



# KWAZULU-NATAL PROVINCIAL TREASURY

## FRAUD PREVENTION PLAN





<b>CONTENTS</b>	<b>PAGE</b>
<b>GLOSSARY OF TERMS</b>	3
<b>SECTION I: INTRODUCTION AND DEVELOPMENT OF THE PLAN</b>	5 – 6
<b>SECTION II: ATTRIBUTES OF FRAUD</b>	6 – 13
<b>SECTION III: THE FRAUD PREVENTION PLAN</b>	14 – 38
<b>A. PREVENTING FRAUD</b>	
4.1 Code of Ethics	18 – 20
4.2 Provincial Treasury’s systems, policies, procedures, rules and regulations	20 – 23
4.3 Disciplinary Code and Procedures	23 – 24
4.4 Internal controls	24 – 28
4.5 Physical and information security	29 – 29
<b>B. DETECTING, REPORTING AND INVESTIGATING FRAUD</b>	
4.6 Internal Audit	30 – 31
4.7 Ongoing risk assessment	31 – 32
4.8 Fraud Detection and Reporting	32 – 33
4.9 The Fraud Policy and Response Plan	33 – 35
4.10 The Whistle Blowing Policy	35 – 35
<b>C FURTHER IMPLEMENTATION AND MAINTENANCE</b>	
4.11 Creating awareness	35 – 37
4.12 Ongoing maintenance and review	37 - 38
4.13 Adoption of the Plan	38
<b>LIST OF APPENDICES:</b>	
<b>Appendix A</b>	Code of Ethics
<b>Appendix B</b>	Disciplinary Code and Procedures
<b>Appendix C</b>	Fraud Policy and Response Plan
<b>Appendix D</b>	Whistle Blowing Policy
<b>Appendix E</b>	Matrix of Tasks and Responsibilities
<b>Appendix F</b>	Policy on Acceptance of Gifts
<b>GLOSSARY OF TERMS</b>	



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):

- “Code” : Code of Ethics as provided for in the Public Service Regulations, 2001 as amended.
- “Committee” : Risk Management and Audit Steering Committee.
- “Corruption” : Any officer who directly or indirectly, 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  
A person who, directly or indirectly, gives or agrees or offers to give any gratification to an officer, whether for the benefit of that officer or for the benefit of another person in order to act, personally or by influencing another person so to act in a manner that amounts to the illegal, dishonest, unauthorised, incomplete, or biased  
Is guilty of an offence (Act 12 of 2004)
- “Department” : Department of Provincial Treasury
- “Fraud” : The unlawful and intentional making of a misrepresentation resulting in actual or potential prejudice to another.
- “Fraud Policy” : Fraud Policy and Response Plan
- “IAU” : Internal Audit Unit centralised within the KZN Provincial Treasury
- “Stakeholders” : Person, group of people or organisations that have an interest or business relationship with Provincial Treasury. Examples include but not limited to internal staff, suppliers, banking institutions and other departments
- “PFMA” : Public Finance and Management Act, Act 1 of 1999



“Plan”	:	Fraud Prevention Plan
“Policy”	:	The Whistle Blowing Policy
“Protected Disclosures Act”	:	Protected Disclosures Act, Act 26 of 2000
“Province”	:	KwaZulu Natal
P S C B C		Public Service Co-ordinating Bargaining Council
“Resolution”		A binding agreement that was entered into by the Department of Public Service and Administration and the Trade unions representing public service employees
“S A P S”	:	South African Police Services
“The Act”	:	Public Service Act, 1994
“Theft”	:	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.
“Treasury”	:	KwaZulu-Natal Provincial Treasury



## **SECTION I: INTRODUCTION AND DEVELOPMENT OF THE PLAN**

- 1.1 This document represents the Fraud Prevention Plan for Provincial Treasury. The Plan recognises basic fraud prevention initiatives within Provincial Treasury. Furthermore, it identifies key risks of fraud that will be addressed as these risks could jeopardise the successful implementation of the various components of the Plan.
- 1.2 The primary objectives of the Plan are to:
- a) Provide guidelines in preventing, detecting and reporting fraudulent activities within Provincial Treasury;
  - b) Create a culture within Provincial Treasury where all employees and stakeholders continuously behave ethically in their dealings with or on behalf of Provincial Treasury;
  - c) Encourage all employees and stakeholders to strive towards the prevention and detection of fraud impacting or having the potential to impact on Provincial Treasury;
  - d) Encourage all employees and stakeholders to report suspicions of fraudulent activity without fear of reprisals or recriminations; and
  - e) Provide a focus point for the allocation of accountability and authority.
- 1.3 The Plan is dynamic and it will continuously evolve as Provincial Treasury makes changes and improvements in its drive to promote ethics and prevent fraud.



- 1.4 In developing the Plan, several business risks, including fraud and corruption risks which were identified as part of a risk assessment exercises as well as internal audit reports undertaken by the IAU, were also taken into account during the development of this Plan.
- 1.5 In addition, high level reviews of the following documentation were undertaken:
- The P S C B C Resolution No.1 of 2003 and the Disciplinary Code and Procedures for the Public Service;
  - Departmental policies;
  - Public Service Regulations, 2001 as amended; and
  - Code of Ethics.
- 1.7 The risks of fraud addressed in this document should not be relied upon as the full spectrum of the risks facing Provincial Treasury, but rather as an indication of the type of risks, bearing in mind the transformation of the risks of fraud resulting from constant technological enhancements and changing business processes.

