

Fraud Prevention Plan



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Provincial Treasury

- “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

1.4 In developing the Plan, several business risks, including fraud and corruption risks which were identified as part of a detailed and comprehensive risk analysis exercise undertaken by the IAU (which included discussions with key individuals from Education and), 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.2 of 1999 and the Disciplinary Code and Procedures for the Public Service;
- Departmental policies;
- Cabinet Resolution No. 166 of 2000, relating to the investigation of Government fraud;
- The KwaZulu-Natal Fraud Prevention Strategy, An Interim Guide, published on 25 March 2001;
- Public Service Regulations, 2001; and
- Code of Conduct and Ethics.

1.7 The risks of fraud addressed in this document should not be relied upon as the full spectrum of the risks facing Education and , 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.

Other Issues	:	<p>Activities undertaken by employees which may be unlawful against Education and 's regulations or policies, falls under established standards or practices or amounts to improper conduct, e.g.:</p> <ul style="list-style-type: none"> • Receiving undue gifts or favours for carrying out functions, e.g. gifts in contravention of the relevant policy; and • Deliberately omitting or refusing to report or act upon reports of any irregular or dishonest conduct.
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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 Education and should be aware of in their daily functions:

Indicators that individuals may be susceptible to committing fraud

- Unusually high personal debts;
- Severe personal financial losses;
- Living beyond one's means;
- Extensive involvement in speculative investments;

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- Wheeler-dealer attitude;
 - 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 record;
 - Defendant in a civil suit;
 - Rationalisation for conflicting behavioural patterns;
 - No signs of code of personal ethics; and
 - Undisclosed conflicts of interest.

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

- Lack of competent personnel;
- Does not enforce clear lines of authority and responsibility;
- Does not enforce proper procedures for authorisation of transactions;
- 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 segregation of duties;

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;
- Dishonest or dominant management;
- 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 departments and placing/ promoting of staff;
- Problems in obtaining finance or restrictions placed thereon;
- Litigation;
- Non-existent and over-valued assets;
- Unexplained increases in assets;

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 Education and .

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 Education and ;

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- (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 Education 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 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) Creation of awareness amongst employees and other stakeholders through communication and education relating to specific components of the Plan; and
 - (l) 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;

A. PREVENTING FRAUD

4.1 Code of Conduct and Business Ethics

4.1.1 A Code of Conduct and Business Ethics (“Code”) was developed, based on the Public Service Regulations of 2001. The Code is intended to set down clear guidelines relating to Education’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 Education. In order to contextualise the Code as a component of the Plan, it has been attached as **Appendix A**.

4.1.3 Education 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

Education as a whole and external stakeholders including the public.

4.2 Department of Education's systems, policies, procedures, rules and regulations.

4.2.1 Education 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 Education 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;
- Various 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;
- Financial Delegations of authority;
- Human Resources Delegation of authority;

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

4.2.6 Education recognises that its employees are often best placed to identify “loopholes” or weaknesses in systems and procedures. Education 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, Education 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 Education 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.

- 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 action.

4.3.2 Education recognises the fact that the consistent and efficient application of disciplinary measures is an integral component in making the Plan a success. Education will continue to pursue the following steps to ensure the consistent, efficient and speedy application of disciplinary measures:

- (a) 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;
- (b) 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;
- (c) 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

(ii) The authority limits are specified in the delegations of authority of Education.

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.

- 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:
- Education 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.
 - Education 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 Education as a result of the internal control deficiency identified. This is intended to raise the level of accountability for internal control by the Head of Department 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.

4.4.2 All employees within Education are encouraged to be aware of and to identify any internal control weaknesses within the working environment and to communicate such weaknesses to their manager or in the case of manager to the Head of Department or alternatively to Risk Management within IAU (PO Box 3613, PIETERMARITZBURG, 3200).

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- (d) 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.

4.6.4 As indicated previously, Education will continue to regularly re-emphasise to all senior managers that consistent compliance by employees with internal control is in itself one of the fundamental controls in place to prevent fraud. Program 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, in addition to addressing the 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 Education acknowledges the fact that it faces diverse business risks from both internal and external environments. It has initiated negotiations with IAU in order to ensure that a structured programme is put in place to ensure that risk assessments within Education and 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 of 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

- (c) To detect incidents of fraud by encouraging whistle blowers to report incidents which they witness;
- (d) To assist Province and hence Education 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 Education in identifying areas of risk of fraud in order that preventive and detective controls can be appropriately improved or developed.

4.8.2 Education supports the Fraud Hotline and encourages its employees to utilise this service to supply information relating to fraudulent activity. 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/Head of Department or Manager: Risk Management who is the director in charge of the forensic investigations unit within the IAU.

4.8.4 Hence, Education will ensure that the responsibility of responding to and investigating information secured through the Fraud Hotline and through any other medium, is clearly negotiated with Risk Management and that proper records are kept of all allegations relating to Education and . 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, using

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

4.9.5 In order to facilitate the identification of additional risks and the consequent development of appropriate strategies to address these, Education will continue to ensure that the system it has established with the Risk Management Services of the IAU is used 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.

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, Education has developed a Whistle Blowing Policy (**Appendix D**).

4.10.2 The Whistle Blowing Policy is based on the Protective 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 Education.

C. FURTHER IMPLEMENTATION AND MAINTENANCE

4.11 Creating awareness

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

- Lack of a formalised strategy to create awareness amongst employees of the manifestations of fraud and the risks of fraud facing Education and ;

- fraud amongst employees;
- (e) Circulating successes related to the Plan and fraud *modus operandi*;
 - (f) Printing the stance of Education to fraud on pay slips;
 - (g) Placing notices or other communiqués related to the Plan in toilets 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
- (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 Education, the Committee, which will include management of the Department of Education and representatives from the IA, 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 Education;
 - b) Considering fraud threats to Education and addressing these;
 - c) Monitoring action taken to implement recommendations relating to incidents of fraud;