



*"A Promise Delivered"*

## **ANTI-FRAUD AND CORRUPTION STRATEGY**

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## **1. INTRODUCTION**

### **1.1. Purpose**

The primary objective of this strategy is to prevent fraudulent conduct before it occurs by encouraging a culture within the Entity where all employees, members of the public and other stakeholders continuously conduct with and promote integrity in their dealings with, or on behalf of Entity.

To encourage all employees and other stakeholders to strive towards the promotion of integrity and the prevention and detection of unethical conduct, fraud and corruption impacting or having the potential to impact on the Entity.

To improving accountability, efficiency and effective administration within entity, including decision-making and management conduct which promotes integrity.

### **1.2. Objectives of the Strategy**

**The objectives of this strategy could be summarised as follows:**

- a) Creating a culture within entity which is intolerant to unethical conduct, fraud and corruption;
- b) Strengthening community participation in the fight against corruption in entity;
- c) Strengthening relationships with key stakeholders, e.g. SAPS, employee representative unions and Communities, that are necessary to support the actions required to fight corruption in entity;
- d) Preventing unethical conduct, fraud and corruption which cannot be deterred;
- e) Detection of unethical conduct, fraud and corruption;
- f) Taking appropriate action in the event of such irregularities, e.g. disciplinary action, recovery of losses, prosecution, etc.; and
- g) Applying sanctions, which include redress in respect of financial losses.
- h) Encouraging a culture in the municipality where all employees, members of the public and other stakeholders continuously behave with and promote integrity in their dealings with, or on behalf of the entity;
- i) Improving accountability, efficiency and effective administration in the municipality, including decision-making and management conduct which promote integrity;
- j) Development of anti-corruption capacity in the entity;
- k) Improving the application of systems, policies, procedures and regulations in the entity;

**All aspects of the strategy will be:**

- Supported by comprehensive education, training and awareness campaigns;
- Coordinated with other the spheres of government and community;
- Subjected to continuous fraud risk assessments; and
- Expressed in terms of measurable and time-bound implementation plans.

## **2. DEFINITION OF FRAUD AND CORRUPTION**

**Fraud** – this involves actions or behaviour by an individual, other person or entity that manipulate others or systems into providing a benefit that would not normally accrue to the public servant, other person or entity.

The term “fraud” is also used in a wider sense by the general public.

In this regard, the term is used in this document 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.

The general offence of corruption is contained in Section 3 of The Prevention and Combating of Corrupt Activities Act. This section provides that any person who gives or accepts or agrees or offers to accept / receive any gratification from another person in order to influence such other person in a manner that amounts to:

- a) The illegal or unauthorised performance of such other person’s powers, duties or functions;
- b) An abuse of authority, a breach of trust, or the violation of a legal duty or a set of rules;
- c) The achievement of an unjustified result; or
- d) Any other unauthorised or improper inducement to do or not to do anything is guilty of the offence of Corruption.

**Corruption** in its wider meaning, and as referred to in this document, includes any conduct or behaviour where a person accepts, agrees or offers any gratification for him/her or for another person where the purpose is to act dishonestly or illegally. Such behaviour also includes the misuse of material or information, abuse of a position of authority or a breach of trust or violation of duty.

## **2.1. Forms of corruption**

Corruption takes various forms in then Entity and elsewhere in society. The following are examples of different types of corruption:

### **2.1.1. Bribery**

Bribery involves the promise, offering or giving of a benefit that improperly affects the actions or decisions of entity employees.

### **2.1.2. Embezzlement**

This involves theft of resources by persons who control such resources.

### **2.1.3. Extortion**

Coercion of a person or entity to provide a benefit to an Entity employee, another person or an entity, in exchange for acting (or failing to act) in a particular manner.

### **2.1.4. Abuse of power**

The use by an entity employee of his or her vested authority to improperly benefit another person or entity (or using vested authority to improperly to discriminate against another person or entity).

### **2.1.5. Conflict of interest**

The failure by an entity employee to act or to consciously fail to act on a matter where the municipal employees has an interest or another person or entity that has some form of relationship with an Entity employee has an interest.

### **2.1.6. Abuse of privileged information**

This involves the use, by entity employees of privileged information and knowledge that an entity employee possesses as a result of his/ her office to provide unfair advantage to another person or entity to obtain a benefit.

### **2.1.7. Favouritism**

The provision of services or resources according to personal affiliation by an entity employee who does not meet minimum requirements.

