THULAMELA MUNICIPALITY

FRAUD PREVENTION STRATEGY

2025/2026

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1 Executive Summary

The Fraud Prevention Strategy seeks to focus attention at the macro strategic level in the first instance. It then provides a schema for assessing matters and actions to be addressed at the detailed level. It is important to note that the strategy is highly prescriptive in its nature. Below is the brief background information on the Fraud Prevention Strategy for the Thulamela Municipality and commitment to by Accounting Officer.

It is mandatory for Thulamela Municipality to establish Risk Management Committee that will serve as an advisory role to the Accounting Officer. It is envisaged that the Committee will operate better with the assistance of Chief Risk Officer, who will serve a secretariat role of this Committee.

The commitment, by all officials, to mitigate fraudulent activities and to report when fraud occurs will be dealt thoroughly by the Committee and will be reported to Accounting Officer. Whist this Strategy will identify relevant issues to be addressed it is the responsibility of each component to assess their own situation and how the Strategy will be implemented and communicated effectively. It is a means of effectively organising ideas and efforts. It is a device for both encouraging and assisting management to see the big picture – and hence to gain confidence that there are no gaps. The Strategy serves an analytical, planning and review tool. It is upon the above premise that a more relevant and focused Fraud Prevention Strategy for the Thulamela Municipality is developed.

This Fraud Prevention Strategy covers the following:

- Provision of a focus point and allocation of accountability and authority;
- Provides a common understanding of what constitutes fraud;
- Raises vigilance, which means that staff and managers need to be actively involved on an ongoing basis in preventing and detecting fraud. Without their support, fraud prevention will fail. Their support can be achieved by increasing awareness, encouraging involvement and developing a staff fraud reporting process;
- Uncover the facts, which refer to the processes and skills, required to manage a fraud allegation and methods on how to institute with investigations; and
- Fraud and Corruption Control Strategies, namely, Structural, Operational, Maintenance Strategies.

2 Regulatory Framework

Summary of statutory offences relating to dishonesty

Prevention and Combating of Corrupt Activities Act, 12 of 2004

The Prevention and Combating of Corrupt Activities Act (generally referred to as "PRECCA") is aimed at the strengthening of measures to prevent and combat corrupt activities.

The Act refers to a wide range of offences relating to corrupt activities. In addition to specific offences, the Act also provides for the following:

- The provision of investigative resources;
- The establishment of a register relating to persons convicted of corrupt activities;
- Placing a duty on persons in a "position of authority" to report certain corrupt transactions; and
- Extraterritorial jurisdiction in respect of offences relating to corrupt activities.

As far as offences are concerned, the Act defines a general offence of corruption. In addition to the general offence, certain specific offences are defined relating to specific persons or specific corrupt activities.

The offences defined by the Act relate to the giving or receiving of a "gratification". The term gratification is defined in the Act and includes a wide variety of tangible and intangible benefits such as money, gifts, status, employment, release of obligations, granting of rights or privileges and the granting of any valuable consideration such as discounts etc.

The general offence of corruption is contained in Section 3 of the 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:

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

The Act defines specific offences relating to the following categories of persons:

- Public Officers;
- Foreign Public Officials;
- Agents;
- Members of Legislative Authorities;
- Judicial Officers; and
- Members of the Prosecuting Authority.

The Act furthermore defines specific offences in respect of corrupt activities relating to the following specific matters:

- Witnesses and evidential material in certain proceedings;
- Contracts;
- Procuring and withdrawal of tenders;
- Auctions;
- Sporting events; and
- Gambling games or games of chance.

Section 34 of the Act places a duty on any person in a position of authority to report a suspicion of certain corrupt or illegal activities to a police official. These include certain offences of corruption created under the Act as well as fraud, theft, extortion and forgery where the amount involved exceeds R100 000. Failure to report such suspicion constitutes an offence.

"Position of authority" is defined in the Act and includes a wide range of persons in authority in both public and private entities.

Offences under the Act are subject to penalties including imprisonment for life and fines of up to R250 000. In addition, a fine amounting to five times the value of the gratification involved in the offence may be imposed.

