POLICY TITLE	FRAUD PREVENTION STRATEGY - ANNEXURE A
DATE OF APPROVAL	22 May 2025
REVIEW DATES	21 May 2026

1. INTRODUCTION

1.1 Definition of Corruption

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

1.2 Fraud Definition

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

1.3 Fraud Prevention Structure

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

1.4 The Importance of Fraud Prevention

1.4.1 Duties in terms of Legislation

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

1.4.2 Good Corporate Governance

The principles of good corporate governance, as dictated by the King III Report, also necessitate the establishment of a Fraud Prevention Plan.

1.4.3 Increased efficiency and effectiveness

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

1.5 The Importance of Fraud Prevention

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

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

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

1.6 The Importance of Fraud Prevention

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

2. CHARACTERISTICS OF FRAUD

The primary objective of the plan is the protection of the entity, its assets, stakeholders and its employees.

2.1 Objectives

- To provide a richer understanding of the environment in which fraud is likely to occur; and
- To form the basis of the Entity Fraud Prevention Strategy.

2.2 Context of Fraud Risk

Three conditions are generally present when fraud occurs, namely:

Incentive/pressure – incentive or pressure on management or officials to materially misstate the financial statements

Opportunity – circumstances that provide an opportunity to carry a material misstatement in the financial statements, and

Attitude/rationalisation – an attitude, character or set of ethical values that allows one or more individuals to intentionally commit a dishonest act, or a situation in which individuals can rationalise a dishonest act.

These are termed fraud triangle.

2.3 Context of Examples

2.3.1 Incentive/Pressure

An incentive to commit fraud is not only to misappropriate an asset e.g. cash, but can also consist of manipulating information regarding key performance indicators with the objective of reaping a financial reward.
Personal issues e.g. financial pressures can increase the occurrence of fraud. Unnecessary demanding business related pressures e.g. pressure to reach set objectives and targets, also contribute to the likelihood of fraud occurring.

2.3.2 Opportunity

Lacks of internal controls, poor control environment, lack of proper segregation of duties, etc. are examples of opportunities in the work environment which increase the likelihood of fraud.

2.3.3 Attitude/Rationalisation

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

3. FRAUD STRATEGY

3.1 Developing a Fraud Strategy

3.1.1 Incentive/Pressure

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

3.1.2 Opportunity

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

3.1.3 Attitude/Rationalisation

Attitude/rationalisation is to a lesser extent under the control of management. Incorporating a zero-tolerance attitude and culture within the Entity will act as

powerful deterrent to fraud. Leading by example will be one of the tools used by management to create such a culture of zero-tolerance toward fraud.

3.2 Components of the Fraud Prevention Strategy

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

- Prevention - Fraud Ethics Policy and
- Fraud Prevention Plan
- Detection - Internal controls,
- Internal audit,
- External audit, and
- Reporting structures
- Investigation – Internal, and/or External
- Response – Fraud Response Plan

The prevention of fraud is the most important component of our Entity strategy in dealing with fraud.

3.3 Relationship between Risk and Fraud Management

The risk of fraud is seen as a sub-component of risk within the Entity. As such risk management activities will include the estimation of the likelihood of the occurrence of fraud.

Risk evaluation within the Entity is done using the business process approach. This entails in short, the identification of critical business processes, identification of risks associated with each process and the development of effective, efficient and transparent controls to reduce to identified risks.

Each critical process identified during the business process approach should be evaluated for its susceptibility to fraud. The end result will be a fraud risk map for all Entity processes.

4. DEVELOPING THE FRAUD PREVENTION PLAN

4.1 Objectives

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

4.2 Introduction

Implementation of the Fraud Strategy can only be effective through a series of inter-related steps. Some of these steps may need annual revision. The implementation steps are:

- Allocation of responsibility for implementation
- Risk Management Committee
- The Code of Conduct
- The Development of a Fraud Ethics Policy
- Development of a Fraud Response Plan
- Fraud detection reviews designed to limit exposure to fraud losses
- Fraud Risk reviews
- Promoting the fraud reporting facilities
- The roll-out of a Fraud Awareness program for all staff
- Strengthening of the Entity disciplinary processes
- Compilation of a fraud risk map
- Internal Audit
- Audit Committee

4.3 Allocation of Responsibilities for Implementation

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

4.4 Risk Management Committee

In an effort to create a culture of zero-tolerance in the Entity, management must lead by example. The appointment of management to the Risk Management Committee is seen as a first step in creating such a culture.

The Committee's function is to input into the Fraud Prevention Strategy since fraud is part of risk facing the Entity. Minutes of the meetings held by the Committee must be kept for control and compliance purposes.

4.5 Code of Conduct

Refer to the Entity's Ethics and Conduct Policy.

4.6 Fraud Ethics Policy

A Fraud Ethics Policy is a document in which the Entity declares what it regards as morally or ethically acceptable behaviour.

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

4.7 Fraud Response Plan

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

4.8 Fraud Vulnerability Reviews

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

- The Internal Audit service consists of the following processes:

- Risk Assessment and the Audit Plan – carry out a risk assessment and develop a three year rolling internal audit plan;

- Execute the strategic internal audit plan – which encompasses performing internal audit assignments as per the agreed audit plan;

- Ad hoc assignments – carry out other assignments as the Audit Committee and the Accounting Officer may authorise.

However, as Internal Audit is required to focus on the full spectrum of organisational risk, of which fraud is only one element, it is recognised that specific focus on fraud risk is not necessarily given sufficient and specific attention. It is therefore accepted that a specific intervention which focuses solely on fraud risk, is both necessary and appropriate.

One of the most valuable tools in this regard is a Fraud Vulnerability Review which will address the following factors when assessing the fraud risks within the Entity:

- Identification of areas where the exposure to fraud is present
- The probability of fraud occurring in those areas
- The potential exposure or loss that may arise as a result a fraud occurring in the exposed area
- Controls which could be implemented to reduce and manage the risk
- The Internal Auditor: Forensics, once employed, will drive this process.

4.9 Fraud Detection Reviews

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

The Fraud Detection Reviews encompass proactive utilisation of computer software to identify possible unhealthy relationships in Entity data that might flag potential existence of fraud. These flags will be investigated further to verify whether fraudulent activities exist. If discovered, disciplinary proceedings will be instituted when deemed necessary. The Internal Auditor: Forensics will drive the process.

4.10 Promoting of Reporting Facilities

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

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

4.11 Roll-out of a Fraud Awareness Program for all Staff

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

4.12 Strengthening of Entity Disciplinary Procedures

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

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

4.13 Compiling of Fraud Risk Map

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

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

- Assess the likelihood (or frequency) of fraud occurring,
- Estimate the potential impact if fraud were to occur, consider both quantitative and qualitative factors
- Evaluate related controls in place,
- Determine how residual risk of fraud should be managed, and
- Re-engineer internal controls if residual risk is outside predetermined limits.

5. INTERNAL AUDIT

The Entity Fraud Risk Map will guide internal audit effort and activities.

6. AUDIT COMMITTEE

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

7. POLICY AMENDMENT AND/OR ABOLITION

This Strategy may be amended or repealed by the Entity through Board resolution.

8. POLICY REVIEW

This strategy will be reviewed annually to ensure applicability and relevance.

9. APPROVAL

NAME	SIGNATURE	DESIGNATION	DATE
Mr Sandile Dlomo		**CHAIRPERSON: SCTIE**	**21.05.2026**