## **SECTION II: ATTRIBUTES OF FRAUD**

- 2.1 A department can be exposed to fraud risks in a number of ways:
- Internal fraud: This fraud is perpetrated by individuals inside the organisation and is most often carried out by staff that has access to moveable or liquid assets such as cash or stocks. It is likely that the risk of fraud and its scale will increase if the member of staff is able to conceal the irregularities by also having access to accounting records.
- External Fraud: This is fraud which is perpetrated by individuals outside the organisation and covers activities such as theft, deception, computer hacking by



external parties. It is very often systematic and continuous, stemming from the inherent problems of safeguarding some types of systems against attack

**Collusion:** This type of fraud involves two or more parties, either in both internal and external working together. This type of fraud is difficult to detect as controls may at first appear to be working satisfactory

A detailed definition of Fraud, Corruption and Theft is reflected in the Glossary of Terms. The following, although not exhaustive, reflects actions that may be considered to be fraudulent:

Systems Issues	: Where a process/system exists which is prone to abuse by either employees or the public, e.g.: <ul style="list-style-type: none"><li>• Maladministration or financial misconduct in handling or reporting of money, financial transactions, or other assets;</li><li>• Collusion in awarding contracts or orders for goods and/or services; and</li><li>• Disclosing confidential or proprietary information to outside parties.</li><li>• Falsifying travel and subsistence claims</li></ul>
----------------	--



Financial Issues	:	<p>Where individuals or companies have fraudulently obtained money, e.g.:</p> <ul style="list-style-type: none"><li>• Theft of petty cash.</li><li>• Conspiring unfairly with others to obtain a tender</li><li>• Payment for work not carried out as a result of collusion between the supplier and an official</li><li>• Overstating timesheets for hours not worked</li><li>• Giving service providers budgeted amount for projects due to be procured.</li><li>• Negligently/ recklessly certifying invoices for payment without proper checking of supporting documents.</li></ul>
Equipment and Resource Issues		<p>Where equipment is utilised for personal benefit, e.g.:</p> <ul style="list-style-type: none"><li>• Abuse of telephones, cellular phones, internet and e-mail; and</li><li>• Abuse of assets, including equipment, vehicles and time.</li></ul>



Other Issues	:	<p>Activities undertaken by employees which may be unlawful against Provincial Treasury’s regulations or policies, falls under established standards or practices or amounts to improper conduct, e.g.:</p> <ul style="list-style-type: none"> <li>• Receiving undue gifts or favours for carrying out functions, e.g. gifts in contravention of the relevant policy; and</li> <li>• Deliberately omitting or refusing to report or act upon reports of any irregular or dishonest conduct.</li> <li>• Employing family members or close friends</li> <li>• Operating a private business in working hours without prior authorisation</li> </ul>
--------------	---	--

2.2 In order to understand and to be able to detect fraudulent activities, employees should be aware of the behavioural aspects of individuals and organisations. The behavioural aspect of individuals assists in profiling a typical fraudster while that of organisations typifies the risks that make the organisation susceptible to fraud.

2.3 The following, although not exhaustive, reflects the behavioural aspects of individuals and organisations which are typically “red flags” or “fraud indicators” that all employees within Provincial Treasury should be aware of in their daily functions:

***Indicators that individuals may be susceptible to committing fraud***

- Living beyond one’s means;
- Sudden change of lifestyle;
- Unexplained wealth;
- Extensive involvement in speculative investments;



- Feeling of being underpaid;
- Unusually high personal debts;
- Suppliers/ contractors who insist on dealing with only one particular member of staff;
- Severe personal financial losses;
- Excessive gambling habits;
- Alcohol and drug abuse;
- Domestic problems;
- Involved in extra-marital relationships;
- Undue family or peer pressure to succeed;
- Staff under stress without heavy workload;
- Always working late;
- Reluctance to take leave;
- Refusal to accept promotion;
- Dissatisfaction or frustration with job;
- Feeling of insufficient recognition for job performance;
- Continual threats to quit;
- Close associations with suppliers/ contractors;
- Close associations with customers;
- Poor credit rating;
- Rationalisation or justification of poor performance;
- Lack of personal stability such as frequent job changes, residence, partners and acquaintances;
- High staff turnover, with new staff resigning quickly;
- Desire to “beat the system”;
- Unreliable communications and reports;



- Criminal records;
- Undisclosed conflicts of interest.

***Indicators that the organisation or department may be a target for a fraudster***

- Does not enforce clear lines of authority and responsibility;
- Does not enforce proper procedures for authorisation of transactions;
- Lack of segregation of duties;
- Lack of adequate documents and records;
- A department that is not frequently reviewed by internal auditors;
- Lack of independent checks;
- No separation of custody over assets from the accounting function;
- No separation of authorisation of transactions from the custody of the related assets;
- Lack of competent personnel;
  
- Inadequate physical security in departments, such as locks, safes, fences, keys, cards, etc.;
- Inadequate personnel policies and human resource management systems;
- Failure to maintain records of disciplinary actions;
- Inadequate disclosure of income from external remunerative work;
- Undisclosed conflicts of interest;
- Operating on a crisis basis;
- Operating without budgetary control;
- Budgets not reviewed or meaninglessly justified;
- Too much trust placed in key employees;
- Unrealistic productivity requirements;



- Pay levels not commensurate with responsibilities;
- Inadequate staff - quality and quantity;
- Failure to discipline violators of departmental policies;
- Inadequate communication and awareness about disciplinary codes, fraud policies and codes of conduct;
- Absence of conflict-of-interest questionnaires or regular updating thereof; and
- Inadequate background and reference checks before hiring decisions are made.

