Report on the Implementation of Fraud Prevention Plans in the Public Service

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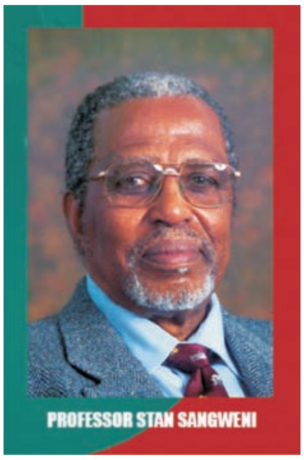
FOREWORD


PROFESSOR STAN SANGWENI

Fraud prevention constitutes one of the most important measures for promoting a high standard of professional ethics in the Public Service. Through its work in such areas as the analysis of financial misconduct in the Public Service, the Public Service Commission (PSC) has consistently drawn attention to the fact that fraud was becoming one of the most common transgressions among the cases reported by departments. The PSC believes that the development and implementation of credible Fraud Prevention Plans is, therefore, a key priority to which all government departments must pay adequate attention as part of building an integrity driven Public Service.

Considering the importance of such plans, the PSC found it necessary to conduct a study that assesses the progress made by departments towards putting in place and implementing Fraud Prevention Plans.

The findings of the study show that significant strides have been made by government departments to implement Fraud Prevention Plans, both at national and provincial level. There have been concerted efforts by various government departments to ensure that fraud is dealt with accordingly whenever it prevails. However, the level of implementation of Fraud Prevention Plans differs from one department to another. There are departments that have functional structures in place to prevent fraud while others are still struggling to put such systems in place.

I trust that the findings of this study will deepen awareness on the risk of fraud and the need for its prevention in the Public Service. The battle against fraud can only be successfully won if practical and effective fraud prevention plans are developed, implemented and evaluated on a continuous basis.

PROF. SS SANGWENI
CHAIRPERSON

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GLOSSARY

FPP	Fraud Prevention Plan
PSC	Public Service Commission
PFMA	Public Finance Management Act
DPSA	Department of Public Service and Administration
NT	National Treasury
SAIGA	Southern African Institute of Government Auditors
RMS	Risk Management Strategy
UK	United Kingdom
PDA	Protected Disclosures Act
CFO	Chief Financial Officer
AC	Audit Committee
NACH	National Anti-Corruption Hotline

Executive Summary

INTRODUCTION

Government departments are mandated by Treasury Regulations to develop and implement Fraud Prevention Plans. These Plans are among the key instruments that departments should have to ensure that there is transparent and accountable public administration and a proactive approach towards minimising risks that can impact adversely on their operations.

This report presents the findings of a study conducted by the Public Service Commission (PSC) to assess the implementation of Fraud Prevention Plans (FPP) in the South African Public Service. The study represents the most in-depth assessment of Fraud Prevention Plan implementation to date, since Treasury Regulations mandated that these Plans be put in place in 2001. Lack of baseline information on FPP implementation meant that this study had to negotiate a balance between in-depth enquiry and the participation of departments.

METHODOLOGY

A study of this nature required a combination of various data collection methodologies. There was a literature review to understand international trends, and an interview schedule used to collect data. The study employed a survey approach, utilising a semi-structured questionnaire, to enquire into the implementation of FPPs. A sample of sixty-nine (69) departments participated in this study. This comprised 15 national departments and 54 provincial departments from all nine provinces. Purposive sampling was applied, thus focusing on those departments that would yield the information that would meet the purpose of the study. A broad cross-section of departmental sectors were represented.

KEY FINDINGS

The findings of this study are presented in three broad areas: departmental fraud and risk preparedness; departmental fraud prevention structures and mechanisms, and departmental fraud profile and awareness-building activities.

