	<b>11 JULY 2025</b>
<b>DATE APPROVED</b>	<b>10 JULY 2025</b>
<b>REVIEW DATE</b>	<b>18 OCTOBER 2024</b>

## TABLE OF CONTENT

1. Introduction .....	3
1.1. What is Corruption?.....	3
1.2. What is fraud? .....	3
1.3. What entails fraud prevention?.....	4
1.4. Why is fraud prevention important?.....	4
1.5. Who is responsible for fraud prevention? .....	4
1.6. Dynamic nature of fraud prevention .....	4
2. CHARACTERISTICS OF FRAUD .....	5
2.1. Objectives .....	5
2.2. Context of fraud risk .....	5
2.3. Context Examples .....	5
3. LEGAL FRAMEWORK.....	6
3.1. Building a fraud strategy.....	6
3.2. Components of the fraud prevention strategy .....	7
3.3. Relationship between risk and fraud management.....	9
4. BUILDING THE FRAUD PREVENTION PLAN/ POLICY .....	9
4.1. Objectives .....	9
4.2. Introduction .....	9
4.3. Allocation of responsibility for implementation.....	10
4.4. Risk Management Committee .....	10
4.5. Code of Conduct .....	10
4.6. Fraud Policy/ Fraud Prevention Plan.....	11
4.7. Fraud Response Plan.....	11
4.8. Fraud Vulnerability Reviews .....	11
4.9. Fraud Detection Reviews .....	12
4.10. Promoting of Fraud Reporting Facilities .....	12
4.11. Roll-out of a Fraud Awareness Program for all staff.....	13
4.12. Strengthening of Municipal Disciplinary Procedures .....	13
4.13. Compilation of Fraud Risk Register.....	13
4.14. Internal Audit.....	14

4.15.	Audit Committee.....	14
4.16.	Review "Approval".....	14
5.	APPROVED BY:.....	14

## 1. INTRODUCTION

### 1.1. WHAT IS CORRUPTION?

Corruption is any conduct or behaviour where a person accepts, agrees or offers any gratification for him/herself or for another person where the purpose is to act dishonestly or illegally. Such behaviour also includes the misuse of material or information, abusing position of authority or a breach of trust or violation of duty.

### 1.2. WHAT IS FRAUD?

In South Africa fraud is defined as "the unlawful and intentional making of a misrepresentation which causes actual and/or potential prejudice to another". The use of the term is in its widest possible meaning and is intended to include all aspects of economic crime and acts of dishonesty. In other words, fraud can be described as any conduct or behaviour of which a dishonest representation and/or appropriation forms an element.

### **1.3. WHAT ENTAILS FRAUD PREVENTION?**

Fraud prevention can be seen as the cumulative effect of both preventative and detection systems incorporated by management. Detection of fraud can only lead to the prevention thereof if the response thereto acts as a deterrent.

### **1.4. WHY IS FRAUD PREVENTION IMPORTANT?**

#### **1.4.1. Good corporate governance**

The principles of good corporate governance as dictated by the King IV Report also necessitates the establishment of a Fraud Prevention Plan

#### **1.4.2. Increased efficiency and effectiveness**

The establishment of a Fraud Prevention Plan can further act as a deterring factor to would be perpetrators and enhance the external perceptions from external stakeholders that the agency is seen to be acting against corruption.

### **1.5. WHO IS RESPONSIBLE FOR FRAUD PREVENTION?**

1.5.1. The Accounting Officer is ultimately held accountable for the design and implementation of a fraud prevention strategy and plan.

1.5.2. The success of such a plan will require an acceptance and commitment by all role players. Every official within the agency needs to be held accountable for activities/assets under his control.

1.5.3. It must further be emphasized that an understanding of overall risk (cumulative effect of inherent, control and detection risk) in relation to fraud risk is critical to the success of a fraud prevention plan. Line managers, therefore, need to be made aware of the relationship between risk and fraud.

### **1.6. DYNAMIC NATURE OF FRAUD PREVENTION**

Since criminals react to prevention and detection mechanisms designed to curtail their activities, the municipality commits itself to review the fraud prevention plan on a continuous basis.

## **2. CHARACTERISTICS OF FRAUD**

### **2.1. OBJECTIVES**

To provide a richer understanding of the environment in which fraud is likely to occur and to form the basis of the Agency fraud prevention strategy.