Section 17 of the Act provides that a public officer who acquires or holds a private interest in any contract, agreement or investment connected with the public body in which he/she is employed, is guilty of an offence unless:

- The interest consists of shareholding in a listed company;
- The public officer's conditions of employment do not prohibit him/her from acquiring such interests; or
- In the case of a tender process, the said officer's conditions of employment do not prohibit him/her from acquiring such interests as long as the interests are acquired through an independent tender process.

Prevention of Organised Crime Act, 121 of 1998 (POCA)

The Prevention of Organised Crime Act, as amended, (generally referred to as "POCA") contains provisions that are aimed at achieving the following objectives:

- The combating of organised crime, money laundering and criminal gang activities;
- The criminalisation of conduct referred to as "racketeering";
- The provision of mechanisms for the confiscation and forfeiture of the proceeds of crime;
- The creation of mechanisms for the National Director of Public Prosecutions to obtain certain information required for purposes of an investigation; and
- The creation of mechanisms for co-operation between investigators and the South African Revenue Services (SARS).

Section 4 of the Act defines the *"general"* offence of money laundering and provides that a person who knows, or ought reasonably to have known, that property is, or forms part of the proceeds of unlawful activities, commits an offence if he commits an act in connection with that property which has the effect or is likely to have the effect of concealing the nature and source thereof.

Section 5 of the Act creates an offence if a person knows or ought reasonably to have known that another person has obtained the proceeds of unlawful activities and provides assistance to such other person regarding the use or retention of such property.

Section 6 of the Act creates an offence if a person knows or ought reasonably to have known that property is or forms part of the proceeds of unlawful activities and acquires uses or possesses such property.

The above offences are regarded as very serious and the Act contains exceptionally harsh penalties relating to these offences. A person convicted of one of the above offences is liable to a maximum fine of R100 million or to imprisonment for a period not exceeding 30 years.

Financial Intelligence Centre Act, 38 of 2001 (FICA)

The Financial Intelligence Centre Act, as amended, (generally referred to as "FICA") was signed by the President in November 2001. Its provisions were implemented over time, commencing during January 2002.

The Act (FICA) establishes a Financial Intelligence Centre and a Money Laundering Advisory Council. The purpose of these entities is to combat money laundering activities.

FICA imposes certain reporting duties and compliance obligations.

The Act imposes compliance obligations on so-called "accountable institutions" which are defined in Schedule 1 to the Act. These obligations include:

- A duty to identify clients;
- A duty to retain records of certain business transactions;
- A duty to report certain transactions; and
- The adoption of measures to ensure compliance, namely, the implementation of so-called "internal rules", provision of training etc.

Regarding the reporting of suspicious transactions, FICA makes provision for a duty to report *"suspicious or unusual transactions"*. In this regard it provides that any person who carries on a business or who manages is in charge of or is employed by a business and who knows or suspects certain facts has a duty to report their knowledge or suspicion to the FICA within a prescribed period. Matters that require reporting include knowledge or suspicion of the following:

- The receipt of proceeds of unlawful activities;
- Transactions which are likely to facilitate the transfer of proceeds of unlawful activities;
- Transactions conducted to avoid giving rise to a reporting duty under FICA;
- Transactions that have no apparent business or lawful purpose;
- Transactions relevant to the investigation of tax evasion; or
- The use of a business entity for money laundering purposes.

A person who fails to make a report as required commits an offence and is liable to a fine not exceeding R10 million or imprisonment not exceeding 15 years.

Protection of Constitutional Democracy Against Terrorist and Related Activities Act, Act 33 of 2004 ("POCDATARA")

On May 20, 2005, the Protection of Constitutional Democracy Against Terrorist and Related Activities Act (POCDATARA) came into effect criminalising terrorist activity and terrorist financing and gave the government investigative and asset seizure powers in cases of suspected terrorist activity.

POCDATARA provides for two new reporting obligations under section 28A and section 29 of FICA. The Money Laundering Control Regulations under FICA have also been amended, with effect from 20 May 2005, for this purpose. The amended regulations now provide for detailed reporting related to terrorist financing, under new sections 28A and 29 of FICA.