FRAUD AND RISK PREPAREDNESS

In relation to departmental fraud and risk preparedness, the findings show that 87% of national and provincial departments that participated in this survey reported having FPPs in place. The contents of these Plans, as well as departmental risk management strategies, were also of a generally high standard, covering a range of key issues in fraud and risk management. The findings also showed that departments could be doing more to improve the regularity and effectiveness of fraud prevention plan reviews, which given that departments appeared to be conducting risk assessments more frequently, could ensure that their FPPs maximise on potential changes in a department's fraud risk profile.

FRAUD PREVENTION STRUCTURES AND PROCEDURES

The findings on departmental fraud prevention structures and mechanisms indicated that a majority of departments in the sample reported the establishment of specialist fraud prevention and risk management structures, in addition to internal control mechanisms such as internal audit and audit committees. The formal allocation of management responsibilities for fraud prevention was also generally prevalent amongst departments.

The findings also showed that management accountability and implementation practice for fraud prevention could be improved by clearly allocating responsibilities and delineating roles and task designations for fraud prevention amongst departmental staff, especially managers. This is of heightened importance given the capacity problems being reported by departments in fully constituting specialist fraud prevention and risk management functions, as well as in their internal audit practice[1]. Again, departmental mechanisms related to fraud prevention, such as reporting, protection, and monitoring conflict of interest, demonstrated a need to consolidate current activities into more robust conflict of interest and protection regimes, or policies, so as to maximise the impact on fraud prevention.

FRAUD PROFILE AND AWARENESS ACTIVITIES

The findings on departmental fraud profiles and the activities being carried out to promote awareness and improve understanding of the issue of fraud and fraud prevention, has shown that departments have a risk of fraud in all their operations/activities, that is both in how they manage finances, staff, procurement and logistics, as well as the implementation of their line function programmes. This simultaneously reveals multiple areas of risk exposure, which heightens the significance of findings elsewhere in this study on preparedness, structures and mechanisms, exposing areas where fraud prevention and risk management could be improved.

Finally, departments acknowledged that they could be doing a great deal more in terms of activities, to promote and communicate awareness, and improve understanding of the issue of fraud and fraud prevention. This was particularly evident amongst employees below senior and middle-management positions given the fact that findings in some studies conducted by the PSC showed that these employees were less involved in fraud prevention plans and risk assessment. However, the findings further showed that a high proportion of financial misconduct cases are among the employees who fall within this group.

RECOMMENDATIONS

It is recommended that the following measures be taken to improve the effectiveness of fraud prevention plans in the Public Service:

- Improve the review of Fraud Prevention Plans (their regularity, assessment and measurement) to maximise the effect of more frequent risk assessment exercises being carried out in departments. As part of this process, departments should put more effort into involving employees below senior and middle management levels.

- Expedite measures to operationalise and resource specialist fraud prevention and risk management functions.

- Departments should use the Checklist of Fraud Prevention Standards developed by the PSC as part of its Public Service Monitoring and Evaluation System as basis for developing indicators to measure the effectiveness of their FPPs.

- Departments should extend and strengthen internal control procedures, such as conflict of interest regimes around sustained high fraud risk areas and categories of employees.

- Responsibility for fraud prevention and risk management should be more clearly allocated and more widely diffused amongst line function managers.

- All in-house anti-corruption hotlines should, in accordance with a Cabinet decision, be phased out and departments should start using the NACH. This process should be implemented with immediate effect.

- Departments should investigate the most effective means of building awareness and educating employees about fraud and fraud prevention.

[1] Continuing capacity challenges in internal audit corroborates similar concerns expressed by Chang and Van der Schyf in their 1998 analysis of public service internal auditing, where the researchers acknowledged that the role of the internal auditor was broadening from traditional inspection to more active involvement in improving operational and managerial performance. See Chang, S.Y., Van der Schyf, D. 1998. Critical issues of internal audit development in the South African public sector. Accountancy and Finance Update Volume 3, No. 5: 2-6.

