

# EMAKHAZENI LOCAL MUNICIPALITY



## FRAUD AND CORRUPTION PREVENTION STRATEGY

2016/2017

## **INDEX**

	<b>Page</b>
1. INTRODUCTION	3
2. OBJECTIVES	3
3. LEADERSHIP	3
4. INTERNAL CONTROL SYSTEM	4
5. AWARENESS, TRAINING AND DEVELOPMENT	4
6. EMPLOYEE SCREENING	4 - 5
7. STANDARD TENDER AND CONTRACT DOCUMENTATION	5
8. DECLARATION OF INTERESTS	5
9. DETECTION	5
10. RISK ASSESSMENT	6
11. MONITORING AND REPORTING	6
12. REVIEW AND APPROVAL	6

## **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 Emakhazeni Local 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 organizational 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.

## **2. OBJECTIVE**

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 is representations by Senior Management and Councilors to Council, the public and creditors, and misuse of confidential information.

## **3. LEADERSHIP**

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

The strategy 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.

## **4. INTERNAL CONTROL ACTIVITIES**

Emakhazeni Local Municipality's aim is to have sound financial systems and procedures which incorporate efficient and effective internal controls. The municipality has to develop and maintain a fraud and corruption prevention hotline that is free to all stakeholders within Emakhazeni Local 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 are 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 minimized where every transaction is reviewed systematically.

## **5. 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.

## **6. EMPLOYEE SCREENING**

Potential new members of staff should be screened before appointment, particularly for posts with financial responsibility. For example:

- 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 Councilors or staff. Members of recruitment panels shall similarly be required to declare such associations.

## **7. 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.*

## **8. DECLARATION OF INTERESTS**

Open cultures are less conducive to fraud and irregularity than secretive ones. For this reason the need for Councilors 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 recognize 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.

## **9. DETECTION**

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 minimize the risk of claims for unfair dismissal should this course of action be taken. The requirements of the Whistleblowers policy must also be considered.

## **10. 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 can be minimized through carefully designed and consistently operated management procedures, which deny opportunities for fraud. The classic way to guard against fraud in financial systems is separation of duties, so that no individual has undue management of payments, income or assets. Accountability is the key to providing a deterrent to fraud and theft. Training conveys the organizational culture to the staff and gives them sufficient confidence and direction to implement the policies and procedures.

## **11. MONITORING AND REPORTING**

The municipality will 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.

## **12. REVIEW AND APPROVAL OF THE STRATEGY**

The Risk Management Committee shall annually review this strategy and determine its adequacy and effectiveness for current circumstances and recommend to the Council for approval of any amendments that may be required.