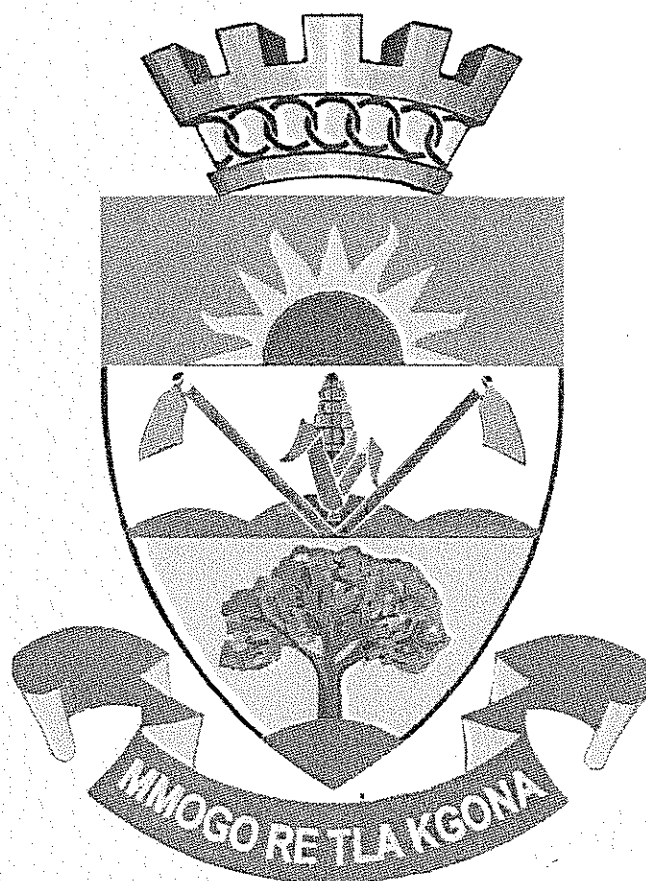


AGANANG LOCAL MUNICIPALITY



FRAUD PREVENTION PLAN

RISK MANAGEMENT UNIT

2013/2014

**AGANANG LOCAL MUNICIPALITY
FRAUD PREVENTION PLAN**

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TERMS AND ABBREVIATIONS

Throughout this document, unless otherwise stated, the words in the first column below have the meanings stated opposite them in the second column (and cognate expressions shall bear corresponding meanings):

ALM	Aganang Local Municipality
Constitution	Constitution of the Republic of South Africa, Act of 1996.
Demarcation Act	Local Government Municipal Demarcation Act, No 27 of 1998
DPLG	Department of Provincial and Local Government
Fraud and Corruption	<p>Includes, but is not limited to, the following:</p> <p>The following legal definitions:</p> <ul style="list-style-type: none"> • Fraud, i.e. the unlawful and intentional making of a misrepresentation resulting in actual or potential prejudice to another; • Theft, i.e. the unlawful and intentional misappropriation of another's property or property which is in his/her lawful possession, with the intention to deprive the owner of its rights permanently; • Offences in respect of <i>corrupt activities</i> as defined in the Prevention and Combating of Corrupt Activities Act, 2004, i.e: <ul style="list-style-type: none"> ○ The general offence of corruption which could be summarised as directly or indirectly accepting or agreeing to accept any gratification from another person; giving or agreeing to give any other person any gratification in order to influence that person directly or indirectly to exercise his powers, duties or legal obligations in a manner which is/amounts to: <ul style="list-style-type: none"> ▪ Illegal, dishonest, unauthorised, incomplete, or biased; ▪ Misuse or selling of information or material acquired; ▪ Abuse of position of authority;