### **2.1.8. Nepotism**

An official ensuring that family members are appointed to entity positions or that family members receive contracts from the entity without meeting minimum requirements is regarded as nepotism.

These manifestations are by no means exhaustive as corruption appears in many forms and it is virtually impossible to list all of these.

## **2.2. Actions constituting fraud and corruption**

Fraud and corruption manifests in a number of ways and varying degrees of intensity. These include, but are not limited to:

- Unauthorised private use of the entity's assets, including vehicles;
- Falsifying of records;
- Conspiring unfairly with others to obtain a tender;
- Disclosing proprietary information relating to a tender to outside parties;
- Accepting inappropriate gifts from suppliers and tenants
- Operating a private business in working hours;
- Stealing equipment or supplies from work;
- Soliciting bribes or favours to process requests;
- Soliciting bribes or favours for turning a blind eye to a service provider who does not provide an appropriate service;
- Submitting or processing false invoices from contractors or other service providers; and;
- Misappropriating fees received from tenants, and avoiding detection by not issuing receipts to those tenants.

## **2.3. Polokwane Housing Association statement of attitude to fraud**

Polokwane Housing Association requires all staff at all times to act honestly and with integrity and to safeguard the entity resources for which they are responsible. The entity is committed to protecting all revenue, expenditure and assets from any attempt to gain illegal financial or other benefits.

Any fraud or corruption committed against the entity is a major concern to the Council and Board. Consequently, any case will be thoroughly investigated and appropriate corrective action will be taken against anyone who is found guilty of corrupt conduct. This may include referral to the South Africa Police Services and other relevant state organ depending on the nature of the matter.

## **3. LEGISLATIVE FRAMEWORK**

### **3.1. Local Government Anti-Corruption Strategy, 2006.**

The strategy gives guidance mainly on what municipal's anti-fraud and corruption strategies should entail and activities that needs to be carried out by municipalities to deal with fraud and corruption. It prescribes the vetting of entity employees, both existing and prospective, to ensure that they are not predisposed to corruption.

### **3.2. The Protected Disclosures Amendment Act 26 of 2000.**

Section 10(4) of the act gives provision for the procedures in terms of which employees (in both the private and the public sector) may disclose information regarding unlawful or irregular conduct by:

- their employers; or
- other employees in the employ of their employers;
- to provide for the protection of employees who make a disclosure, which is protected in terms of the Act.

The Act has the following goals:

- to create a culture that facilitates the disclosure of information by employees about criminal or other irregular conduct in the workplace responsibly; and
- to promote the eradication of criminal and other irregular conduct in organs of state and private bodies.

### **3.5. Prevention and Combating of Corrupt activities Act 12 of 2004.**

The Act provide for the strengthening of measures to prevent and combat corruption and corrupt activities; to provide for the offence of corruption and offences relating to corrupt activities; to provide for investigative measures in respect of corruption and related corrupt activities; to provide for the establishment and endorsement of a Register in order to place certain restrictions on persons and enterprises convicted of corrupt activities relating to tenders and contracts; to place a duty on certain persons holding a position of authority to report certain corrupt transactions; to provide for extraterritorial jurisdiction in respect of the offence of corruption and offences relating to corrupt activities; and to provide for matters connected therewith.

### **3.6. Criminal Procedure Amendment Act 65 of 2008.**

To amend the Criminal Procedure Act, 1977, to provide for the postponement of certain criminal proceedings against an accused person in custody awaiting trial through audio-visual link; to further regulate the falling away of certain convictions as previous convictions after the expiry of a fixed period; to provide for the expungement of criminal records of certain persons in respect of whom certain sentences have been imposed after the compliance with certain requirements and the expiry of a fixed period; to provide for the expungement of certain criminal records of persons under legislation enacted before the Constitution of the Republic of South Africa, 1993, took effect; and to provide for matters connected therewith.

#### **4. POLICY ON FRAUD AND CORRUPTION**

Polokwane Housing Association recognises the exposure towards fraud and corruption within its operations. As such it is the policy and mission of Polokwane Housing Association to strive for the protection of its employees and its other stakeholders through the implementation of an effective and efficient fraud prevention policy.

Polokwane Housing Association requires all staff members to always act honestly and with integrity and to safeguard the resources for which they are either directly or indirectly responsible.