2.4 In addition to the behavioural aspects of individuals and organisations which typify circumstances that could result in fraudulent activity, there are other factors which may not necessarily be categorised as behavioural aspects, but which could nevertheless result in fraudulent activity. These indicators of the opportunities to commit fraud, although not exhaustive, may be summarised as follows:

- Rapid turnover of key employees, through resignation or dismissal and continuous absenteeism.
- Dishonest or dominant management and interference with SCM processes;
- Inadequate communication and training programmes;
- Complex business structures;
- No effective internal control function or lack of a risk based approach;
- Reluctance to provide auditors/ consultants with requested information;
- Continuous problems with regulatory agencies; and
- Unexplained and unusual accounting transactions.



2.5 Certain events or circumstances, could also lead to fraudulent activity. These situations, **although not exhaustive**, may be summarised as follows:

- Dependence on or utilisation of only a few suppliers;
- Rapid expansion of components or sections and placing/ promoting of staff;
- Problems in obtaining finance or restrictions placed thereon;
- Litigations;
- Non-existent and over-valued assets;
- Unexplained increases in assets;
- The organisation is decentralised without adequate monitoring, or is unnecessarily complex; and
- Unusual large transactions between related parties that are not in the ordinary course of business

2.6 All employees within Provincial Treasury are required to be aware of the indicators listed above and to be vigilant to acts of fraud within Provincial Treasury. Should an employee have any knowledge or suspicion of fraudulent activity, the employee is obliged to report such fraudulent activity directly to his manager or in a case of a manager, the Accounting Officer must be informed **or alternatively** the toll free National Anti-Corruption Hotline **(Number: 0800 701701)**.



## SECTION III: THE FRAUD PREVENTION PLAN

### *The main principles of the Plan*

3.1 The following reflects the main principles which form the basis of the Plan:

- Developing and maintaining a culture which is intolerant to fraud;
- Deterrence of fraud;
- Preventing fraud which cannot be deterred;
- Detection of fraud;
- Investigating detected fraud;
- Taking appropriate action against fraudsters, e.g. disciplinary action, prosecution, etc;
- Applying sanctions, which include redress in respect of financial losses; and
- Pledge respect for the civil rights of all citizens, including the employees of Provincial Treasury.

### *Objectives of the Plan*

3.2 The objectives of the Plan as set out below are in line with and complement a principle-oriented ethos and strategic direction as articulated in the PFMA and taking into account the documentation referred to in paragraph 1.5 above.

3.3 The objectives of the Plan can be summarised as follows:

- Improving accountability, efficiency and effective administration within Provincial Treasury;



- Continuously supporting a culture within Provincial Treasury where all employees and other stakeholders continuously behave ethically in their dealings with, or on behalf of Provincial Treasury;
- Improving the application of systems, policies, procedures and regulations;
- Improving relevant aspects of Provincial Treasury to facilitate the reporting and monitoring of incidents of fraud; and
- Encouraging all employees and other stakeholders to strive for the deterrence, prevention, detection and reporting of fraud impacting, or having the potential to impact on Provincial Treasury.

### *Components of the Plan*

3.4 The above objectives are not intended to detract from the premise that all the components are equally essential for the successful realisation of the Plan. The Plan is structured to address the prevention, detection and reporting and investigation of fraudulent activities.