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	<ul style="list-style-type: none">▪ Breach of trust;▪ Violation of a legal duty or set of rules;▪ Designed to achieve an unjustified result; and▪ Any other unauthorised or improper inducement to do or not to do anything;○ Corrupt activities in relation to:<ul style="list-style-type: none">▪ Public officials;▪ Foreign public officials;▪ Agents;▪ Judicial officers;▪ Members of the prosecuting authority;▪ Unauthorised gratification received or offered by or to a party with an employment relationship;▪ Witnesses and evidential material during certain proceedings;▪ Contracts;▪ Procuring and withdrawal of tenders;▪ Auctions;▪ Sporting events; and▪ Gambling games or games of chance;○ Conflicts of interests and other unacceptable conduct, e.g.:<ul style="list-style-type: none">▪ Acquisition of private interests in contract, agreement in or investment in public body;▪ Unacceptable conduct relating to witnesses; and▪ Intentional interference with, hindering or obstruction of investigation of offence;○ Other offences relating to corrupt activities, viz:<ul style="list-style-type: none">▪ Accessory to or after an offence;▪ Attempt, conspiracy and inducing another person to commit offence; and▪ Failure to report corrupt transactions; <p>Irregularities relating to the following:</p>
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	<ul style="list-style-type: none">▪ <i>Systems issues:</i> where a process/system exists which is prone to abuse by employees, the public or other stakeholders, e.g.:<ul style="list-style-type: none">○ Non-compliance to tender procedures;○ Procurement fraud, e.g. collusion between employees and suppliers;○ Inadequate vetting of employees;○ Abuse of leave;○ Theft of blank cheques;○ Fraudulent assessment of RSC levies;○ Abuse of the seating claim system by Councillors;○ Abuse of the system of overtime;○ Abuse of the system of travel claims;○ Fraudulent information submitted by suppliers when tendering for work;○ Fraudulent payment certificates submitted for payment;○ Non-compliance to delegated authority limits;○ Deliberate non-compliance to policies and procedures; and○ Disclosing of confidential and/or proprietary information to outside parties.▪ <i>Financial issues:</i> i.e. where individuals or entities have fraudulently obtained money from ALM, e.g.:<ul style="list-style-type: none">○ Theft, e.g. petty cash, etc;○ Fraud related to fiscal dumping;○ Suppliers invoicing for work not done;○ Fraudulent cashing of cheques;○ Fraudulent travel claims by employees;○ Abuse of petrol cards;○ Insurance fraud, e.g. collusion between employees and public with respect to fraudulent insurance claims;○ Service providers double invoicing; and
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	<ul style="list-style-type: none"> ○ Contractors "fronting". ▪ <i>Equipment and resource issues:</i> i.e. where the ALM's equipment is utilised for personal benefit or stolen, e.g.: <ul style="list-style-type: none"> ○ Theft of assets; ○ Abuse of assets; ○ Deliberate destruction of property; and ○ Use of ALM resources and equipment for private gain. ▪ <i>Other issues:</i> i.e. activities undertaken by employees of ALM, which may be against policies or fall below established ethical standards, e.g.: <ul style="list-style-type: none"> ○ Deliberate disclosure of confidential information ○ Conflict of interest ; ○ Favouritism; and ○ Non-disclosure of private work
MFMA	Municipal Finance Management Act, No.56 of 2003
Municipal Manager	A person appointed in terms of section 82 (1) of the Structures Act
SALGA	South African Local Government Association
Structures Act	Municipal Structures Act, No 17 of 1998
Systems Act	Municipal Systems Act 32, No of 2000

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SECTION I: INTRODUCTION

- 1.1 ALM was established in 2000 after the December 2000 Local Government elections in terms of the Demarcation Act, Structures Act, Systems Act and the provisions of the Constitution.
- 1.2 Given the nature of ALM's mandate, ALM must execute its responsibilities with integrity especially in its interaction with its employees, ratepayers, the public, suppliers and partners and in the management of its resources.
- 1.3 The Plan is premised on the organisations core ethical values driving the business of ALM, the development of its systems, policies and procedures, interactions with ratepayers, the public and other stakeholders, and even decision-making by individual managers representing the organisation. This means that in practice all municipalities, departments and other business units of ALM and even external stakeholders must be guided by the Plan as the point of reference for their conduct in relation to ALM.
- 1.4 In addition to promoting ethical conduct within ALM, the Plan is also intended to assist in preventing, detecting, investigating and sanctioning fraud and corruption.
- 1.5 The main issues addressed in this document are the review and update of the Fraud Prevention Plan, incorporating the Code of Conduct and Fraud Policy and Response Plan.
- 1.6 This dynamic document details the steps, which have been, and will continually be taken by ALM to promote ethical conduct and address fraud and corruption.
- 1.7 The Plan takes into account the risks of fraud and corruption as identified in business risk assessments initiated by ALM and the outcome of interviews held with senior management of ALM. The Plan addresses strategic fraud and corruption risks that must be addressed and which could jeopardise the successful implementation of each component of the Plan.

SECTION II: PROCEDURES FOLLOWED IN THE DEVELOPMENT OF THE PLAN

- 2.1 The Plan was developed through the following process:
- a) Identification of fraud and corruption risks through:
 - (i) Conducting interviews with senior management;
 - (ii) Review of specific policies, procedures and other relevant correspondence
 - b) Consideration of good practice measures in fraud and corruption prevention.
- 2.2 The Fraud Policy (**Annexure A**), Whistle Blowing Policy (**Annexure B**) and Matrix of tasks and responsibilities (**Annexure C**) are attached to the Plan as they form an integral part thereof.
- 2.3 The fraud and corruption risks identified in the review and update of the Plan cannot be relied upon as an indication of the full spectrum of fraud and corruption risks facing ALM, but rather as an indication of the type of risks. The Plan does not guarantee that ALM will not be impacted by incidents of fraud and corruption but is intended to serve as an additional measure to assist in the limitation of fraud and corruption risk with a particular focus on creating awareness and promoting ethical business conduct.
- 2.4 The process of developing the Plan was not conducted as an audit in terms of South African Auditing Standards.

SECTION III: COMPONENTS OF THE PLAN

3.1 The **main principles** upon which the Plan of ALM is based are the following:

- Creating a culture which is ethical and intolerant to fraud and corruption;
- Deterrence of fraud and corruption;
- Preventing fraud and corruption which cannot be deterred;
- Detection of fraud and corruption;
- Investigating detected fraud and corruption;
- Taking appropriate action in the event of such irregularities, e.g. disciplinary action, recovery of losses, prosecution, etcetera; and
- Applying sanctions, that includes blacklisting and prohibition from further employment.