Chapter One

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Fraud is an unethical practice that remains one of the biggest challenges facing the South African public sector. It is a potential threat to sustainable service delivery in many ways. For instance, fraud undermines the fight against corruption as it creates a situation where money that is meant for infrastructure and development ends up in the pockets of corrupt officials. Fraud also increases the cost of public services and slows down the much-needed service delivery to the public. Fraud can be rooted in the behaviour and related actions of public servants, thus leading to negative material (typically financial) consequences for public service organisations. Therefore, fraud should be considered as an activity that should be prevented as part of promoting accountable public administration and maintaining a high standard of professional ethics. The consequences of fraud in the organizational environment of the Public Service also obliges government departments to educate employees about the consequences of fraud, which speaks to the goal of 'promoting' a high standard of professional ethics.

There are concerted efforts by governments across the globe to ensure the realisation of an ethics-driven system of public administration. In South Africa, the new democratic order has declared its zero tolerance to fraud in the Public Service. In 2001, the government introduced the Public Finance Management Act, Act 1 of 1999 (PFMA) which requires government departments to develop and implement Fraud Prevention Plans. According to the Act, fraud prevention plans have to be included in the risk management strategy of government bodies. Each department is required to prepare its own fraud prevention plan based on its fraud risk profile. The main purpose of the fraud prevention plan is to enable departments to identify the fraud risk areas unique to their departments, develop plans to manage these risks and include these fraud prevention plans in their strategic plans. Fraud prevention plans are regarded as one of the key instruments in preventing fraud and creating a culture of accountability within the Public Service.

As part of its efforts to promote an integrity-driven Public Service, the PSC found it necessary to conduct a study on the implementation of Fraud Prevention Plans in the Public Service. The research study had two purposes. Firstly, to establish the current reality of fraud prevention plans in the Public Service, and secondly, to critically analyse the instruments, structures and mechanisms through which government departments implemented their fraud prevention plans.

1.2 CONCEPTUALIZATION OF FRAUD

Fraud remains a complex concept and has been defined differently by various people and organisations. The Australian government has included corruption or abuse of office in its definition of fraud[2]. The United Kingdom on the other hand in its Fraud Act 2006[3], stipulates that a person is guilty of fraud if he is in breach of the following:

(a) dishonestly makes a false representation, and
(b) Intends, by making the representation–
   i. to make a gain for himself or another, or
   ii. to cause loss to another or to expose another to a risk of loss.

The Public Service Anti-Corruption Strategy of South Africa has employed the following definition to refer to fraud "*any conduct or behaviour in relation to persons entrusted with responsibilities in public office which violates their duties as public officials and which is aimed at obtaining undue gratification of any kind for themselves or for others*[4]". Of importance is that whatever form fraud takes, it is a crime or offence which is conducted for personal gains.

In South Africa many definitions of fraud exist in the Public Service. Most of the definitions seem to suggest that fraud involves a behaviour whereby one deliberately acts in a deceitful manner in order to obtain a certain benefit. For example, the PSC defines fraud as *"the unlawful and intentional making of a*

[2] Attorney-General's Department. 2002. Commonwealth Fraud Control Guidelines.Canberra: Commonwealth of Australia.
[3] United Kingdom. Fraud Act 2006.
[4] Republic of South Africa. Department of Public Service and Administration. 2002. Public Service Anti-corruption Strategy.

misrepresentation which causes actual and or potential prejudice to another[5]". In a similar vein, the Department of Public Service and Administration (DPSA) has defined fraud as *"involving actions or behaviours by a public servant, other person or entity that fools others into providing a benefit that would not normally accrue to the public servant, other persons or entity*[6]*"*. The DPSA cites an example of a public servant registering a fictitious employee in order to collect the salary of that individual. Echoing the above sentiments on what constitutes fraud, National Treasury has observed that fraud generally entails obtaining a benefit *"through deceit or other dishonest means"*, and that *"fraud can be defined as any practice that involves deceit or other dishonest means by which a benefit is obtained from the government*[7]*"*.