3.5 The following represents the components of the Plan for Provincial Treasury:

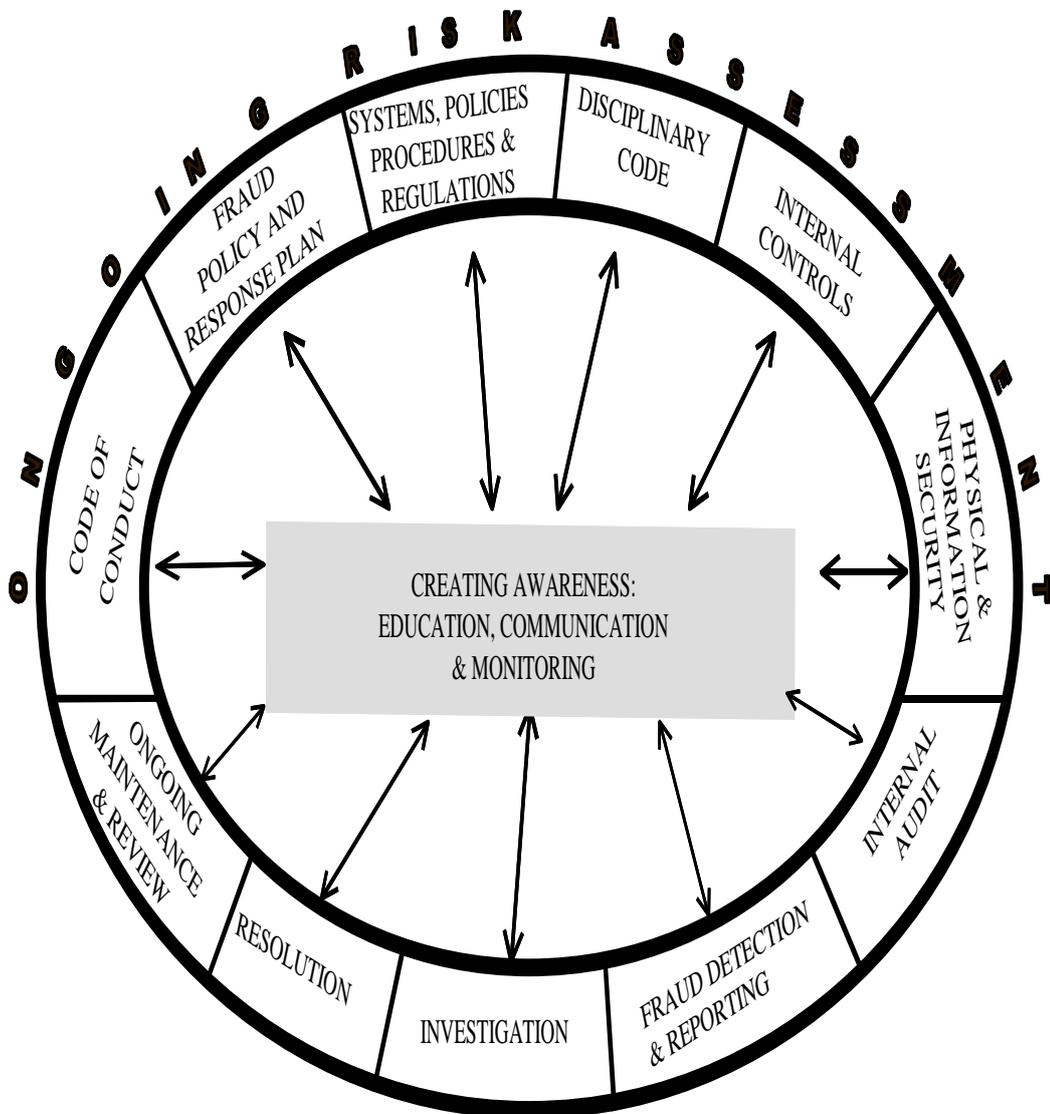
- (a) A Code of Ethics in which management of Provincial Treasury believes and requires their employees to subscribe;
- (b) Provincial Treasury's systems, policies, procedures, rules and regulations;
- (c) The Disciplinary Code and Procedures;
- (d) Internal controls to prevent and detect fraud;
- (e) Physical and information security management;
- (f) Internal Audit Unit;



- (g) Ongoing risk assessment, which includes fraud susceptibility assessments and detection approaches;
- (h) Reporting and monitoring of allegations;
- (i) Fraud Policy and Response Plan which includes the policy stance of Provincial Treasury to fraud and steps for the reporting and resolution of allegations and incidents of fraud;
- (j) A Whistle Blowing Policy in order to strive to create a culture which will facilitate the disclosure of information by employees relating to criminal and other irregular conduct in the work place in a responsible manner and to limit the risk of non-compliance with the provisions of the Protected Disclosures Act;
- (k) An employee shall not, without prior written approval of the Head of Department obtain or accept any private gifts, benefits or item of monetary value (a description, value and the source of gift with a value in excess of R350) from any person for himself or herself during the performance of duties as these may be construed as bribes.  
  
All employees have an obligation to disclose the gifts, donations and sponsorships that they have received from suppliers. Failure to disclose will be dealt with in terms of the disciplinary procedures. A gifts policy and Register has been attached as Appendix F to the Fraud Prevention Plan
- (l) Creation of awareness amongst employees and other stakeholders through communication and education relating to specific components of the Plan; and
- (m) Ongoing maintenance and review of the Plan which includes the formation of the Risk Management and Audit Steering Committee to steer and take responsibility for the Plan, and to ensure effective implementation and maintenance;



3.6 An illustration of the main components of the Plan is contained in the figure below:





## A. PREVENTING FRAUD

### 4.1 Code of Ethics

4.1.1 A Code of Ethics (“Code”) was developed, based on the Public Service Regulations of 2001 as amended. The Code is intended to set down clear guidelines relating to Provincial Treasury’s expectations of the highest ethical standards of business conduct and integrity by its employees and other stakeholders.

4.1.2 The Code is applicable to all employees of the Provincial Treasury. In order to contextualise the Code as a component of the Plan, it has been attached as **Appendix A.**

4.1.3 Provincial Treasury expects **all people and organisations that are in any way associated with it to be honest and fair** in their dealings with it and its clients. All employees are expected to lead by example in these matters.

4.1.4 The generic risks identified in this area are the following:

- Lack of buy-in into or compliance with the requirements of the Code by management and employees;
- Employees with low integrity and/ or standards of professional duties who are constantly seeking to enhance their personal benefit;
- Lack of awareness and or inadequate communication and training strategy relating to the Code;
- Inadequate control over identifying and monitoring remunerative work undertaken by employees, outside their official duties, without approval; and



- Lack of control over the acceptance, as result of their official position, of gifts and or benefits by employees

4.1.5 *Compliance by employees of Provincial Treasury with the Code, both in its spirit and content, would address the risks listed in paragraph 4.1.4 above.*

However, appreciating the fact that striving to achieve such a status immediately would be idealistic, Provincial Treasury will pursue the following tactics to improve professional ethics and conduct of its employees:

A copy of the Code will be circulated to all employees and will be included in induction packs for new employees;

- a) All employees will be required to sign a declaration annually, serving as an indication of their understanding of commitment to and compliance with the Code; and
- b) Relevant aspects of the Code will be included in awareness presentations, training sessions and communication programmes to create awareness thereof amongst employees and other stakeholders. Further objectives of this training will be the following:
  - Assisting employees to understand the meaning of fraudulent and corrupt behaviour;
  - Presenting case studies which will assist in developing behaviour to articulate and encourage attitudes and values which support ethical behaviour;
  - Assisting employees to understand issues involved in making ethical judgements; and
  - Communicating the implications of unethical behaviour and its impact for individuals, the workplace, professional relationships, to



Provincial Treasury as a whole and external stakeholders including the public

## **4.2 Department of Provincial Treasury's Systems, Policies, Procedures, Rules and Regulations**

4.2.1 Provincial Treasury has a number of systems, policies, procedures, rules and regulations designed to ensure compliance with prevailing legislation and to limit risk, including the risks of fraud. Fundamentally, all employees of Provincial Treasury should understand and must comply with these.