3.2 The **objectives of the Plan** could be summarised as follows:

- Building an image of ALM that has the confidence and trust of employees, ratepayers, the public and other stakeholders;
- Encouraging a culture within ALM where all employees, ratepayers, the public and other stakeholders continuously behave ethically, and promote professional ethics in their dealings with, or on behalf of ALM;
- Improving accountability, efficiency and effective administration within ALM, including in decision making and management conduct;
- Improving the application of systems, policies and procedures;
- Changing aspects of ALM that encourage fraud and corruption and allow these to go unnoticed or unreported; and
- Encouraging all employees, ratepayers, the public and other stakeholders to prevent fraud and corruption impacting or having the potential to impact ALM.

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3.3 The above is not intended to detract from the premise that all the components are equally essential for the successful implementation of the Plan. The components of the Plan for ALM are the following:

- Focus on the Organisation
 - The Code of Conduct for Employees;
 - The Code of Conduct for Councillors;
 - ALM's systems, policies and procedures;
 - Human Resources policies and procedures;
 - Disciplinary Code and Procedures;
 - Finance Policies and Procedures;
 - Sound Internal Controls to prevent and detect fraud and corruption;
 - Ongoing risk assessment and management, which includes systems for fraud and corruption detection;
 - Fraud Detection Reviews;
 - Internal and External Audit; and
 - Physical and information security management.

- Focus on Employees

- Focus on other stakeholders
 - Trading Partners;
 - Employee Representative Organisations;
 - Department of Provincial and Local Government;
 - SALGA; and
 - General Public.

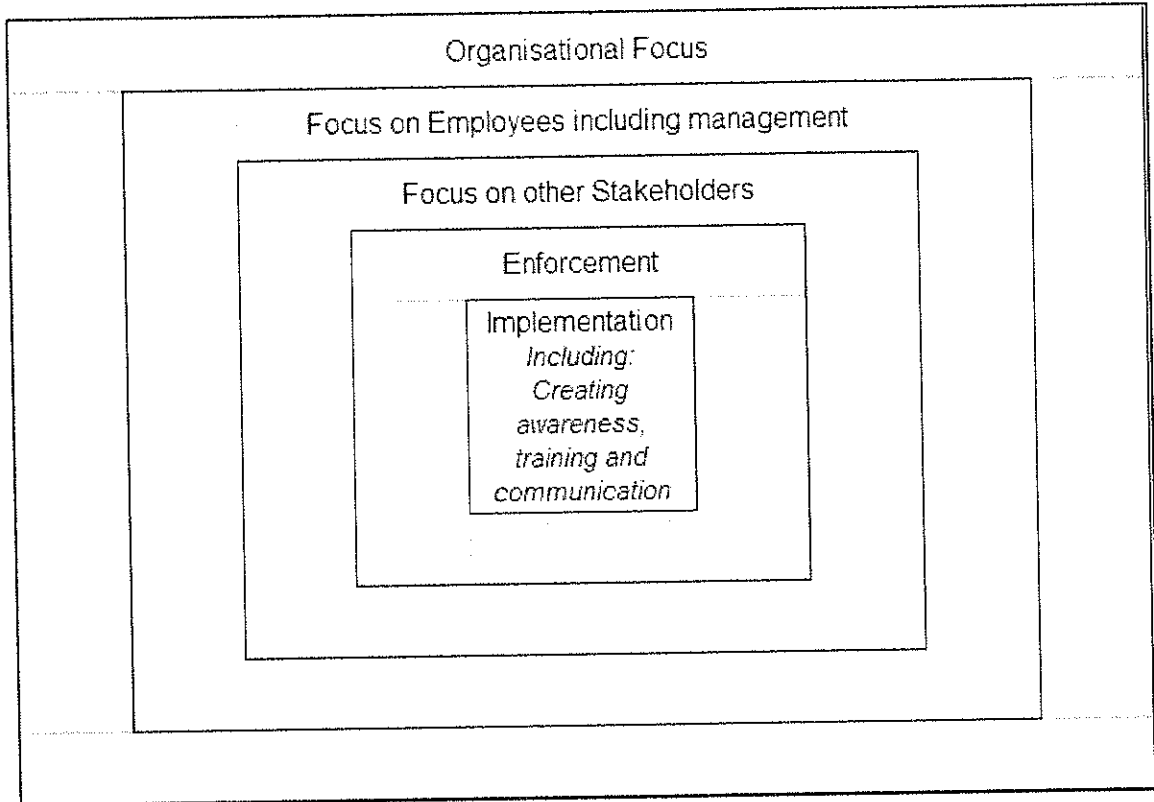
- Enforcement
 - Reporting and monitoring of allegations of fraud and corruption;
 - Whistle blowing which is intended to provide assurance to employees that ALM is committed to protecting employees, who report fraud and corruption in good faith, from victimisation or other forms of intimidation; and

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- A Fraud Policy and Response Plan which includes the policy stance of ALM to fraud and corruption and a response plan which incorporates steps for reporting as well as proper resolution of reported and detected incidents and allegations of fraud and corruption.
- Implementation
 - Ongoing maintenance and review of the Plan to ensure effective project-management of its further implementation and maintenance.

SECTION IV: APPROACH TO FRAUD PREVENTION

The approach to fraud prevention in ALM can be summarised as follows:



FOCUS ON THE ORGANISATION

Codes of Conduct for Municipal Employees and Councillors

- 4.1 The term "ethics" refers to standards of conduct, which indicate how a person should behave, based on moral duties and virtues arising from the principles of right and wrong. Ethics therefore involve two aspects:
- The ability to distinguish right from wrong; and
 - The commitment to do what is right.