Although legislatively fraud has been treated as a financial mismanagement matter, the consequences of fraud has in fact transcended this narrow definition to include "*non-monetary benefits*" accruing to an individual engaging in fraudulent actions, such as using significant time at work for private purposes and taking unrecorded leave[8]. Broadening the definition of fraud could therefore settle on an emphasis on behaviour or conduct that intentionally misrepresents the actions of an employee of a government department, where engaging in such action derives a monetary or non-monetary benefit for the individual[9].

1.3 AIMS OF THE STUDY

The specific aims of the study were to:

- Establish whether Public Service departments had developed Fraud Prevention Plans (FPP).
- Assess how FPPs were implemented in departments.
- Evaluate if FPPs were aligned to the management processes within departments.
- Establish what structures and procedures were in place to guide the management of fraud in departments.
- Assess the perceived impact of FPPs.

Since 2001 when the regulatory provision that requires government departments to prepare Fraud Prevention Plans came into being, no single study has attempted to carry out an in-depth analysis of the implementation of the Plans. This is, therefore, a ground breaking study in the area of the implementation of Fraud Prevention Plans.

1.4 STRUCTURE OF REPORT

This report is structured in the following manner:

Chapter 1 presents an introduction to the study and the context of fraud prevention planning in the South African public service.

Chapter 2 presents an overview of the research methodology, design and data collection methods employed by this study.

Chapter 3 presents an outline of the current state of fraud prevention planning in the public service, including legislative and policy frameworks, and previous research conducted on the subject.

Chapter 4 presents the findings related to departmental fraud and risk preparedness.

Chapter 5 presents the findings on fraud prevention structures and mechanisms in departments.

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[5] Republic of South Africa. Public Service Commission. Overview of Financial Misconduct for the 2004/2005 Financial Year. 2006.
[6] Republic of South Africa. Department of Public Service and Administration. 2002. Public Service Anti-corruption Strategy.
[7] Republic of South Africa. National Treasury. Fraud and Risk Prevention: Volume 6. Undated.
[8] Republic of South Africa. National Treasury. Fraud Risk and Prevention: Volume 6. In addition to these non-monetary forms of fraud, monetary forms included misappropriation of funds, substituting new goods with old, and using a Department's assets for private profit.
[9] This corresponds with perspectives on fraud taken by public service bodies elsewhere in the world. For example, in its fraud control guidelines, the Australian government defined fraud as "dishonestly obtaining a benefit by deception or other means", which could entail deriving "tangible and intangible benefits". The United Kingdom's Treasury also conceded that whilst there was currently "no precise legal definition of fraud", for the purposes of reporting, acts involving deception (which could implicitly derive financial and non-financial benefits) were considered as falling within the spectrum of fraud.

Chapter 6 presents the findings on the types of fraud being experienced by departments and their activities to promote awareness and provide education on fraud prevention.

Chapter 7 gives a general conclusion to this study.

Chapter Two

METHODOLOGY

2.1 INTRODUCTION

A study of this nature required a combination of various data collection methodologies. There was a combination of literature review to understand international trends and development of the interview schedule used to collect data within the sampled departments. This chapter presents the research methodology employed in the study.

The chapter specifically outlines the rationale that informed the overall approach to this study, which includes the sampling of departments, both at national and provincial level. The nature and content of the instruments utilised during the collection and analysis of data is also presented.

2.2 SAMPLING OF DEPARTMENTS

The sample of the departments for the study was drawn from both the national and provincial departments. The sample consisted of 69 departments, 54 provincial and 15 national. Purposive sampling was applied, thus focusing on those departments that would yield the information that would meet the purpose of the study.