4.2.2 The following are some of the relevant policies, procedures, rules and regulations:

- The Public Finance Management Act;
- The Treasury Regulations;
- Departmental Policies;
- Public Service Act, 1994
- Employment Equity Act, 1998
- Disciplinary Code and Procedures for the Public Service;
- Procurement Delegations
- Code of Conduct for Public Servants;
- Conditions of Service and Human Resources Policies and Procedures detailed in the Public Service Regulations;
- Delegations of authority

4.2.3 In addition to the above, several operational measures have been designed to control all business activities.



4.2.4 **Provincial Treasury has identified the key risks of fraud in this area as the following:**

- Lack of knowledge and understanding amongst employees of prevailing policies and procedures;
- A lack of structured awareness and training programs for employees in applicable policies, procedures, rules and regulations;
- Deliberate non-adherence with policies and procedures by employees as a result of weaknesses in the system for adequately implementing, monitoring and evaluating compliance with policies and procedures;
- Resistance by employees to accept objectives and requirements detailed in strategic plans and policies and procedures, since they have not been part of the development of the strategic plans and policies and procedures;
- Lack of proper delegations, in writing, as required by the PFMA;
- Non-compliance with policies and procedures
- Collusion in procurement process and or non-compliance with the procurement policies and procedures;
- A lack of effective systems for the management of assets and inventory;
- Non-adherence to Human Resources Management Policies and Procedures with regard to job evaluation, recruitment and selection (pre-employment screening of potential candidates), appointment and employee benefits; and
- The lack of management information necessary for timeous risk identification and decision-making.

4.2.5 The risks that are indicated in paragraph 4.2.4 above suggest that the controls should be continuously reviewed to keep them at tolerable levels.



4.2.6 Provincial Treasury recognises that its employees are often best placed to identify “loopholes” or weaknesses in systems and procedures. Provincial Treasury is therefore committed to harnessing this knowledge through the development of a structured program aimed at encouraging employee commitment and effort in reporting such weaknesses.

4.2.7 In addition, Provincial Treasury will undertake the following actions to mitigate the risks identified in paragraph 4.2.4:

(a) A clearly defined communication and training strategy will be developed to create awareness of existing and new 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 employment, duties and responsibilities. This system will include the following:

- 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; and

The keeping of adequate records serving as proof that employees have been made aware of the policies and procedures applicable to Provincial Treasury and relevant to their duties.

(b) Internal audits and ad-hoc procedures will be undertaken to monitor and evaluate the extent of compliance with policies and procedures. In instances where serious breaches occur, swift and efficient disciplinary action will be considered to set an example to other potential wrongdoers.

(c) New policies and procedures and strategic plans will be circulated to staff at appropriate levels, in draft format, for the input and comments before these are finalised.



- (d) The system for pre-employment screening of candidates for employment will be reviewed and if necessary, enhanced to ensure that the best candidates are employed.
- (e) The existing departmental policies and procedures will be communicated and made accessible to all employees within the department for them to be informed of all the applicable policies and procedures. An employee identified as not complying with the necessary policies and procedures will be subjected to immediate disciplinary action.

A specific effort will be made to ensure that measures are put in place, for the placing of restrictions on suppliers and/ or other providers of goods and/ or services who are found guilty of unethical conduct or other irregularities. Any employee found to be colluding with suppliers will be subjected to immediate disciplinary action with a sanction of dismissal and any losses suffered by Provincial Treasury will be recouped from the employee.

### 4.3 Disciplinary Code and Procedures

4.3.1 The Disciplinary Code and Procedures (**Appendix B**) prescribes appropriate steps to be taken to resolve disciplinary matters. *The strategic risks of fraud which have been identified with regard to discipline and the application thereof are the following:*

- The disciplinary process, in some instances, takes too long;
- Inadequate training of investigating officers presenting the case;
- Lack of consultation between investigating officers and the investigating team, concerning findings and charges;
- Inadequate maintenance and security of source documents to be used at disciplinary, criminal and civil proceedings; and
- Inconsistent application of disciplinary actions and outcomes.

4.3.2 *Provincial Treasury recognises the fact that the consistent and efficient application of disciplinary measures is an integral component in making the*



*Plan a success.* Provincial Treasury will continue to pursue the following steps to ensure the consistent, efficient and speedy application of disciplinary measures:

- Ensuring, by communication and awareness exercises that all managers are aware of the content of the Disciplinary Code and Procedures, their responsibility for maintaining discipline, the standards of discipline expected, the procedure for the application of disciplinary measures and the disciplinary process;
- Ongoing training of managers and investigating officers with regard to the content of the Disciplinary Code and Procedures, the application of disciplinary measures and the disciplinary process, and sustaining this training in conjunction with Risk Management Services and Human Resources Management;
- Developing a system to facilitate the consistent application of disciplinary measures, e.g. a monitoring system that includes proper record keeping of all disciplinary actions taken; and
- Developing a system where managers are held accountable for the management and addressing of misconduct and fraud within their sections.