Individual ethical conduct

- 4.2 Ethical behaviour refers to individual actions by employees, which are intended to further the common good of the organisation, as determined by its policies, procedures and business objectives with which employees are required to comply. If a person is conscious that his/her conduct is against the common good of the organisation or other employees, such conduct is unethical.

Collective ethical conduct

- 4.3 Ethical behaviour can also be regarded as a collective behaviour. Stakeholders such as suppliers and the community, in general, develop their perceptions about ALM's commitment to the common good on the basis of the actions and the conduct of ALM employees they interact with. In this way, excellent ethical conduct by employees of ALM leads to the collective perception of ALM as being ethical.

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Ethical behaviour and business conduct

- 4.4 The integrity of the employees acting on behalf ALM underlies all ALM's relationships, including its relationships with its trading partners and the general public.
- 4.5 Employees may not engage in any activity that could raise questions as to ALM's integrity, respect for diversity, impartiality or reputation. Ethical business conduct includes workplace relationships between employees in terms of the Constitution. It requires respect for constitutional rights in employment, particularly with regard to human dignity, non-discrimination, respect for diversity, impartiality and reputation.
- 4.6 Furthermore, good governance indicates that organisations should develop codes of ethics as part of their corporate governance frameworks. Employees of ALM are expected to abide by the Code of Conduct for Municipal Employees whilst Councillors in municipalities are expected to abide by the Code of Conduct for Councillors as per the Systems Act.
- 4.7 The Code of Conduct for Municipal employees contains specific conduct standards categorised as follows:
- General Conduct;
 - Commitment to serving the public interest;
 - Personal gain;
 - Disclosure of benefits;
 - Unauthorised disclosure of information;
 - Undue influence;
 - Rewards, gifts and favours;
 - Council property;
 - Payment of arrears;
 - Participation in elections;
 - Sexual harassment;
 - Reporting duty of staff members; and
 - Breaches of Code.

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4.8 The Code of Conduct for Councillors contains the following categories:

- General conduct of councillors;
- Attendance at meetings;
- Disclosure of interests;
- Personal gain;
- Declaration of interests;
- Rewards, gifts and favours;
- Unauthorised disclosure of information;
- Intervention in administration;
- Council property;
- Duty of chairpersons of municipal councils;
- Breaches of Code; and
- Application of Code to traditional leaders.

4.9 A gifts policy should be implemented in order to ensure that both the acceptance and offering of business courtesies, including gifts, by all employees of ALM occurs only within the ethical standards as prescribed by ALM.

4.10 The development of a robust system for the declaration of private business interests and actual or potential conflicts of interest by all employees and keeping of a centralised record thereof will be considered.

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Systems, policies and procedures

- 4.11 ALM has a number of systems, policies and procedures designed to ensure compliance with specific laws and regulations and basic internal control.
- 4.12 All employees and other stakeholders are expected to comply with the applicable policies and procedures. A fundamental risk in this area is the lack of knowledge, awareness, effective communication and training relating to prevailing systems, policies and procedures.
- 4.13 Furthermore, ALM has also identified a risk that some of the prevailing systems, policies and procedure may not be effective and therefore may need to be reviewed.
- 4.14 Non-compliance with policies and procedures is a risk with the potential to seriously impact the success of the Plan of ALM. This will be addressed by developing clearly defined communication and training strategies to create awareness of all policies and procedures in order to ensure that all employees are made aware of, and adequately trained in the implementation of policies and procedures relevant to their duties and responsibilities, including:
- Provisions for all employees to acknowledge, in writing, that they have read the policies and procedures applicable to their duties, have undergone relevant training and/or are aware of these policies and procedures;
 - The keeping of adequate records serving as proof that employees have been made aware of the policies and procedures relevant to their duties; and
 - The development and distribution of a regular communiqué outlining the importance of complying with policies and procedures and the implications for employees, for example, the taking of corrective action against offenders not complying with policies and procedures.
- 4.15 A structured monitoring mechanism will be developed for the keeping of proper records of the policies and procedures that are being updated, and of new policies and procedures that are being developed in order to set clear targets and monitor progress.

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Human Resources

4.16 ALM is committed to developing human resources systems, policies and procedures, which incorporate fraud and corruption prevention practices detailed in paragraph 4.2 below. ALM has recognised the fact there is a risk of poor implementation of its human resource systems, policies and procedures and undertakes testing thereof during internal audits in which Control shortcomings are subsequently addressed.

Discipline

4.17 The disciplinary code and procedures prescribe appropriate steps to be taken to resolve disciplinary matters. Human Resources support ALM in instituting and completing disciplinary action for cases of fraud and corruption.

4.18 ALM will be consistent and efficient in its application of the disciplinary measures. Additional measures, which will be considered include:

- Communication of specific disciplinary standards and forbidden conduct in terms of the Disciplinary Rules and Regulations;
- Introducing a system where the application of disciplinary measures is applied consistently;
- Steps for ongoing training of managers in the application of disciplinary measures;
- Where managers are found to be inconsistent and/or inefficient in the application of discipline, ALM will consider firm action; and
- Publication (within the permissible legal framework) of the outcomes and sanctions of disciplinary actions, including lessons learned. The successful achievement of these initiatives, together with their communication is expected to have a deterrent effect.