Figure 1: Distribution of Departments Sampled by Sector

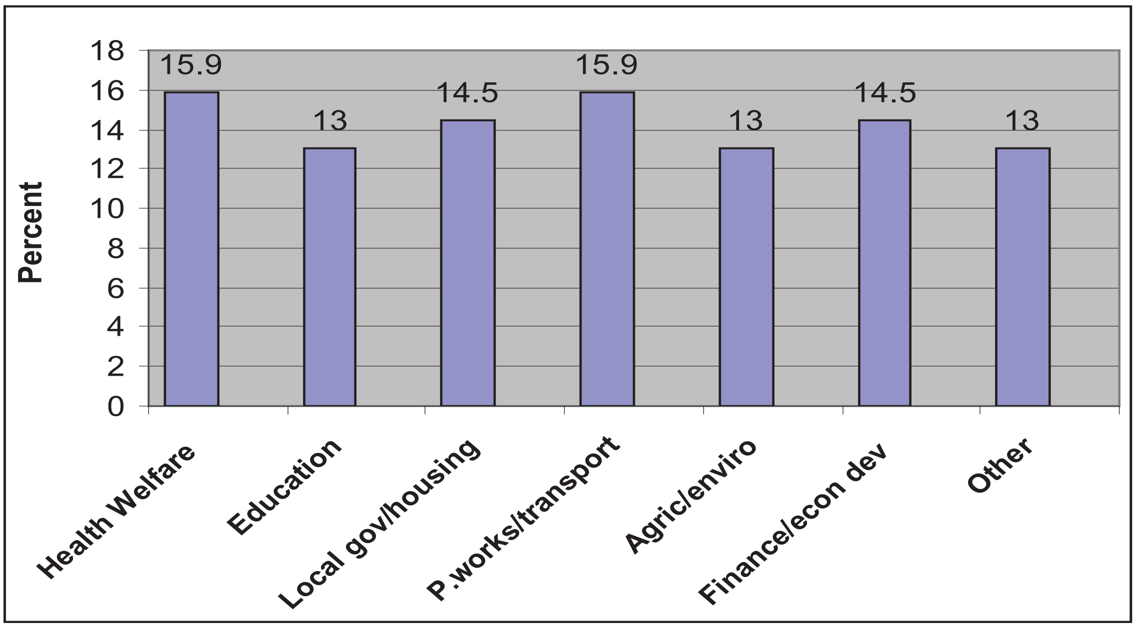


Figure 1 above illustrates the final tally of departments according to six main sectors that were identified for the purpose of this study. The sectors are Health and Welfare, Education, Local Government and Housing, Public Works and Transport, Agriculture and Environmental Affairs, and Finance and Economic Development. Those falling under "other category" included the departments of Justice, Safety and Security at national level and offices of the Premier at provincial level.

Table 1: National departments that participated in study

Correctional Affairs	Public Service and Administration
Education	Public Works
Justice and Constitutional Development	South African Police Service
Health	Social Development
Housing	Trade and Industry
Minerals and Energy	Transport
National Treasury	
Provincial and Local Government	
Public Enterprises	

Table 1 above shows the national departments that were included in the study. The departments were purposefully sampled because they were perceived to be well-positioned to provide the study with the much-needed information based on the nature of service they provide.

Table 2: Provincial departments that participated in study

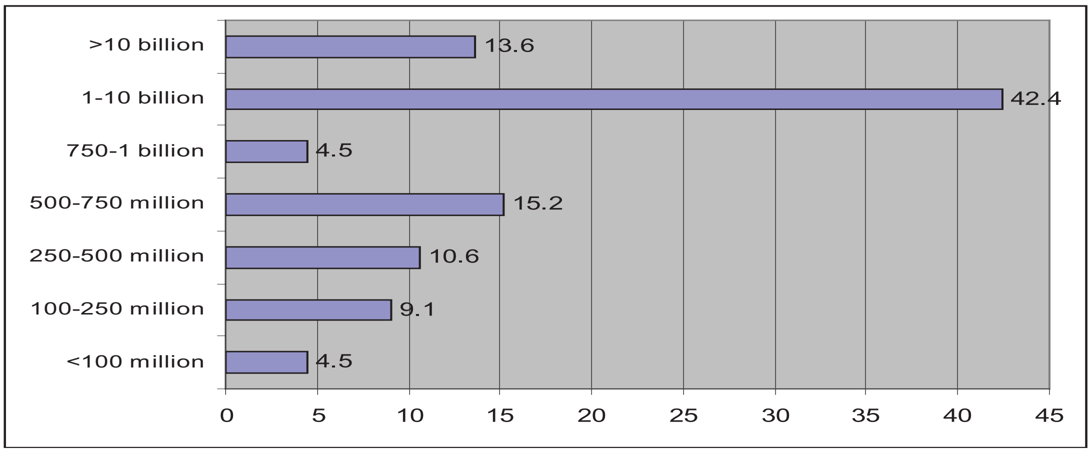
Department	Province
Agriculture	Eastern Cape
Economic Development and Environmental Affairs	Eastern Cape
Public Works	Eastern Cape
Education	Eastern Cape
Local Government and Housing	Eastern Cape
Health	Eastern Cape
Agriculture	Free State
Economic and Environmental Affairs	Free State
Public Works	Free State
Education	Free State
Local Government and Housing	Free State
Health	Free State
Office of the Premier	Free State
Provincial Treasury	Free State
Agriculture	Gauteng
Education	Gauteng
Housing	Gauteng
Health	Gauteng
Public Transport, Roads and Works	Gauteng