#### **4.4 Internal Controls**

4.4.1 This section of the Plan relates to basic internal controls to prevent and detect fraud. The systems, policies, procedures, rules and regulations of Provincial Treasury prescribe various controls, which if effectively implemented, would limit fraud within Provincial Treasury. These controls may be categorised as



follows, it being recognised that the categories contain overlapping elements:

(a) Prevention controls:

- These are divided into two sub-categories, namely Authorisation and Physical;

(b) Detection controls:

- These are divided into four categories, namely Arithmetic and Accounting, Physical, Supervision and Management Information; and

(c) Segregation of Duties

***Prevention controls***

a) Authorisation

- (i) All transactions require authorisation or approval by a responsible person with appropriate authority limits.
- (ii) The authority limits are specified in the delegations of authority of Provincial Treasury.

b) Physical

- (i) These controls are concerned mainly with the custody of assets and involve procedures and security measures designed to ensure that access to assets is limited to personnel, who have been duly authorised, in writing.

***Detection controls***

a) Arithmetic and accounting

- (i) These are basic controls within the recording function that check that transactions to be recorded and processed have been authorised



and that they are completely and correctly recorded and accurately processed.

- (ii) Such controls include checking the arithmetical accuracy of the records, the maintenance and checking of totals, reconciliation and accounting for documents.

b) Physical

- (i) These controls relate to the security of records. They therefore underpin arithmetic and accounting controls.
- (ii) Their similarity to preventive controls lies in the fact that these controls are also designed to limit access to unauthorised persons.

c) Supervision

- (i) This control relates to supervision by managers of day-to-day transactions and the recording thereof.

d) Management information

- (i) This relates to the review of management accounts and budgetary control.
- (ii) These controls are normally exercised by management outside the day-to-day routine of the system.



### *Segregation of duties*

- a) The lack of segregation of duties or the overriding of existing internal controls is a generic risk that exposes the department to the inherent risk of fraud and manipulation of data. One of the primary means of control is the separation of those responsibilities or duties, which, 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.
- b) Segregation of duties reduces the risk of intentional manipulation or error and increases the element of checking.
- c) Functions that should be separated include those of recording, checking, authorisation, approval, custody, execution and, in the case of computer-based accounting systems, system controller functions and daily operations.
- d) Placed in context with fraud, segregation of duties lies in separating either the authorisation or the custodial function from the checking function.
- e) **To ensure that these internal controls are effectively and consistently applied, deficiencies and non-compliance identified by internal audit will be addressed as follows:**
  - Provincial Treasury will continue to regularly re-emphasise to all managers that consistent compliance by employees with internal control is in itself one of the fundamental controls in place to prevent fraud. 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.
  - Provincial Treasury will ensure that the performance appraisal of



senior managers will take into account the number of audit queries raised and the level of seriousness of the consequent risk to Provincial Treasury as a result of the internal control deficiency identified. This is intended to raise the level of accountability for internal control by the Accounting Officer and Managers.

- A matrix of internal control weaknesses identified during audits and investigations will be developed in order to assist in the identification of areas that require additional focus.

f) Where managers do not comply with basic internal controls, e.g. non-adherence to the delegation of authority limits, firm disciplinary action will be considered.

g) **Conflict of Interests:**

There are several situations that could give rise to a conflict of interest. The most common, accepting gifts from suppliers, running a private business while employed by the department, close or family relationships with suppliers or tenderers, A potential conflicts of interest exist for employees who make decisions in their jobs that would allow them to give preference or favour to a supplier in exchange for anything of personal benefit to themselves or their friends and families. Such situations would interfere with the employee's ability to make judgements solely in the department's best interests.

*All officials of the Provincial Treasury are therefore required to disclose their specific business interests on an annual basis.* All records of disclosure will be kept by the CFO - Internal Control and Risk management unit

4.4.2 All employees within Provincial Treasury are encouraged to be aware of and to identify any internal control weaknesses within their working environment and to communicate such weaknesses to their manager or in the case of manager to the Accounting Officer.



## 4.5 Physical and information security

### 4.5.1 *Physical security*

- (a) Recognising that effective physical security is one of the "front line" defences against fraud, the department will take regular steps to improve physical security and access control at its offices in order to limit the risk of theft of assets.
- (b) Provincial Treasury will also consider conducting a regular review of the physical security arrangements at its offices and improve on weaknesses identified.

### 4.5.2 *Information security*

- (a) Provincial Treasury will ensure that employees are sensitised on a regular basis to the risks of fraud associated with poor management of information security in order to enhance their understanding thereof and the risks to Provincial Treasury associated with poor control over confidential information.
- (b) Regular reviews of information and computer security will also be considered. Weaknesses identified during these reviews will be addressed with the respective managers.
- (c) Regular communiqués will be forwarded to employees pointing out the content of the IT Policy and procedures, with particular emphasis on Internet and e-mail 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



## **B DETECTING, REPORTING AND INVESTIGATING FRAUD**

### **4.6 Internal audit**

4.6.1 The internal audit function is centralised within Treasury and performs audits within the department. The primary function of the IAU is to assist Provincial Treasury in improving the efficiency and effectiveness of operations, risk management, control and governance. This is further intended to promote good corporate governance (including promoting ethical conduct and the prevention, detection and reporting of fraud) within Provincial Treasury.