### **2.2. CONTEXT OF FRAUD RISK**

Three conditions are generally present when fraud occurs, namely

2.2.1. Incentive/pressure- Financial or emotional force pushing towards fraud.

2.2.2. Opportunity- Ability to execute plan without being caught.

2.2.3. Attitude/rationalization- an attitude, character or set of ethical values that allows one or more individuals to intentionally commit a dishonest act, or a situation in which individuals can rationalize a dishonest act (i.e. personal justifications of dishonest actions)

These are termed the fraud triangle.

### **2.3. CONTEXT EXAMPLES**

#### **2.3.1. Incentive/pressure**

- a) An incentive/ pressure to commit fraud is not only to misappropriate an asset e.g. cash, but can also consist of manipulating information regarding key performance indicators with the objective of reaping a financial reward.
- b) Personal issues e.g. financial pressures can increase the occurrence of fraud. Unnecessary demanding business related pressures e.g. pressure to reach set objectives and targets, also contribute to the likelihood of fraud occurring.
- c) Lacks of internal controls, poor control environment, lack of proper segregation of duties, etc. are examples of opportunities in the work environment which increase the likelihood of fraud.

### **2.3.2 Attitude/Rationalization**

A work culture embracing and rewarding dishonesty can be a fertile breeding ground for fraudulent activities.

## **3. LEGAL FRAMEWORK**

The National Government launched an anti-corruption strategy as far back as 1997. This was further enhanced by the incorporation of anti-corruption legislation in the Municipal Finance Management Act (MFMA) and Treasury Regulations.

### **3.1. BUILDING A FRAUD STRATEGY**

Deciding on an appropriate strategy to address fraud, the Risk Management Committee of the agency should consider the context of fraud as indicated in section 2.

#### **3.1.1. Incentive/Pressure**

The context variable: incentive/pressure is to a large extent unresponsive to management intervention. Management can however through increased focus on the control environment and internal controls increase the incentive pressure/pressure threshold. The incentive/pressure threshold can be defined as the quantified cut-off before a person will commit a fraud. Although each individual will have a different threshold, management can raise the average threshold by his or her attitude and response towards the occurrence of fraud.

#### **3.1.2. Opportunity**

Opportunity to commit fraud within the Agency is under the control of management. The implementation of effective and efficient internal controls (both detection and preventive controls) is one of the mechanisms available to management. Occurrence of fraud within the Agency should initiate a redesign, or if appropriate a re-engineering of related internal controls.

### 3.1.3. **Attitude/Rationalization**

Attitude/rationalization is to a lesser extent under the control of management. Incorporating a zero-tolerance attitude and culture within the Agency will act as powerful deterrent to fraud. Leading by example will be one of the tools used by management to create such a culture of zero-tolerance towards fraud.

## 3.2. **COMPONENTS OF THE FRAUD PREVENTION STRATEGY**

The components of the Agency fraud prevention strategy consist of prevention, detection, investigation and response. The sub components of each are tabulated below:

### 3.2.1. **Prevention**

All managers are responsible for the prevention and detection of fraud within their areas of responsibility. Fraud prevention is the primary control which should lower the likelihood of fraud occurring.

The Agency has put the following controls in place:-

- a) Fraud policy and Fraud Prevention Plan
- b) Fraud Awareness workshops
- c) Risk Identification & Assessment workshops
- d) The Code of Conduct
- e) Internal Controls
- f) Reporting Structures (Segregation of duties)

### 3.2.2. **Detection**

Detection of fraud n corruption occurs through: -

- a) Internal controls
- b) Internal Audit- as part of the detection strategy, the Agency makes use of the Internal Audit plan which focuses on the high risk areas.
- c) External Audits — the A recognizes that the external audit conducted by the AG is an important control in the detection of fraud.
- d) Surprise Audits- Unplanned audits are conducted on specific business processes throughout the year

- e) Post transaction review- a review of transactions after they have been processed and completed is conducted in order to identify fraudulent activities and can also be a prevention effect to discourage staff-members to engage in fraud and corruption.

#### **3.2.3. Investigation**

Any reports of incidents of fraud and/or corruption will be confirmed by an independent investigation. Such investigation will be performed by the Internal Audit and/ or Risk Management & Compliance Units.

Investigations may involve the following activities:

- a) Interviewing of relevant witnesses including obtaining statements where appropriate
- b) Interviewing persons suspected of involvement in fraud and corruption
- c) Collecting and reviewing documentary evidence
- d) Enquiries with other third parties
- e) Liaison with the police or other law enforcement or regulatory agencies
- f) Report preparation.