Department	Province
Health	KwaZulu-Natal
Public Works	KwaZulu-Natal
Transport	KwaZulu-Natal
Agriculture	Limpopo
Education	Limpopo
Health and Social Development	Limpopo
Economic Development and Environmental Affairs	Limpopo
Local Government and Housing	Limpopo
Public Works	Limpopo
Office of the Premier	Limpopo
Provincial Treasury	Limpopo
Agriculture	Mpumalanga
Economic Development and Environmental Affairs	Mpumalanga
Education	Mpumalanga
Health and Social Development	Mpumalanga
Public Works	Mpumalanga
Local Government and Housing	Mpumalanga
Agriculture	North West
Health	North West
Education	North West
Local Government and Housing	North West
Public Works	North West
Education	Northern Cape
Economic Development and Environmental Affairs	Northern Cape
Health	Northern Cape
Local Government and Housing	Northern Cape
Roads, Transport and Public Works	Northern Cape
Office of the Premier	Northern Cape
Provincial Treasury	Northern Cape
Education	Western Cape
Local Government and Housing	Western Cape

Department	Province
Health	Western Cape
Agriculture	Western Cape
Environmental Affairs	Western Cape
Economic Development and Tourism	Western Cape

Table 2 above indicates the provincial departments that were included in the study. The average number of the departments that were included in the study was six per province.

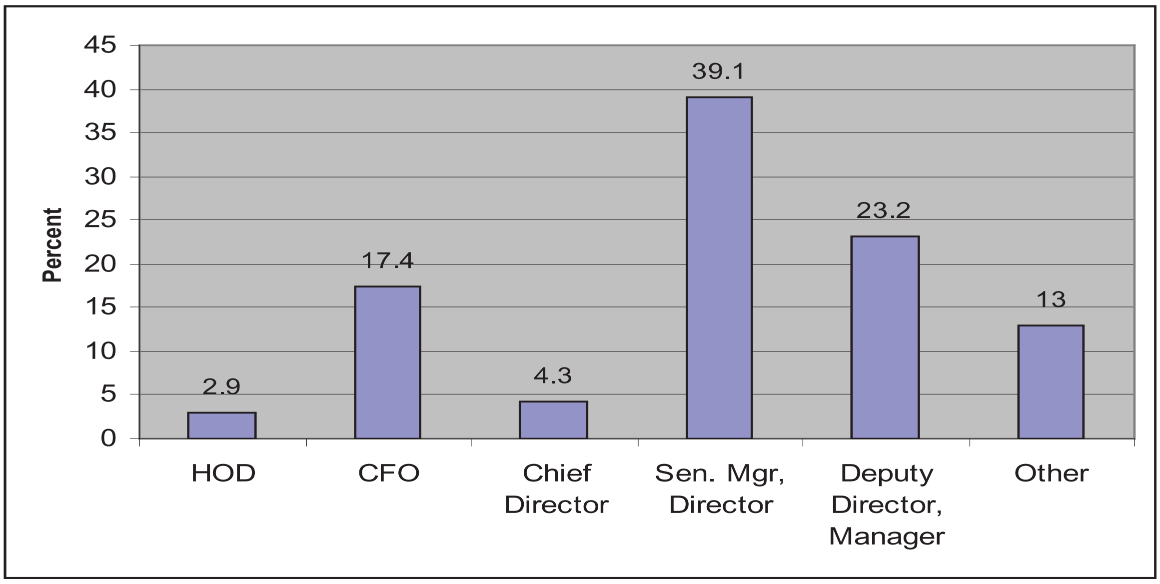
Figure 2: Breakdown of sample by budget size (N=66)