Finance Policies and Procedures

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4.19 Appropriate finance policies and procedures are also necessary to ensure appropriate internal control over finance management and to limit fraud and corruption risks. The effectiveness of the existing finance policies and procedures is also tested during the course of internal audits and shortcomings are addressed.

Internal Controls

4.20 This section of the Plan relates to basic internal controls to prevent and detect fraud and corruption and the training of employees in internal control and the conducting of their day-to-day duties.

4.21 The policies, procedures and other prescripts of ALM prescribe various controls, which, if effectively implemented, would limit fraud and corruption within ALM. These controls may be categorised as follows: (it being recognised that the categories contain overlapping elements).

- (a) Prevention controls, which is further subdivided into:
 - i. Authorisation Controls which require that all transactions must be authorised or approved by an appropriate responsible person and that the limits for these authorisations are specified in the delegations of authority of ALM.
 - ii. Physical controls which are concerned mainly with the custody of assets and involve procedures and security measures designed to ensure that access to assets is limited to authorised personnel.

- (b) Detection controls, which is further subdivided into:
 - i. Arithmetic and accounting controls, which are basic controls within the recording function which ensure that transactions to be recorded and processed have been authorised, are complete, are correctly recorded, and accurately processed. Such controls include checking arithmetical accuracy of records, the maintenance and checking of totals, reconciliation, control accounts, and accounting for documents.

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- ii. Physical controls, which relate to the security of records and are similar to preventive controls in that they are also designed to limit access.
- iii. Supervision, which relates to supervision by responsible officials of day-to-day transactions and the recording thereof.
- iv. Management Information which relates to the review of management accounts and budgetary controls. These controls are normally exercised by management outside the day-to-day routine of the system.

(c) Segregation of duties

- i. One of the primary means of control is the separation of those responsibilities or duties that would, if combined, enable one individual to record and process a complete transaction, thereby providing him/her with the opportunity to manipulate the transaction irregularly and commit fraud and corruption.
- ii. Segregation of duties reduces the risk of intentional manipulation or error and increases the element of checking.
- iii. Functions that should be separated include those of authorisation, execution, custody, recording, and, in the case of computer-based accounting systems, systems development and daily operations.
- iv. Placed in context with fraud and corruption prevention, segregation of duties lies in separating either the authorisation or the custodial function from the checking function.

4.22 Despite the existence of policies and procedures to address internal control, interviews conducted have identified deficiencies such as ineffective application of policies and procedures. Some of these result from lack of training, expertise, knowledge and capacity.

4.23 ALM will continue to initiate steps to address the problem of lack of training, expertise and knowledge in systems, policies and procedures to improve internal control. Areas of weakness will be identified during audits and risk assessments.

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- 4.24 Furthermore, ALM will also continue to re-emphasise to all supervisors that consistent compliance by all employees with internal control is one of the fundamental controls in place to prevent fraud and corruption. Managers will be encouraged to recognise that internal control shortcomings identified during the course of audits are, in many instances, purely symptoms and that they should strive to identify and address the causes of these internal control weaknesses, in addition to addressing the control weaknesses.
- 4.25 Furthermore, ALM will develop a formal system by which the performance of managers is appraised by taking into account the number of audit queries raised and the level of seriousness of the consequent risk to ALM as a result of the internal control deficiency identified. This is intended to raise the level of manager accountability for internal control.
- 4.26 Where managers do not comply with basic internal controls, e.g. non-adherence to the delegation of authority limits, firm action(s) will be considered.

Risk Management and Assessment

- 4.27 In order to identify and address risks facing ALM, a risk assessment has been conducted culminating in a Risk Management Profile. This process was complimented by the specific identification of existing controls to mitigate risks identified. Additional actions to further mitigate these risks have culminated in a risk management plan.
- 4.28 Presentations to employees of ALM will be conducted in order to ensure that they have a more detailed understanding of the fraud and corruption risks facing ALM and the areas wherein these risks exist, thus enhancing the prospect of detecting irregularities earlier.

Fraud Detection Reviews

- 4.29 ALM will also consider performing specific detection reviews in areas, which are at high risk of unethical conduct, fraud and corruption on a regular basis. This will include the conducting of presentations to employees, including managers, to

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ensure that they have a more detailed understanding of the risks associated with these areas, thus also enhancing the prospect of detecting irregularities earlier.

These include:

- Procurement, including urgent/emergency matters, sole suppliers and vetting of suppliers and other trading partners;
- Travel claims;
- Conflicts of interest and private work declarations;
- Compliance to delegations of authority;
- Payroll; and
- Revenue collection –both from individuals and businesses.

Internal and External Audit

4.30 ALM has created an Internal Audit Unit under the guidance of an Audit Committee. In terms of its Charter, the primary role of the Audit Committee is to:

- Evaluating the performance of internal audit;
- Reviewing the internal audit function's compliance with its mandate as approved by the Audit Committee;
- Reviewing and approving the Internal Audit Charter, Internal Audit Plans and Internal Audit's conclusions with regard to internal control;
- Reviewing significant differences of opinion between management and internal audit function;
- Evaluating the independence and effectiveness of internal auditors; and
- Reviewing the co-operation and co-ordination between the internal and external audit function and co-coordinating the formal internal audit work plans with external auditors to avoid duplication of work.

4.31 ALM recognises the fact that the positive support by all its managers for Internal Audit and its functions, speedy response to, and the addressing of queries raised by Internal Audit is vital to the success of the Plan. Where managers are found to be slow in addressing internal control and shortcomings raised by Internal Audit, firm action will be considered.