#### **3.2.4. Response**

The agency is committed to ensuring that appropriate measure is in place and that disciplinary action is taken in response to all fraud and/or corruption incidents. It is the policy of the agency to maintain order in its activities by means of the fair and consistent application of disciplinary procedures, it therefore has the following response strategies in place: -

- a) Disciplinary proceedings- these take place as per the SALGBC Collective Agreement



- b) Recovery Action- Where there is evidence of fraud or corruption which resulted in a financial loss to the agency, recovery action is instituted to recover such losses.
- c) Internal Control Review — in order to ensure that the incident is not repeated, management has to review the internal controls to consider the need for improvement.

### **3.3. RELATIONSHIP BETWEEN RISK AND FRAUD MANAGEMENT**

- 3.3.1. The risk of fraud is seen as a sub-component of risk within an agency. As such risk management activities will include the estimation of the likelihood of the occurrence of fraud.
- 3.3.2. Risk evaluation within the agency is done using the business process approach. This entails in short, the identification of critical business processes, identification of risks associated with each process and the development of effective, efficient and transparent controls to reduce to identified risks.
- 3.3.3. Each critical process identified during the business process approach should be evaluated for its susceptibility to fraud. The end result will be a fraud risk register for all agency processes.

## **4. BUILDING THE FRAUD PREVENTION PLAN/ POLICY**

### **4.1. OBJECTIVES**

To present a detailed step by step action plan to implement the Fraud Prevention Strategy and to assign responsibilities to each step.

### **4.2. INTRODUCTION**

Implementation of the fraud strategy can only be effective through a series of interrelated steps. Some of these steps may need annual revision.

The implementation steps are:

- 4.2.1. Allocation of responsibility for implementation.

- 4.2.2. Risk Management Committee
- 4.2.3. The Code of Conduct.
- 4.2.4. The Development of a Fraud Prevention Policy/ Plan
- 4.2.5. Development of a Fraud Response Plan
- 4.2.6. Fraud detection reviews designed to limit exposure to fraud losses.
- 4.2.7. Fraud Risk reviews
- 4.2.8. Promoting the fraud reporting facilities
- 4.2.9. The roll-out of a Fraud Awareness program for all staff
- 4.2.10. Strengthening of the municipal disciplinary processes.
- 4.2.11. Compilation of a fraud risk register
- 4.2.12. Internal Audit
- 4.2.13. Audit Committee

#### **4.3. ALLOCATION OF RESPONSIBILITY FOR IMPLEMENTATION**

The roles and responsibilities for the oversight, planning implementation and review of the fraud prevention processes must be defined.

#### **4.4. RISK MANAGEMENT COMMITTEE**

- 4.4.1. In an effort to create a culture of zero-tolerance in the Agency, management must lead by example. The appointment of management to the Risk Management Committee is, seen as a first step in creating such a culture.
- 4.4.2. The Committee's function is to input into the Fraud Prevention Strategy since fraud is part of risk facing the Agency.
- 4.4.3. Minutes of the meetings held by the Committee must, be kept for control and compliance purposes.

#### **4.5. CODE OF CONDUCT**

The purpose of a Code of Conduct is to guide employees in their day-to-day activities. A Code of Conduct has been adopted and agreed between The South African Local Government Association, the South African Municipal Workers Union and the Independent Municipal and Allied Trade Union.

#### **4.6. FRAUD POLICY/ FRAUD PREVENTION PLAN**

A fraud prevention policy is a document in which the Agency declares what it regards as morally or ethically acceptable behaviour.

A fraud prevention policy sets in motion a process that raises ethical consciousness among internal stakeholders. It clarifies what is acceptable behaviour, thus making expectations more concrete. It also communicates to external stakeholders that the organization takes its ethical commitments seriously and can be held responsible and accountable.

#### **4.7. FRAUD RESPONSE PLAN**

A Fraud Response Plan will set out clear, prompt and appropriate actions that must be taken when a fraud is suspected. This will greatly assist officials who are unlikely to have experienced fraud before. The creation of a Fraud Response Plan increases the likelihood that the crises will be managed effectively ensuring minimum loss and appropriate outcomes.

#### **4.8. FRAUD VULNERABILITY REVIEWS**

In terms of risk management process, risks are assessed and regularly re-assessed and controls are modified as and when necessary. Risk management involves the re-engineering of processes to manage potential exposures prevalent within the Agency. Such exposures include risks from both a business and a fraud perspective.