Fraud is seen as an ever present threat to delivery capacity and must be the concern and responsibility of all staff in all areas of the business. There is also a wider responsibility on every staff member to prevent fraud and the adverse consequences it has for Polokwane Housing Association.

We believe that there is only one effective way of fighting fraud and other corrupt practices and that is by instilling the reality amongst employees and other stakeholders, such as suppliers of goods and services, that fraud and corruption do not pay and will be detected and punished severely.

Therefore, Polokwane Housing Association's policy on Fraud and Corruption is one of zero tolerance, and as such we are committed to:

- Aggressively detecting incidents of fraud and corruption
- The investigation of all allegations of misconduct by employees, clients and suppliers, said to be occasioned by fraud and corruption, and
- The prosecution of all offenders criminally and, where necessary, the entity of civil and disciplinary action against them.

The Anti-Fraud and Corruption Strategy should be advertised in all public places within Polokwane Housing Association's premises and issued to all stakeholders, namely, employees, tenants, community members and service providers. Publication of the strategy needs to demonstrate in no uncertain terms that the strategy is underwritten by Board and the Chief Executive Officer of Polokwane Housing Association.

## **5. FRAUD AND CORRUPTION CONTROL STRATEGIES**

The approach in combating fraud and corruption activities is focused into 3 areas, namely:

- 5.1. Structural Strategies;**
- 5.2. Operational Strategies; and**
- 5.3. Maintenance Strategies.**

### **5.1. Structural Strategies**

Structural Strategies represent the actions to be undertaken in order to address fraud and corruption at the Structural level. The following section outlines the fraud and corruption responsibilities associated with different roles within the Municipality.

#### **5.1.1. Chief Executive Officer**

The Chief Executive Officer bears the ultimate responsibility for fraud and corruption risk management within the Entity This includes the coordination of Fraud risk assessments, overseeing the investigation of suspected fraud and corruption, and facilitation for the reporting of such instances.

#### **5.1.2. Risk Management Committee**

Polokwane Housing Association's Risk Management Committee will advise the Chief Executive Officer on the Entity's approach to fraud prevention, fraud detection strategies and response to fraud and corruption incidents reported by employees or other external parties.

The Risk Management Committee shall meet at least once a quarter as per the Risk Management Committee Charter discuss the following issues:

- Progress made in respect of implementing the Anti-Fraud and Corruption Strategies;
- Reports received by the entity regarding fraud and corruption incidents with the view to making any recommendations to the Chief Executive Officer and Chairperson of the Audit Committee;
- Reports on all investigations initiated and concluded; and
- All allegations received via the hotline.

### **5.1.3. An ethical culture**

All entity staff are required to conduct themselves in an ethical and moral way. Ethical conduct is based on a set of principles referred to as values or norms. The collective ethical conduct of all the employees of the entity reflects the entity's ethical conduct. In this regard, the highest standards of ethics are required by employees when fulfilling their duties.

Good governance indicates that municipality should develop codes of conduct (ethics) as part of their corporate governance frameworks. All employees are expected to abide by the Code of Conduct for the entity.

### **5.1.4. Executive Management commitment.**

Executive Management is to be committed to eradicating fraud and corruption and ensuring that the entity strives to be perceived as ethical in all its dealings with the public and other interested parties. In this regard, Executive management, under the guidance of the Chief Executive Officer, will ensure that it does not become complacent in dealing with fraud and corruption and that it will ensure the entity's overall fraud and corruption strategy is reviewed and updated regularly. Furthermore, Executive Management will ensure that all employees and stakeholders are made aware of its overall anti - fraud and corruption strategies through various initiatives of awareness and training.

### **5.1. 5. Assessment of fraud and corruption risk.**

The entity, under the guidance of the Chief Executive Officer, will conduct annual fraud and corruption risk assessments to identify potential fraud and corruption risk exposures to the entity. This process will ensure that actions to address the identified fraud and corruption risk exposures will be implemented to mitigate these exposures.

The above will be formulated into "Fraud Risk Assessment" and which will provide an indication of how fraud and corruption risks are manifested and, "Fraud and Corruption Risk Register" which will prioritise the fraud and corruption risks and indicate actions to mitigate these risks.

The fraud and corruption risk assessment shall be done as per the process as set out in the Entity Risk Management framework.