The POCDATARA amends section 29 of FICA to extend the reporting of suspicious and unusual transactions to cover transactions relating to *"property which is connected to an offence relating to the financing of terrorist and related activities"* or to *"the financing of terrorist and related activities"*. The POCDATARA introduces a new section 28A of FICA that requires the reporting of any property that is associated with terrorist and related activities to the FICA.

Statutes combating fraud and corruption

The Protected Disclosures Act was promulgated to facilitate reporting by employees (whistle blowers) of fraud, corruption or other unlawful or irregular actions by their employer(s) or co-employees without fear of any discrimination or reprisal by their employers or co-employees.

Any employee who has information of fraud, corruption or other unlawful or irregular action(s) by his/her employer(s) or co-employees can report such actions, provided that he/she has information that:

- A crime has been, is being, or is likely to be committed by the employer or employee(s);
- The employer or employees has/have failed to comply with an obligation imposed by law;

- A miscarriage of justice has or will likely occur because of the employer's or employee(s) actions;
- The health or safety of an individual has been, is being, or is likely to be endangered;
- The environment has been, is being or is likely to be endangered;
- Unfair discrimination has been or is being practiced; or
- Any of the above has been, is being, or is likely to be concealed.

The Act prohibits the employer from:

- Dismissing, suspending, demoting, harassing or intimidating the employee;
- Subjecting the employee to disciplinary action;
- Transferring the employee against his or her will;
- Refusing due transfer or promotion;
- Altering the employment conditions of the employee unilaterally;
- Refusing the employee a reference or providing him/her with an adverse reference;
- Denying appointment;
- Threatening the employee with any of the above; or
- Otherwise affecting the employee negatively, if the disclosure is made in terms of the Act.

3 Introduction

3.1 Purpose

The purpose of the strategy is to address the following:

- Maintaining a culture which is intolerant(zero tolerance) to fraud;
- Deterrence of fraud;
- Preventing fraud which cannot be deterred;
- Detection of fraud;
- Investigating detected fraud;
- Taking appropriate action against fraudsters, e.g. prosecution, disciplinary action, etc; and
- Applying sanctions, which include redress in respect of financial losses.

3.2 Statement of attitude to fraud

Fraud represents a significant potential risk to the Thulamela Municipality's assets, service delivery efficiency and reputation. The Municipality will not tolerate corrupt or fraudulent activities, whether internal or external to the Institution, and will vigorously pursue and prosecute any parties, by all legal means available, which engage in such practices or attempt to do so.

3.3 Thulamela Municipality's anti-fraud and corruption strategy and prevention plan

This Anti-Corruption Strategy and Fraud Prevention Plan have been developed as a result of the expressed commitment of Government to fight corruption. It is also an important contribution to the National Anti-Corruption Strategy of the country and supplements both the Public Service Anti-Corruption Strategy and the Local Government Anti-Corruption Strategy.

3.4 Definition of fraud and corruption

In South Africa, the Common Law offence of fraud is defined as "the unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another". 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:

- The illegal or unauthorised performance of such other person's powers, duties or functions;
- An abuse of authority, a breach of trust, or the violation of a legal duty or a set of rules;
- The achievement of an unjustified result; or
- 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.

3.4.1 Forms of corruption

Corruption takes various forms in the public service and elsewhere in society. The following are examples of different types of corruption.

3.4.1.1 Bribery

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

3.4.1.2 Embezzlement

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

3.4.1.3 Fraud

Any conduct or behaviour of which a dishonest representation and/or appropriation forms an element.

3.4.1.4 Extortion

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

3.4.1.5 Abuse of power

The use by a public servant of his or her vested authority to improperly benefit another public servant, person (or using vested authority to improperly discriminate against another public servant or person).

3.4.1.6 Conflict of interest

The failure by a public servant to act or to consciously fail to act on a matter where the public servant has an interest or another person that has some form of relationship with the public servant has an interest.

3.4.1.7 Abuse of privileged information

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

3.4.1.8 Favouritism

The provision of services or resources according to personal affiliation (for example cultural or religious) of a public servant.