4.6.2 Also, the IAU continuously considers ways of communicating and promoting a better understanding by managers, of the functions, role and responsibilities of the IAU, which include the following:

- Detection and investigation of fraud and corruption and recoveries;
- Conducting fraud and corruption risk assessments and susceptibility assessments of high fraud and corruption risk areas; and
- Promoting integrity of employees within Provincial Treasury

4.6.3 The key risks of fraud identified in this area are the following:

- Implementation of recommendations within agreed time frames.
- Lack of procedures to dissuade employees from becoming victims of bribery, corruption and inadequate controls to identify instances and the affected employee/s when this does happen.

4.6.4 As indicated previously, Provincial Treasury will continue to regularly re-emphasise to all senior managers that consistent compliance by employees with internal controls is in itself one of the fundamental controls in place to prevent fraud. Programme and Responsibility 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.

4.6.5 The need to comply with the Code and to act with honesty and integrity will be regularly emphasised and communicated to all employees.

#### **4.7 Ongoing risk assessment**

4.7.1 Provincial Treasury acknowledges the fact that it faces diverse business risks from both internal and external environments. It will ensure that a structured programme is put in place to ensure that risk assessments within Provincial Treasury are conducted in line with the requirements of the PFMA.

4.7.2 In addition to the risks of fraud already discussed, the risks of fraud listed in paragraph 4.7.4 below will be addressed by conducting reviews in order to secure a more detailed understanding of the areas wherein these risks exist.

4.7.3 This is intended to ensure that fraud prevention controls and detection mechanisms are developed. This will include the conducting presentations to managers and staff to ensure that they have a more detailed understanding of these areas, thus enhancing the prospect of detecting irregularities sooner.

4.7.4 Furthermore, specific transactions in areas referred to in this paragraph will be selected in order to conduct fraud detection reviews, including fraud susceptibility assessments, aimed at detecting possible incidents of fraud and/or control weaknesses in order to address these.

- Weaknesses in internal controls;
- Weaknesses in the payroll system;
- Weaknesses in information technology and processing systems
- Weaknesses in Human Resources Management development policies;
- Weaknesses in budget management, reviews and financial reporting;



- Collusion in tendering and procurement;
- Fraud relating to fleet management (e.g. abuse of vehicles and petrol cards);
- Abuse of assets, including computer equipment ;
- Poor inventory and asset management; and
- Weaknesses in the implementation of projects
- Weaknesses in the adherence to the Code of Conduct
- Absence of departmental policies
- Unauthorised expenditure as a result of fraudulent claims
- Weaknesses in project management
- Fraud relating to S & T claims
- Fraud relating to fictitious suppliers/claims
- Fraud relating to overtime claims
- Weaknesses in the management of leave
- Weaknesses related to non-segregation of duties

## **4.8 Fraud Detection and Reporting**

4.8.1 The Provincial Treasury recognises that in order to effectively prevent fraud, all fraudulent activities detected by employees and other stakeholders should be reported and investigated. In this regard, KZN Province (of which Provincial Treasury is one of the Departments) is using the National Anti-Corruption Hotline (number: 0800 701 701) which is intended to achieve the following:

- (a) To deter potential fraudsters by making all employees and other stakeholders aware that Province and hence the department is not a soft target, as well as encouraging their participation in supporting, and making use of this facility;
- (b) To raise the level of awareness that Province and hence the department of Provincial Treasury is serious about fraud;
- (c) To detect incidents of fraud by encouraging whistle blowers to report incidents which they witness;



- (d) To assist the Province and hence the department in managing the requirements of the Protected Disclosures Act by creating a channel through which whistle blowers can report irregularities which they witness or which come to their attention; and
- (e) To further assist Provincial Treasury in identifying areas of risk of fraud in order that preventive and detective controls can be appropriately improved or developed.

4.8.2 The department of Provincial Treasury supports the Fraud Hotline and encourages its employees to utilise this service to supply information relating to fraudulent activities. The Fraud Hotline is also an integral mechanism for the reporting of fraud in terms of the Fraud Policy.

4.8.3 All instances of fraudulent activity must be reported to the Manager/Accounting Officer or **Toll Free Anti-Corruption Hotline number 0800 701 701**

4.8.4 Hence, Provincial Treasury will ensure that the responsibility of responding to and investigating information secured through the Fraud Hotline and through any other medium, is clearly dealt with and that proper records are kept of all allegations relating to Provincial Treasury. This will assist the department in managing risks of fraud.

#### **4.9 The Fraud Policy and Response Plan**

4.9.1 A Fraud Policy and Response Plan (**Appendix C**) has been developed, for Provincial Treasury. The Fraud Policy contains provisions for the reporting of allegations of fraud which include the following:

- Making a report to the employee's immediate manager;
- Where the person reporting the information wishes to make a report anonymously, such a report may be made to any member of management



and/or the Head of the Department or the Anti-Corruption Hotline

- The manager who receives such a report must forward it to the Head of the Department, who will initiate an investigation in consultation with appropriate stakeholders within Provincial Treasury.

4.9.2 Furthermore, the Fraud Policy includes the following issues:

- The policy stance of the Province as well as that of the Department to fraud, i.e. Zero Tolerance to fraud;
- Some manifestations of fraud in Provincial Treasury's context;
- The available channels to report, investigate and resolve incidents of fraud which impact Provincial Treasury;
- Provisions relating to the protection of whistle blowers;
- The handling of confidentiality relating to allegations and investigations of fraud;
- Publication of sanctions imposed on persons found guilty of fraud; and
- Responsibility for the administration of the Policy.