### **5.1.6. Employee awareness**

The main purpose of fraud and corruption awareness workshops / training is to assist in the prevention, detection and reporting of fraud and corruption by raising the level of awareness as to how fraud and corruption is manifested in the workplace. In this regard, all employees will receive training on the following:

- Anti-Fraud and Corruption strategy
- Code of Conduct for employees;
- Whistle blowing policy;
- How to respond to fraud and corruption; and
- Manifestations of fraud and corruption in the workplace.
- Risk Officer will be responsible for employee awareness and that will arrange and schedule awareness sessions throughout the year.

## **5.2. Operational structures**

### **5.2.1. Internal controls**

Internal controls are the first line of defence against fraud and corruption. While internal controls may not fully protect the entity against fraud and corruption, they are essential elements in the overall Anti-Fraud and Corruption strategy.

All areas of the strategy require internal controls; for example: -

- Physical control (security of assets)
- Authorization controls (Approval of expenditure)
- Supervisory controls (supervising day-to-day issues);
- Analysis of data;
- Monthly and annual financial statements;
- Reconciliation of bank statements, monthly; and
- Reconciliation of vote accounts, monthly.
- Procurement process
- Segregation of duties (it reduces the risk of intentional manipulating or error and increase the element of checking.

The Internal Audit will be responsible for implementing an internal audit program which will incorporate steps to evaluate adherence to internal controls.

### **5.2.2. Prevention strategies**

A number of combined initiatives result in an overall preventative environment in respect of fraud and corruption. These include the following:

#### **a) Employee awareness**

Employee awareness of the entity's Anti-Fraud and Corruption strategy, Code of Conduct, Whistle blowing policy and the manifestation of fraud and corruption in the workplace all assist in the creation of an environment which may be considered to be hostile to a would-be transgressor.

#### **b) Pre-employment screening**

Pre-employment screening will be carried out for all appointments, and evidence of such screening will be maintained by the HR Manager. Consideration should be

given to the following pre-employment screening:

- i. Verification of identity.
- ii. Police criminal history.
- iii. Reference checks with the two most recent employers – this will normally require telephone contact.
- iv. A consideration of any gaps in employment history and the reasons for those gaps.
- v. Verification of formal qualifications claimed.

The screening will be performed by a person / people nominated by the Human Resources Department in conjunction with the Chief Executive Officer to ensure that screening is consistent and appropriately resourced throughout all Departments.

### **c) Recruitment process**

Recruitment will be conducted in accordance with the entity recruitment procedure. It will be a transparent process and all appointments will be confirmed only after due recommendation. Any person, involved in any decision-making process, who may have a conflict of interest, must declare such a conflict in writing to the HR manager and withdraw from any further procedures.

### **d) Risk assessment**

Risk assessment should be conducted at a strategic level and in all operation business level as fraud and corruption and irregularities and be prevented by mitigating the risk of fraud and corruption in the entity. Fraud and Corruption Risk Assessment shall be done in line with the guidelines as set in Polokwane Housing Association Risk Management Framework.

### **e) Internal Audit**

The Internal Audit Annual Plan will be based on the results of risk assessment which will prioritise high risk areas including high Fraud and Corruption risks. Internal Audit shall also bring to the attention of Risk Management or Chief Executive Officer any suspicion of fraud which they might come across during their audit reviews.

### **f) Disclosure of interest**

Chief Executive Officer, All Managers, other personnel of the entity will be required to disclose their business interests on an annual basis.

### **5.2.3. Detection strategies**

Detection of fraud and corruption may occur through:

- Vigilance on the part of employees, including line management;
- The Internal Audit function;
- Ad hoc management reviews;

- Anonymous reports; and
- The application of detection techniques

Risk Officer will be responsible for developing detection strategies, and will work closely with line management and the Internal Audit function for this purpose. The entity will embark on a number of initiatives to detect fraud and corruption in the workplace.

#### **a) Internal Audit**

As part of the prevention strategy, internal audit will examine and evaluate the adequacy and effectiveness of the system of internal control according to the plan, commensurate with the extent of the potential exposure/risk in the various segments of the entity's operations.

#### **b) External Audit**

The entity recognises that the external audit function is an important control in the detection of fraud. The Chief Finance Officer will need to hold discussions with all engaged external auditors to ensure that due consideration is given, by the auditors, to ISA 240 "*The Auditors' Responsibility to Consider Fraud in the Audit of a Financial Statement*".