3.4.1.9 Nepotism

A public servant ensuring that family members are appointed to public service positions or that family members receive contracts from the state 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.

4 Policy on Fraud and Corruption

4.1 Background

This strategy is established to facilitate the development of controls which will assist in the prevention and detection of fraud and corruption, as well as provide guidelines as to how to respond should instances of fraud and corruption be identified. This policy is also established to give effect to the various legislative instruments as described in the previous section.

4.2 Scope of the strategy

This strategy applies to all employees, stakeholders, contractors, vendors / suppliers and any other party doing business with the Municipality.

4.3 Strategy

It is the strategy of the Municipality that fraud, corruption, maladministration or any other dishonest activities of a similar nature will not be tolerated. Such activities will be investigated and actions instituted against those found responsible. Such actions may include the laying of criminal charges, civil and administrative actions and the institution of recoveries where applicable.

Prevention, detection, response and investigative strategies will be designed and implemented. These will include any existing controls (system controls and manual internal controls) and those currently prescribed in existing policies, procedures and other relevant prescripts to the activities of the Municipality.

It is the responsibility of all employees to report all incidents of fraud and corruption that may come to his / her attention to his / her supervisor. Alternatively, such reports can be made by way of submitting a report through the Vhembe District Municipality Shared Anti-Fraud and Corruption hotline.

All reports received will be treated with the requisite confidentiality and will not be disclosed or discussed with parties other than those charged with investigation into such reports.

All Managers are responsible for the prevention, detection and investigation of fraud and corruption, within their areas of responsibility.

4.4 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 Municipality's assets, including vehicles;
- Falsifying travel and subsistence claims;
- Conspiring unfairly with others to obtain a tender;
- Disclosing proprietary information relating to a tender to outside parties;
- Accepting inappropriate gifts from suppliers;
- Employing family members or close friends;
- Operating a private business during working hours;
- Stealing equipment or supplies from work;
- Accepting bribes or favours to process requests;
- Accepting 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 customers, and avoiding detection by not issuing receipts to those customers.

5 Fraud and Corruption control strategies

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

- Structural Strategies;
- Operational Strategies; and
- 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.

5.1.1 Responsibilities for fraud and corruption risk management

The following section outlines the fraud and corruption risk management responsibilities associated with different roles within the Institution.

5.1.1.1 Accounting Officer

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

5.1.1.2 Risk Management Committee

The role of the Risk management Committee is to oversee the Municipality's approach to fraud prevention, fraud detection strategies and response to fraud and corruption incidents reported by employees or other external parties. The various business units should have representation on this committee. The Internal Auditor shall be a compulsory member.

The Risk Management Committee shall meet at least once in a quarter to discuss the following issues:

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

5.1.2 An ethical culture

The Municipality is required to conduct itself in an ethical and moral way.

Ethics are concerned with human character and conduct and deal with questions of right and wrong, appropriate and inappropriate behaviour and what constitutes good or evil. Ethical conduct is based on a set of principles referred to as values or norms. The collective ethical conduct of all the individual employees of the Municipality reflects on its ethical conduct. In this regard, the highest standards of ethics are required by employees when fulfilling their duties.

Good governance indicates that institutions 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 Public Service.

5.1.3 Senior management commitment

Senior management is to be committed to eradicating fraud and corruption and ensuring that the Municipality strives to be perceived as ethical in all its dealings with the public and other interested parties. In this regard, senior management, under the guidance of the Accounting Officer, will ensure that it does not become complacent in dealing with fraud and corruption and that it will ensure the Municipality's overall fraud and corruption strategy is reviewed and updated regularly. Furthermore, senior 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.

5.1.4 Assessment of fraud and corruption risk

The Municipality, under the guidance of the Accounting Officer and the Chairperson of the Risk Management Committee, will conduct annual fraud and corruption risk assessments to identify potential fraud and corruption risk exposures to the Municipality. 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, a "Fraud and Corruption Risk Register" which will prioritise the fraud and corruption risks and indicate actions to mitigate these risks.

5.1.5 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 Municipal Officials;
- Whistle blowing policy;
- How to respond to fraud and corruption; and
- Manifestations of fraud and corruption in the workplace.