4.9.3 The Fraud Policy is included as an appendix to this Plan, which will be circulated to all employees within Provincial Treasury. Appropriate presentations on the implications of the Protected Disclosures Act will be included in strategies to create awareness of the Fraud Policy.

4.9.4 It must be noted that in terms of the Fraud Policy, all employees are obliged to report any irregularity affecting the department of Provincial Treasury that they notice or become aware of. Failure to do so could result in appropriate action being taken against such person(s) and may result to criminal sanctions being taken.

4.9.5 In order to facilitate the identification of additional risks and the consequent



development of appropriate strategies to address these, Provincial Treasury will continue to keep records of all allegations brought to its attention. This will be crucial in effectively addressing the risk of whistle blowers being victimised, by managers and fellow employees, in contravention of the Protected Disclosures Act.

**Recovery of Losses:** Managers are required to ensure that losses or damages suffered by the department as a result of all reported acts committed by an employee or any other person are recovered from such an employee or other person if he/she is found to be liable for such losses in terms of departmental Loss control policy.

#### **4.10 The Whistle Blowing Policy**

4.10.1 In order to further limit the risk of employees being victimised for whistle blowing, in contravention of the Protected Disclosures Act, Provincial Treasury has developed a Whistle Blowing Policy (**Appendix D**).

4.10.2 The Whistle Blowing Policy is based on the Protected Disclosures Act, which guarantees protection to employees against victimisation following disclosure of fraudulent activity by employees, and is intended to encourage and enable employees to raise serious concerns without fear of victimisation.

4.10.3 The Whistle Blowing Policy, which is attached as an appendix to this Plan, will be circulated to all employees within Provincial Treasury.

### **C. FURTHER IMPLEMENTATION AND MAINTENANCE**

#### **4.11 Creating awareness**

This component of the Plan comprises two approaches, namely education and communication. The strategic weaknesses identified in this area are the following:



4.11.1

- Lack of a formalised strategy to create awareness amongst employees of the manifestations of fraud and the risks of fraud facing Provincial Treasury; and
- Lack of knowledge of approaches to prevent and detect fraud in specific processes and transactions.

***Education***

4.11.2 Provincial Treasury will ensure that regular presentations and formal training are carried out for employees to enhance their understanding of the manifestations of fraud, prevention and detection techniques and the components of the Plan, in general. These presentations and training will include ongoing formal lectures to managers in all functional disciplines.

***Communication***

4.11.3 Communication is crucial in creating awareness of the Plan amongst employees and other stakeholders. This is intended to facilitate a culture where all stakeholders strive to make the Plan a success and to sustain a positive, ethical culture within Provincial Treasury. This will increase the prospect of fraud being reported and improve Provincial Treasury's prevention and detection ability.

4.11.4 Provincial Treasury will consider various means of communicating its fraud prevention initiatives, including the following:

- (a) Conducting workshops and creating awareness of the Plan;
- (b) Developing a poster campaign aimed at all stakeholders to advertise Provincial Treasury stance to fraud and its expectations with regard to the ethics and integrity of all stakeholders;
- (c) Circulating appropriate sections of the Code to other stakeholders, e.g.



- consultants and contractors;
- (d) Publicising "lessons learned" out of investigations into allegations of fraud amongst employees;
  - (e) Circulating successes related to the Plan and fraud *modus operandi*;
  - (f) Printing the stance of the department to fraud on pamphlets;
  - (g) Placing notices or other communiqués related to the Plan in notice boards and other areas to which employees and the public have access;
  - (h) Placing communiqués in government vehicles, e.g. relating to the abuse of vehicles;
  - (i) Giving copies of the Code to suppliers of goods and services;
  - (j) Developing a fraud prevention suggestion box where all employees could make suggestions on how to prevent fraud and corruption and further improve the Plan; and
  - (k) Developing promotional items communicating the Plan or components thereof, e.g.:
    - T-shirts;
    - Mouse pads; and
    - Motor vehicle licence disks.
- (l) Using the newsletter to communicate issues relating to the prevention and detection of fraud, including matters reported and action taken.

## **4.12 Ongoing maintenance and review**

- 4.12.1 In order to ensure that the process of ongoing development and implementation of the Plan is consultative and viewed as such by all stakeholders within Provincial Treasury, the Committee, which will comprise management of the Department of Provincial Treasury, will be established.



4.12.2 The Committee, once established, will be responsible for the ongoing maintenance and review of the Plan. This will include:

- a) Evaluating reports of fraud and highlight areas of risk within the department of Provincial Treasury;
- b) Considering fraud threats to Provincial Treasury and addressing these;
- c) Monitoring action taken to implement recommendations relating to incidents of fraud;
- d) Steering and taking responsibility for the Plan;
- e) Reviewing and making appropriate amendments to the Plan; and
- f) Ensuring that ongoing implementation strategies are developed and carried out.

4.12.3 The Plan will be reviewed as and when a need arises or on an annual basis, whilst progress with the implementation of the various components will be reviewed on a quarterly basis. With regard to the latter, specific priorities stemming from the Plan, actions to be taken, responsible persons and feedback dates relating to progress made will also be set.

#### 4.13 Adoption of the Plan

Adopted by:

---

MR H CONRADIE  
ACCOUNTING OFFICER

---

Date