### **5.2.4. Response strategy**

#### **a) Reporting fraud and corruption – a Whistle blowing policy**

One of the key obstacles to fighting fraud and corruption is the fear by employees and Community members of being intimidated for blowing the whistle on fraudulent, corrupt or unethical practices witnessed. For this reason, the Entity has adopted a Whistle Blowing Policy setting out the detailed procedure which must be followed in order to report any incidents of fraud and / or corruption. The policy has been designed to comply with the provisions of the Protected Disclosures amendment Act.

Any suspicion of fraud and corruption will be treated seriously and will be reviewed, analysed, and if warranted, investigated. If an employee becomes aware of a suspected fraud, corruption or any irregularity or unethical behaviour, such issues should be reported in terms of a Whistle Blowing Policy.

#### **b) Investigating procedure**

In the event that fraud or corruption is detected or suspected, investigations will be initiated, and if warranted, disciplinary proceedings, prosecution or action aimed at the recovery of losses will be initiated.

The nature of reports of incidents of fraud and / or corruption will determine action to be taken. Other incidents will warrant a preliminary investigation, as mentioned in

par 4.2 above, before any decision to implement full blown independent investigation is taken.

Investigations will be undertaken by appropriately qualified and experienced persons who are independent of the section where investigations are required. The investigation officer will be appointed by the Entity in writing. This may be Risk Management Unit, and HR Manager of the entity, external consultant or a law enforcement agency. All investigations performed and evidence obtained will be in accordance with acceptable practices and legal requirements. Independence and objectivity of investigations are paramount.

Any investigation initiated must be concluded by the issue of a final report within 30 days by the person/s appointed to conduct such investigations. Such reports will only be disseminated to those persons required to have access thereto in order to implement whatever action is deemed appropriate as a result of the investigation. If an investigation is not concluded within 30 days, the person/s appointed to conduct such investigations must issue a preliminary investigation report.

**Polokwane Housing Association** employees are encouraged to assist in the investigation process as may be required.

Any investigation into improper conduct within the entity will be subject to an appropriate level of supervision by the Audit and Performance Committee, having regard to the seriousness of the matter under investigation.

### **5.2.5 Resolution**

**Polokwane Housing Association** will perform the following activities after the discovery of fraudulent or corrupt activities:

#### **5.2.5 1 Disciplinary proceedings**

The ultimate outcome of disciplinary proceedings may involve a person(s) receiving written warnings or the termination of their services. All disciplinary proceedings will

take place in accordance with the procedures as set out in the entity disciplinary procedures.

#### **5.2.5.2 Prosecution**

Should investigations uncover evidence of fraud or corruption in respect of an allegation or series of allegations, the entity will review the facts at hand to determine whether the matter is one that ought to be reported to the relevant law enforcement agency for investigation and possible prosecution. Such reports must be submitted to the South African Police Service in accordance with the requirements of all applicable acts. The entity will give its full co-operation to any such law enforcement agency including the provision of reports compiled in respect of investigations conducted.

#### **5.2.5.3 Recovery action**

Where there is clear evidence of fraud or corruption and there has been a financial loss to the Entity, recovery action (criminal, civil or administrative), will be instituted to recover any such losses. In respect of civil recoveries, costs involved will be determined to ensure that the cost of recovery is financially beneficial. (Requirements of the MFMA should be taken into account).

#### **5.2.5.4 Internal control review after discovery of fraud**

In each instance where fraud is detected, Management will re-assess the adequacy of the current internal control systems (particularly those controls directly impacting on the fraud incident) to consider the need for improvements. The responsibility for ensuring that the internal control systems are re-assessed and for ensuring that the recommendations arising out of this assessment are implemented will lie with the line Management of the Entity / section concerned.

### **5.2.6. Fraud risk assessment**

Fraud and Corruption risk assessments should also be conducted annually and the results should be considered when drafting Fraud Risk Management Plan. Fraud and corruption risk assessment shall be conducted in four identified focus area.

The outcome of the Fraud and Corruption Risk Assessment shall consist of the following:

- Components of risk under each focus area as well as manifestations (materialization) of frauds/corruption of each component; and
- The fraud and corruption risk register containing all the risk manifestations and the recommendation to address each manifestation

## **6. Maintenance of the strategy**

### **6.1. Review and updating the Anti-Fraud and Corruption strategy.**

The strategy will be reviewed every 2 years or as and when required to incorporate changes in the legislative framework within Local Government.

### **Review Approval**

Risk Management Committee	07 October 2019
Audit Committee	16 October 2019
Board	10 November 2019