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- 4.32 Awareness strategies will also be developed to enhance managers' understanding of the role of Internal Audit.
- 4.33 ALM is also the subject of annual external audits. These audits include the following tasks:
- Examining evidence supporting the amounts and disclosures in the financial statements;
 - Assessing the accounting principles used and significant estimates made by management; and
 - Evaluating the overall financial statement presentation.

Physical and Information Security

Physical Security

- 4.34 ALM's main physical security threat arises in the area of control over its physical assets, facilities and employees. Security personnel and access systems are deployed to mitigate this threat. However, control over security personnel and access systems require attention.
- 4.35 ALM will also consider conducting a regular detailed review of the physical security arrangements at its offices and other sites and improve weaknesses identified. Specific focus areas will be physical security over infrastructure, assets and staff.
- 4.36 Furthermore, ALM will continue to pursue steps to ensure adequate security over its people, confidential information and information systems.

Information Security

- 4.37 ALM will ensure that all employees are sensitised on a regular basis to the fraud and corruption risks associated with information security and the utilisation of

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computer resources, in particular – access control, and ensure that systems are developed to limit the risk of manipulation of computerised data.

- 4.38 Training will be provided to all employees on the management of intellectual property and confidential information to limit the risk of manipulation of information.
- 4.39 Regular communiqués will be forwarded to employees pointing out security policies, with a particular emphasis on e-mail and Internet usage and the implications (e.g. disciplinary action) of abusing these and other computer related facilities. Where employees are found to have infringed on prevailing policy in this regard, disciplinary action will be taken.
- 4.40 Regular reviews of information and computer security will also be considered. Weaknesses identified during these reviews will be addressed.

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FOCUS ON EMPLOYEES

4.41 Key ambassadors for the successful implementation of the Plan for ALM are its employees. In essence, this means that their conduct often forms the base upon which ALM as an organisation is judged.

4.42 Employee focussed anti-fraud and anti-corruption measures should be visible from the point of advertising a vacant post, recruitment, specific employment conditions, maintaining high employee morale, performance management and even exit procedures upon resignation or retirement. The approaches indicated below are key to ALM's efforts in this regard.

- **Advertising posts:** The inclusion of specific provisions when advertising posts to provide an indication to applicants that only people with the highest levels of personal integrity will be considered and that submission to appropriate pre-employment screening processes are obligatory for consideration in any post.
- **Pre-employment screening and probity:** ALM intends ensuring that pre-employment screening procedures are applicable to all employees, regardless of level, including employees acting in specific positions, seconded employees and temporary and contract workers. Relevant probity will be included in all employee screening processes.
- **Probation:** Compulsory probationary periods are applicable to all full-time employees. This provision will be extended to include seconded employees and temporary and contract workers. Relevant vetting will again be considered for employees on probation, during probation and prior to their final appointment in view of the long duration of the probationary period.
- **Ongoing financial disclosure and lifestyle audits:** Senior managers will be obliged to complete financial disclosure wherein specific personal assets and private business interests must be declared.

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- ***Employee induction programmes:*** Employee induction is an opportunity to introduce employees to the culture and ethos of the organisation. The current induction process of ALM is focused primarily on technical and conditions of service-related items. Efforts will be made to ensure that organisational strategy, business ethics and conduct standards are included in employee induction. Specific steps will also be developed to include seconded employees, interns and temporary and contract workers in relevant aspects of induction programmes.
- ***Obligatory leave periods:*** In order to limit the risk of over-worked employees who could become lackadaisical leading to non-compliance to internal control and to further limit the risk of fraud and corruption ALM has a policy obliging all employees to take annual leave. This control also limits the risk of unethical individuals monopolising specific tasks.
- Managers will be encouraged to ensure that appropriate controls, e.g. appropriate scrutiny and supervision, are put in place in instances where employees do not take leave for extended periods of time due to work commitments.
- ***Exit procedures for employees and control over assets:*** The exit procedures for employees leaving ALM require the return of assets and an exit interview. Steps will be taken to ensure that specific follow-up time frames are set to encourage managers to apply the requirement related to the return of assets more promptly.
- ALM will ensure that the exit interview process is extended to include assessment of the perceptions of the business ethics and conduct standards within the organisation. This will assist in identifying areas for improvement.

FOCUS ON OTHER STAKEHOLDERS

4.43 ALM has several stakeholders with whom it interacts. These are indicated below:

- Trading partners, e.g. suppliers, contractors, consultants;
- Employee representative organisations;
- Department of Provincial and Local Government;
- SALGA; and
- The general public.

4.44 All stakeholders with whom ALM interacts are expected to abide by the principles contained in the Plan. Although ALM has limited legal rights to enforce these principles on external stakeholders, it can exercise moral persuasion to gain compliance to the principles contained in the Plan or choose not to enter into relationships with stakeholders who do not comply.

Trading Partners

4.45 It is a common perception that employees face the greatest challenge to their integrity in the form of enticement to accept bribes from unethical suppliers, contractors and consultants. Furthermore, these trading partners are often viewed as untrustworthy in delivery of goods and/or services.