Another look at the sample is illustrated in **Figure 2** above and is based on departmental budget size as reported for the 2006/7 financial year. The Figure shows that nearly half of all departments that provided information on their budget size fell into the R1-10 billion range. This shows that this study was able to collect data from departments with relatively large annual budgets. This observation is significant for the study because although fraud may not always assume a financial form, such a form remains critical for efforts to improve efficiency and effectiveness in Public Service delivery.

Figure 3 below shows that nearly 18% of key respondents that participated in the study were the Chief Financial Officers of the respective departments. The other key respondents were senior managers such as chief directors and directors at 43,4%. Managers or deputy directors that participated in the study as key respondents were 23%. In a few cases, Heads of department (HoDs) were able to take part as key respondents. Respondents clustered under the "other" category included a variety of designations, such as "Chief Risk Officer", "Chief Audit Executive", and "Security advisor" in the respective departments.

Figure 3: Overview of officials interviewed by designation (N=69)



2.3 METHODS AND PROCEDURES USED IN DATA COLLECTION

Data for the present study was collected through interviews with Chief Financial Officers (CFOs), programme managers and monitoring and evaluation officers. Data was also collected through a review of documents on fraud prevention, such as the fraud prevention strategies provided by departments.

2.3.1 Interviews

An interview schedule was chosen as the main method of data collection in the present study. The primary advantage of utilizing an interview schedule as a data collection method is basically related to spontaneity, flexibility and control over the environment. An interview schedule provides access to firsthand information from people who are close to the situation being studied, information which may otherwise not be obtained through self-administered questionnaires. Face-to-face interviews can be used to establish perspectives on a situation, identify and gather opinions and evidence on an issue, follow-up on observations, explore specific problems and probe for depth on widely held views, and interviews can reveal aspects, patterns or processes which other methods may fail to do[10].

The interview schedule comprised both closed and open ended questions. The closed ended-questions focused on the following key areas: whether Fraud Prevention Plans (FPPs) were in place, when they came into being, what they comprised of, how often they were reviewed, and what structures were responsible for their implementation. The open-ended questions were designed to probe the processes that departments are engaged in when implementing FPPs, the management, personnel and structural arrangements used, and how FPP planning could be improved.

Open-ended questions allowed departments to comment more freely about the instruments they were putting in place to measure the impact of their FPPs, how reporting on FPPs occurred, time-related questions on the review of FPPs and related risk assessment exercises, and how the effectiveness of a range of activities departments were engaged in to execute their FPPs could be improved.

The interview schedule was structured according to the following four sections:

- Overview of Departmental Fraud and Risk Preparedness:
  - Questions on content of FPP

[10] Kanda, K. Social Research, 1996.

- Questions on risk assessment
- Questions on risk management strategy

- Overview of Departmental Fraud Prevention Structures and Mechanisms.
- Departmental Fraud Profile.
- Overview of Departmental Activities to Promote Awareness of Fraud.

During the process of designing the interview schedule, a variety of stakeholders were consulted to obtain their inputs and comments. These stakeholders included representatives from the National Treasury, Office of the Accountant-General, Auditor-General, the provincial government of Gauteng's Shared Services Centre, and the Southern African Institute of Government Auditors (SAIGA)[11].