The Municipality will identify the individual that would be responsible for employee awareness and that will arrange and schedule awareness sessions throughout the year.

5.2 Operational strategies

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 Municipality against fraud and corruption, they are essential elements in the overall Anti-Fraud and Corruption Strategy.

All areas of operations require internal controls, for example:

- Physical controls (securing of assets);
- Authorisation 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.

The Internal Audit Activity 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:

5.2.2.1 Employee awareness

Employee awareness of the Municipality'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.

5.2.2.2 Pre-employment screening

Pre-employment screening will be carried out for all appointments, and evidence of such screening will be maintained by the Human Resources Management. Consideration should be given to the following pre-employment screening:

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

The Municipality's policy of pre-employment screening will cover all new and promoted employees including those with administrative responsibilities or computer access. The screening will be performed by a person / people nominated by the Human Resources Management in conjunction with the Accounting Officer to ensure that screening is consistent and appropriately resourced throughout the Municipality's. Screening will be conducted in accordance with the classification of the employee or the levels of screening outlined below.

Where an employee is promoted into a management position and has not been screened during the course of the previous three years, the applicant will be re-screened. The levels of screening include:

<u>Level 1 – All employees (including those with administrative functions or computer access)</u>

- Verification of claimed educational qualifications;
- An independent reference check directly with two referees nominated by the applicant or previous employers; and
- Criminal history checks (after authorisation has been obtained from the prospective employee).

<u>Level 2 – All Managers and above, IT and Finance staff</u>

- All Level 1 checks;
- Employment history checks;
- Directorship and membership searches; and
- Insolvency/credit search.

5.2.2.3 Recruitment procedures

Recruitment will be conducted in accordance with the requisite 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 Human Resources Management and withdraw from any further procedures.

5.2.2.4 Internal audit plan

A robust Internal Audit plan, which focuses on the prevalent high Fraud and Corruption risks, serves as an effective preventative measure. The Internal Audit Activity will compile such a plan on an annual basis, and such a plan will also include “surprise audits”.

5.2.2.5 Fraud and corruption prevention plan

The actions set out in this plan are all focused at mitigating the risk of fraud and corruption in the Municipality.

5.2.2.6 Disclosure of interests

All senior managers of the Municipality are required to disclose their specific personal assets and business interests on an annual basis. This register will be kept with the Accounting Officer. Officials may not perform any private work outside of public service without prior approval of the Accounting Officer.

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 Activity;
- Ad hoc management reviews;
- Anonymous reports; and
- The application of detection techniques(e.g. reconciliations, audits, system reports)

The individual identified at the Municipality will be responsible for developing detection strategies, and will work closely with line management and the Internal Audit Activity for this purpose.

The Municipality will embark on a number of initiatives to detect fraud and corruption in the workplace.

5.2.3.1 Internal Audit

Similar to the prevention strategies, a robust Internal Audit plan which focuses on the prevalent high Fraud and Corruption risks also serves as an effective detection measure. As part of the detection strategy, the Internal Audit plan will cover the following:

- Surprise audits: Unplanned audits conducted on specific business processes throughout the year;
- Post-transaction reviews: A review of transactions after they have been processed and completed can be effective in identifying fraudulent or corrupt activity. In addition to the possibility of detecting fraudulent transactions, such a strategy can also have a significant fraud prevention effect as the threat of detection may be enough to deter a staff member who would otherwise be motivated to engage in fraud and corruption;
- Forensic data analysis: The Municipality's computer system is an important source of information on fraudulent and sometimes corrupt conduct. Software applications will be used during internal audits, surprise audits and post-transaction reviews to assist in detecting any possible fraud and corruption; and
- Management accounting reporting review: Using relatively straightforward techniques in analysing the Municipality's management accounting reports, trends can be examined and investigated which may be indicative of fraudulent conduct. Some examples of the types of management accounting reports that can be utilised on a compare and contrast basis are:

- Budget reports for each programme/ responsibility;
- Reports comparing expenditure against public sector benchmarks; and
- Reports highlighting unusual trends in bad or doubtful debts.