4.46 Approaches to address the risk of fraud and corruption relating to trading partners are the following:

- Appropriate terms and conditions in invitations to propose for services relating to the standards of business ethics expected by ALM;
- Appropriate pre-award screening of credentials supplied by contractors;
- Provisions for the compulsory declaration of actual and/or potential conflicts of interest both by suppliers and employees of ALM dealing with these suppliers;
- Appropriate contract terms and conditions indicating the conduct expected by ALM;
- Ongoing communication of these standards;
- Sound project management;

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- Monitoring and evaluation of breaches;
- Taking sound action in the event of breaches such as:
 - Prosecution;
 - Loss recovery; and
 - Placing of appropriate prohibitions on future contracts and cancellation of exiting contracts.

Employee representative organisations

4.47 ALM is committed to complying with the resolutions of recognition agreements with trade unions. Nonetheless, it is also expected of trade union representatives to comply with the principles of the Plan of ALM. Trade unions will also be consulted prior to the finalisation of the Plan.

Department of Provincial and Local Government

4.48 DPLG is a national department and its primary function is to develop policies and legislation with regard to provinces and local government, and to monitor the implementation of the Municipal Structures Act, Municipal Demarcation Act, Systems Act as well as the MFMA. ALM works closely with the Department of Local Government. Efforts will be made to ensure that this stakeholder is also made aware of the principles contained in the Plan and the conduct encouraged by ALM.

SALGA

4.49 SALGA is an organisation mandated by the South African constitution to assist in the transformation of Local Government in South Africa. SALGA plays a core role in areas related to local government transformation and is a national representative of the local government sector and its employees. ALM will also ensure that SALGA is made aware of the Plan and appropriately compliment it when dealing with ALM.

The general public

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- 4.50 Members of the general public will also be made aware of the ALM's commitment to fraud prevention and encouraged, through awareness programmes, to report irregularities affecting ALM.

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ENFORCEMENT

4.51 No Fraud Prevention Plan would be complete without enforcement forming an integral component for instances where fraud and corruption occur.

Reporting and Monitoring of fraud and corruption

Fraud Policy and Response Plan

4.52 A Fraud Policy and Response Plan (**Annexure A**) has been developed for ALM.

Reporting Channels

4.53 The reporting channels for unethical conduct, fraud and corruption impacting ALM are the following:

- All allegations of fraud and corruption should be reported by employees to their immediate managers;
- If there is a concern that the immediate manager is involved, the report must be made to any other member of management, the Municipal Manager and/or the Chairperson of the Audit Committee;
- All managers should report all allegations to the Municipal Manager who will initiate an investigation; and
- Should an employee wish to make a report anonymously, such a report may be made to the fraud hotline, any member of management, the Municipal Manager or the Chairperson of the Audit Committee.

Whistle Blowing Policy

4.54 A Whistle Blowing Policy (**Annexure B**) has been developed for ALM covering the following key issues:

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- The whistle blowing policy stance;
- Scope, including types of irregularities to be reported;
- Where and to whom to report;
- Confidentiality of reports made;
- Assurances relating to protection from reprisals for good faith reporting;
- Undertakings to investigate all reports;
- Commitment to act promptly in instances where allegations are proven; and
- Publication of sanctions, including providing appropriate feedback to whistle blowers.

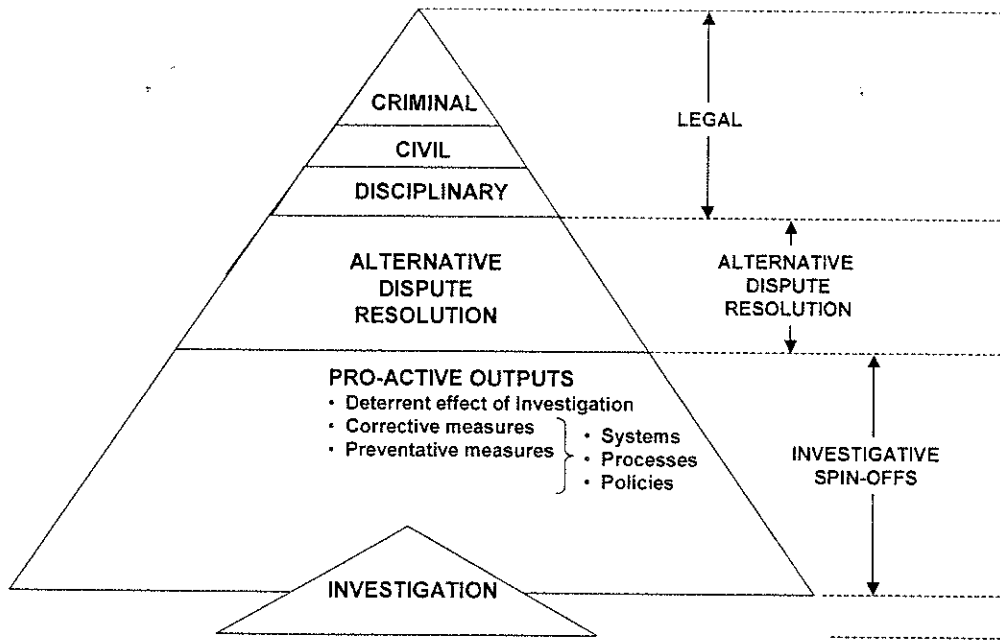
4.55 The Whistle Blowing Policy will be communicated to all employees.