The Internal Audit service consists of the following processes:

- 4.8.1. Risk based audit plan- develop a three year rolling internal audit plan;
- 4.8.2. Execute the strategic internal audit plan-which encompasses performing internal audit assignments as per the agreed audit plan;
- 4.8.3. Ad hoc assignments-carry out other assignments as the Accounting Officer may require and as the Audit Committee may authorize.
- 4.8.4. The Risk Management Unit is required to focus on the full spectrum of organizational risk, of which fraud is only one element it is, recognized that specific focus on fraud risk is not necessarily given sufficient and specific

attention. It is therefore accepted that a specific intervention which focuses solely on fraud risk, is both necessary and appropriate.

One of the most valuable tools in this regard is a fraud vulnerability review which will address the following factors when assessing the fraud risks within the Agency:

- a) Identification of areas where the exposure to fraud is present
- b) The probability of fraud occurring in those areas
- c) The potential exposure or loss that may arise as a result a fraud occurring in the exposed area
- d) Controls which could be implemented to reduce and manage the risk

The Risk Management Section will drive this process and the Internal Audit will assess the effectiveness of the process.

#### **4.9. FRAUD DETECTION REVIEWS**

4.9.1. The widespread use of computers has generated an untapped source of discoverable evidence for investigation and litigation. Even though there are frequently no witnesses and no paper trail, computers may generate admissible and discoverable evidence.

4.9.2. The Fraud Detection Reviews encompass proactive utilization of computer software to identify possible unhealthy relationships in agency data that might flag potential existence of fraud. These flags are subject to further investigation to verify whether fraudulent activities exist. If discovered, disciplinary proceedings will be instituted when deemed necessary.

4.9.3. The Risk Management Unit will drive the process.

#### **4.10. PROMOTING OF FRAUD REPORTING FACILITIES**

Since one of the possible detection mechanisms available to identify cases of fraud is whistle blowing from within the agency, it is important to inform such officials of their rights as protected by the Protected Disclosure Act

Whistle blowing mechanisms must be developed, encouraged and implemented within the agency. External parties must be made aware the whistle blowing mechanisms available in case they detect fraud and want to report it.

#### **4.11. ROLL-OUT OF A FRAUD AWARENESS PROGRAM FOR ALL STAFF**

The objective of the roll-out programme is to increase the knowledge and awareness of staff with regard to the nature of fraud, how it is perpetrated and what red flags will signal potential problems. The other objective will be to raise awareness of the fraud Prevention programme, its purpose and elements. The awareness programme will be extended to all staff members.

#### **4.12. STRENGTHENING OF MUNICIPAL DISCIPLINARY PROCEDURES**

4.12.1. Agency disciplinary processes are a key link in the accountability cycle. It is also a tool used by the Accounting Officer to act on officials contravening all relevant legislation, regulations, policies and procedures.

4.12.2. Consistent and swift reaction to all corruption/fraud cases should form the basis of disciplinary actions.

#### **4.13. COMPILATION OF FRAUD RISK REGISTER**

During the risk management process followed by the agency key fraud risk areas, together with mitigating controls and the residual risk will be identified. The end results of this process will be the development of a risk register. The risk register will inform management of potential problem areas and to direct management attention and effort towards these areas. The risk register will include processes susceptible to fraud.

After risks have been identified a fraud risk analysis should be performed as follows:

4.13.1. Assess the likelihood (or frequency) of fraud occurring

- a) Estimate the potential impact if fraud were to occur, consider both quantitative and qualitative factors. e Evaluate related controls in
- b) Determine how residual risk of fraud should be managed, and

- c) re— engineer internal controls if residual risk is outside predetermined limits.

#### 4.14. INTERNAL AUDIT

The Agency fraud risk register will guide internal audit effort and activities.

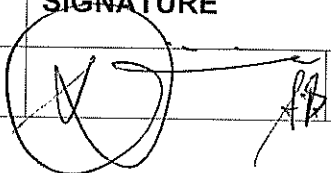
#### 4.15. AUDIT COMMITTEE

The Audit Committee should review the fraud strategy and plan implemented by the agency on annual basis. The impact of the strategy and in specific the identified high fraud risk areas (fraud risk register) will be communicated to the Office of the Auditor General who will then incorporate this information in their audit planning.

#### 4.16. REVIEW "APPROVAL"

The Fraud Prevention strategy will be reviewed annually

### 5. APPROVED BY:

NAME	SIGNATURE	DESIGNATION	DATE
MR SB SIBISI		ACTING CHIEF EXECUTIVE OFFICER	11/07/2025