The Municipality will implement a strategy to ensure appropriate management accounting report reviews are conducted.

5.2.3.2 External audit

The Municipality 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 Fraud Response Strategies / Plan

5.2.4.1 Objectives of Fraud Response Plan

The objective of the Fraud Response Plan is to ensure that timely and effective action is taken:

- To prevent losses of funds or other assets where fraud has occurred and to maximise recovery of losses;
- To minimise the occurrence of fraud by taking rapid action at the first signs of a problem;
- To identify the fraudsters and maximise any adverse publicity for the Municipality, suffered as a result of fraud;
- To identify any lessons which can be acted upon in managing fraud in the future to reduce adverse impacts on the business of the Municipality. The existence of a fraud response plan may, in itself, help to act as a deterrent as at shows that the Municipality/entity is prepared to defend itself against the risk of fraud.
- To whom the fraud or suspicion should be reported in the first instance, for example that this may be senior managers, personnel or internal audit;
- How the Municipality/entity should investigate the fraud, depending on the nature of the fraud special investigation techniques or a fraud unit may be used, the facts should be established quickly by the operational managers, any threat of further frauds or losses should be removed immediately, for example, by changing procedures or suspending payments;
- How to secure the evidence in a legally admissible form;
- When and how to contact the police; the police should be alerted at an early stage so that joint investigation arrangements can be made, if necessary. This will be facilitated if previous contact has been made with local police and formal liaison arrangements have been set up;
- How to initiate recovery action;
- Who else to contact for advice e.g. insurers, regulatory body, parent Municipality (in case of an entity), press office;
- How to disseminate the lessons learned from the experience in cases where there may be implications or the Municipality/entity as a whole. An effective fraud response plan should be closely tailored to each Municipality's circumstances. It should reflect the likely nature and scale of losses.

5.2.4.2 Reporting fraud and corruption – a Whistle blowing policy

Traditional, the term whistle blowing has been associated with the image of anonymous informants. In today's usage, whistle blowing is the process by which employees and other individuals (including members of public) can raise a concern about serious malpractice within the Municipality/entity (taking place or likely to be taking place). It is similar to an early warning system and a means of enabling Municipality/entity to find out when something is going wrong in time to take corrective action(s).

Employees and public in general who are victimised for blowing the whistle improprieties have legal remedy against such victimisation. Notwithstanding the above, employees and officials are discouraged from making false allegation with malicious intentions. Where such malicious or false allegations are discovered, the person who made the allegations will be subject to firm disciplinary action. The Protected Disclosure Act does not protect false disclosure.

One of the key obstacles to fighting fraud and corruption is the fear by employees of being intimidated to identify or "blow the whistle" on fraudulent, corrupt or unethical practices witnessed in the work place. Those who often do "blow the whistle" end up being victimised and intimidated. For this reason, the Institution will adopt a Whistle Blowing Policy setting out the detailed procedure which must be followed in order to report any incidents of fraud and / or corruption. This policy will be designed to comply with the provisions of the Protected Disclosures Act.

Officials may be alerted to the possibility of fraud by several means and may have suspicions passed on to employees or notice something yourself which makes you suspicious. It is your duty to follow up such indications, not to turn a blind eye. It is important to be discreet so as to protect people from being harmed by false accusations and to ensure that if fraud is occurring that the fraudster is not forewarned. It is also imperative that you to act quickly, carefully and appropriately.

Initially employee should obtain sufficient information to determine whether fraud is a possibility. If fraud does appear to be likely, employee should check the Municipality's plan with regard to fraud. You should obtain some indications of the people involved, the scale, and the time period over which it could have occurred and the types of transactions involved. As soon as it appears likely that there are grounds for suspecting fraud employee should consult the appropriate authorities within the Municipality/entity as per the fraud prevention plan.

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.

It is every employee's responsibility to report incidents of fraud and corruption because:

- It adversely affects all sectors within the Municipality/entity and impacts mostly limited resources of the Municipality;
- It is blight on Municipality's image;
- It is wrong.

5.2.4.3 Investigating fraud and corruption

Dealing with suspected fraud and corruption

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.