4.56 Some enforcement aspects have already been included above in the section relating to discipline. Comprehensive measures to address enforcement must include the following:

- Initiation of investigations;
- Prompt disciplinary action;
- Prompt recovery of losses or civil action;
- Alternative dispute resolution, e.g. negotiation, mediation, prohibition from future contracts, cancellation of contracts and restriction from employment;
- Prosecution; and
- Publication of sanctions in line with permissible legal provisions, including publishing lessons learned.

4.57 Parallel to the above enforcement approaches, which ALM is already pursuing, however, is the task of fixing of controls to limit future recurrence of fraud and corruption in the event of breaches. The resolution mechanisms, which can be pursued in enforcement are illustrated below.

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IMPLEMENTATION AND AWARENESS

4.58 The Plan will be reviewed on an annual basis, whilst progress with the implementation of the various components will be reviewed on a quarterly basis. In the latter regard, specific priorities stemming from the Plan, actions to be taken, responsible persons and feedback dates relating to progress made will also be set. A matrix of tasks and responsibilities to assist in progressing the implementation and maintenance of the Plan is attached as **Annexure C**.

Monitoring

4.59 ALM has identified the fact that no consolidated record is kept of allegations of fraud and corruption, which it receives. The effect hereof is that fraud and corruption risks cannot be managed effectively, as threats to ALM could be overlooked.

4.60 ALM will ensure that a fraud and corruption information system is developed for the following purposes:

- (a) Recording all allegations;
- (b) Tracking progress with the management of allegations;
- (c) To facilitate the early identification of systemic weaknesses and recurring risks, and inform managers and employees of systemic weaknesses/risks; and
- (d) Provide feedback to employees and other whistle blowers on the management of allegations.

Creating awareness

4.61 This component of the Plan comprises two areas, namely education and communication.

Education

4.62 Formal awareness presentations will be conducted for employees of ALM in planned workshops. The ongoing creating of awareness amongst all employees

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is, however, the responsibility of all managers. Approaches to create awareness amongst employees will address the following issues:

- Employee awareness and the application of professional ethics in their work environment;
- Employee awareness of the current systems, policies and procedures relating fraud and corruption and their rights should they blow the whistle;
- Encouraging employees to blow the whistle on fraud and corruption within their work environments; and
- Encouraging employees to understand specific fraud and corruption related risks to which ALM may be exposed, thus enhancing the prospect of detecting irregularities earlier.

Communication

4.63 The objective of communication is to further create awareness amongst employees, the public and other stakeholders, of the Plan in order to facilitate a culture where all stakeholders strive to contribute towards making it a success. This will increase the prospect of fraud and corruption being reported and improve ALM's prevention and detection ability.

4.64 Communication approaches that will be considered by ALM are the following:

- An official launch for the Plan aimed at all stakeholders;
- Posters, newsletters and pamphlets to advertise the Codes of Conduct for staff members and Councillors, Whistle Blowing Policy and Fraud Policy and Response Plan, once finalised, aimed at employees, the public and other stakeholders;
- A suggestion box for employees and other stakeholders to make submissions which could enhance the further development of the Plan;
- Ensuring that ethics promotion is a fixed agenda item in meetings;
- Signing of declarations of commitment by all employees to the Plan;
- Endorsements of other correspondence directed at providers of goods and/or services with pro-ethics and anti-fraud and anti-corruption messages; and
- Screensavers on computers with appropriate pro-ethics and anti-fraud and corruption messages; and

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- Publishing the Plan and successes in its implementation in the Annual Report of ALM.

Implementation structure

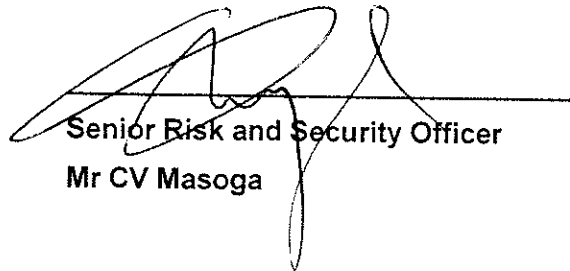
4.65 ALM will consider the establishment of a Risk Management Committee whose responsibility will include the implementation of the Plan. This Committee will include champions from all faculties and other business units. The terms of reference of this team will include the following in relation to the Plan:

- Securing buy-in from all stakeholders;
- Information sharing;
- Ongoing identification of weaknesses in systems and solutions;
- Creating awareness and ensuring adequate training and education to promote the Plan; and
- Assessing progress and ongoing maintenance and review;

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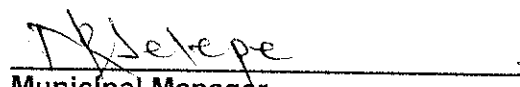
SECTION V: ADOPTION

Compiled by:



Senior Risk and Security Officer
Mr CV Masoga

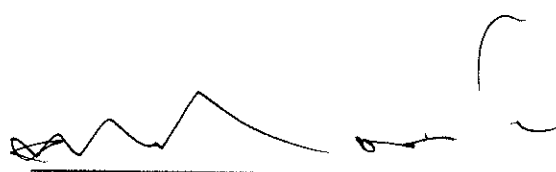
Supported by:



Municipal Manager
Mr NR Selepe

01/08/13.

9.3 Approved by:



Chairperson of the Risk Management Committee
Mr IW Modisha

01/08/2013