Investigations

Any reports of incidents of fraud and / or corruption will be confirmed by an independent investigation. Anonymous reports may warrant a preliminary investigation before any decision to implement an independent investigation is taken.

Investigations will be undertaken by appropriately qualified and experienced persons who are independent of the Municipality / section where investigations are required. This may be a senior manager within the Municipality itself, an 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 report 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.

Investigations may involve one or more of the following activities:

- Interviewing of relevant witnesses, internal and external, including obtaining statements where appropriate;
- Reviewing and collating documentary evidence;
- Forensic examination of computer systems;
- Examination of telephone records;
- Enquiries from banks and other financial institutions (subject to the granting of appropriate approval/Court orders);
- Enquiries with other third parties;
- Data search and seizure;
- Expert witness and specialist testimony;
- Tracing funds / assets / goods;
- Liaison with the police or other law enforcement or regulatory agencies;
- Interviewing persons suspected of involvement in fraud and corruption; and
- Report preparation.

Any investigation into improper conduct within the Municipality will be subject to an appropriate level of supervision by a responsible committee, having regard to the seriousness of the matter under investigation.

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 disciplinary code.

Prosecution

Should investigations uncover evidence of fraud or corruption in respect of an allegation or series of allegations, the Municipality 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 Municipality will give its full co-operation to any such law enforcement agency including the provision of reports compiled in respect of investigations conducted.

Recovery action

Where there is clear evidence of fraud or corruption and there has been a financial loss to the Municipality, 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.

Internal control review after discovery of fraud

In each instance where fraud is detected, Line Management will reassess the adequacy of the current internal control environment (particularly those controls directly impacting on the fraud incident) to consider the need for improvements.

The responsibility for ensuring that the internal control environment is re-assessed and for ensuring that the recommendations arising out of this assessment are implemented will lie with Line Management of the Municipality / section concerned.

5.2.4.4 Confidentiality

All information relating to fraud that is received and investigated by the Municipality will be treated confidentially. The progression of investigations will be handled in a confidential manner and will not be disclosed or discussed with any person(s) other than those who have a legitimate right to such information. This is important to avoid harming the reputations of suspected persons who are subsequently found innocent of wrongful conduct.

No person is authorised to supply any information with regard to allegations or incidents of fraud to the media without the express permission of the Accounting Officer

5.3 Maintenance strategies

5.3.1 Review of the effectiveness of the Anti-Fraud and Corruption Strategy and Prevention Plan

The Municipality will conduct a review of the Anti-Fraud and Corruption Strategy and Prevention plan annually to determine the effectiveness thereof. The Accounting Officer is ultimately accountable for this review and may appoint the Chief Risk Officer (CRO) to take responsibility for this.

5.3.2 Review and updating the Anti-Fraud and Corruption Strategy and Prevention Plan

A central part of any fraud and corruption control programme should involve an ongoing review of fraud and corruption risk exposures. Fraud and Corruption risk assessments will also be conducted annually at the same time as the review of the Anti-Fraud and Corruption Strategy and Prevention Plan. As with the review, the Accounting Officer is ultimately accountable for this and may delegate the Chief Risk Officer (CRO) to take responsibility for this.

6 Procedures for investigations

The Municipality has adopted a policy of investigating all reports of fraud and corruption, or other improper conduct. The investigation of fraud and corruption can be a complex and, at times, technical process and employees should be aware of the consequences of a poorly conducted investigation, including:

- Denial of natural justice;
- Defamation;
- Action against an employer for wrongful dismissal;
- Inadmissible or poor control over the collection of evidence; and
- Destruction of physical evidence.

To ensure that there is reasonable assurance that investigations are performed and reported properly, and recognising the limited resources within the Municipality, external consultants (e.g. external auditors or forensic accountants) may be used to provide assistance to the Municipality when a fraud is reported. The external consultant may be assisted by experienced personnel within the Municipality who are sufficiently independent of the area or the matter under investigation. The Accounting Officer, within his / her delegated authority, will have the discretion to determine the appropriate external consultants and / or the Municipality's personnel to conduct investigations.

6.1.1 Handling a fraud allegation

Should a Line Manager receive an allegation of fraudulent or corrupt activity, he or she will ensure that the Accounting Officer is advised at the earliest opportunity.

The Accounting Officer will appoint an appropriate manager (preferably within the Municipality / Section in which the alleged fraud or corruption has been identified) to conduct or co-ordinate an investigation into the allegations. The manager appointed to conduct or co-ordinate the investigation of an allegation of fraud may consult the Chairperson of the Risk Management Committee on technical aspects of the investigation.

Upon receipt of an allegation of a suspected fraud, the immediate concern of the manager or investigating officer should be the preservation of evidence and the containment of loss.

6.1.2 Documentation of the results of the investigation

The appointed investigator is to submit a written report to the Accounting Officer detailing the circumstances and recommending appropriate remedial action following the investigation.

6.1.3 Other matters

The Accounting Officer, in conjunction with the Chairman of the Risk Management Committee, will provide the details of fraud / corruption or possible fraud / corruption to the Audit Committee.

In each instance where fraud is detected, the Municipality will reassess the adequacy of the internal control environment (particularly those controls directly impacting on the fraud incident) and consider the need for improvements. Where improvements are required, they should be implemented as soon as practicable.

6.2 Reporting fraud to police and / or external parties

The Accounting Officer will be responsible for reporting to the police, in circumstances in which there is evidence of fraud:

- An employee/ volunteer of the Municipality;
- A client of the Municipality;
- A supplier to the Municipality.

Reporting fraud to the police for investigation will be subject to the requirements as set out in all applicable acts.

Any decision not to refer an allegation of fraud to the police for investigation (where there is sufficient evidence to justify making such a report) will be referred to the Audit Committee, together with the reasons for the decision.

Responsibility for complainant statements lodged with Police will be assigned on a case by case basis by the Accounting Officer in consultation with the investigator.

6.3 Recovery and other remedies

The Municipality has adopted a policy wherein it will actively pursue the recovery of any money or property lost through fraud, provided there is a strong prospect of a net benefit to the Municipality from such action.

Where it is considered appropriate that the matter not be reported to the police, the Municipality reserves its right to pursue a range of other remedies including appropriate disciplinary action. Any disciplinary action pursued will be done in accordance with the disciplinary procedures.

Exit checklist procedures will be performed in the event of dismissal from the Municipality for misconduct or fraud. This is necessary to ensure that factors contributing to misconduct and fraudulent activity by employees can be managed as a process to mitigate fraud risk.

7. STRATEGY ADMINISTRATION

- The effectiveness of the strategy will be reviewed annually by Risk Management Committee for recommendation to the Accounting Officer.

8. APPROVAL

THIS STRATEGY HAS BEEN REVIEWED BY THE CHIEF RISK OFFICER:

Davhana L.G. .... 30/06/2025 ....

DAVHANA LG **DATE**
CHIEF RISK OFFICER

RECOMMENDED FOR APPROVAL BY THE RISK MANAGEMENT COMMITTEE CHAIRPERSON

.... 30/06/2025 ....

NGOBENI SAB **DATE**

CHAIRPERSON: RISK MANAGEMENT COMMITTEE

APPROVAL BY THE ACCOUNTING OFFICER

.... 30/06/2025 ....

MATSHIVHA MM **DATE**
ACTING MUNICIPAL MANAGER

Private Bag X5066
Thohoyandou
0952
Limpopo Province
Tel: 015 962 7500
Fax: 015 962 4020

THULAMELA MUNICIPALITY

EXTRACT RESOLUTION OF THULAMELA MUNICIPALITY SPECIAL COUNCIL MEETING NO. 07/2025 HELD ON THE 30TH OF JUNE 2025.

RESOLUTION NO. SC 07/06/2025

SUBMISSION OF THE RISK MANAGEMENT RELATED POLICIES FOR 2025/26 FINANCIAL YEAR.

Council resolved:

a) To approve the Risk Management related policies for 2025/26 financial year and,

b) To note risk management related strategies and plans for 2025/26 financial year.

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CHAIRPERSON OF COUNCIL
30 JUNE 2025