2.3.2 Document Review

Documentary review was done as a supplementary data collection method in this study. Researchers were also requested to obtain certain documentation from departments on their fraud prevention planning activities. The documents included procedure documents on fraud prevention in the respective departments, fraud prevention policy documents, annual reports, and flyers on fraud prevention. The documents were intended to supplement the information obtained from the primary sources during the interviews.

The following key documents were requested from the departments that participated in this study:

- Fraud Prevention Plan
- Risk Assessment Plan/Risk Management Strategy
- Organisational structure of Department
- Job descriptions (employees responsible for fraud prevention)
- Conflict of interest policy
- Reports to Department of Public Service and Administration pertaining to fraud and corruption
- Examples of fraud prevention and awareness newsletters and circulars
- Examples of training programmes on fraud prevention

The relevant pieces of legislation giving effect to FPPs were also analysed. These included the PFMA and Treasury Regulations. The Regulations, together with National Treasury's *Guide for Accounting Officers: Public Finance Management Act* provided useful contextual details on the key departmental structures and management arrangements pertaining to fraud prevention.

2.3.3 Reliability and Validity

In this study, to ensure content validity of the interview schedule, there was a pre-test on the instrument. The instrument was consequently modified in line with the findings and comments from the pre-test.

2.4 DATA ANALYSIS

Preparation for data analysis began with the collation and cleaning up of all completed interview schedule. Before interview schedule data could be captured electronically, each interview schedule had to be checked in order to verify which department it was administered to and the date on which it was done. Each interview schedule was also checked to assess supporting documentation accompanying it. The content of each interview schedule was scanned to check the quality of correctness i.e. the circling of coded responses was clear and unambiguous, and for general legibility. This took place before questionnaire data was captured electronically[12].

Data obtained in the present study was analysed both qualitatively as well as quantitatively. The qualitative analysis of the data included both thematic and content analysis strategies, in line with the aims and objectives

[11] SAIGA carried out a public sector fraud survey in 2001/2002, which covered over 500 public sector bodies at national, provincial and local levels of government, including public entities. The survey was broader in scope than this study.
[12] Using SPSS statistical software.

of the study. The analysis of data was thematically structured, corresponding to the four major sections of the questionnaire: overview of departmental fraud and risk preparedness, overview of departmental fraud prevention structures and procedures, departmental fraud profile, and overview of departmental activities to promote awareness of fraud. The actual analysis of the questions in each of these areas was guided largely by frequency calculations, designed to give information on the extent of departmental compliance, activities, processes, and experiences of fraud prevention planning.

2.5 LIMITATIONS OF THE RESEARCH

Some limitations were experienced during the course of conducting the research. The first was the inability to access large numbers of Chief Financial Officers to participate in the study. The second limitation was the inability to achieve the targeted number of departments in the KwaZulu-Natal province, due to the effects of nation-wide industrial action by public servants that took place at the time the fieldwork for this study was carried out in the province.

Chapter Three

LEGISLATIVE AND REGULATORY FRAMEWORK

3.1 INTRODUCTION

Different countries seem to have varying legislative and regulatory frameworks to deal with the threat of fraud. It is within these legislative and regulatory frameworks that fraud prevention plans are developed and implemented. In South Africa, the legislative and regulatory framework is informed by the Public Finance Management Act (PMFA) of 1999. This is the Act that has mandated all government departments to develop and implement Fraud Prevention Plans. This chapter outlines the legislative and regulatory framework which has introduced and influenced fraud prevention planning in the Public Service. The chapter also presents a brief outline of experiences from other countries in the area of developing and implementing fraud prevention plans.

3.2 LEGISLATIVE AND REGULATORY FRAMEWORK

3.2.1 Legislative and Regulatory Framework: South Africa Perspective

Planning for "fraud prevention" in the South African Public Service has its genesis in the introduction of the Public Finance Management Act (PFMA)[13], in 1999. Since the promulgation of the PFMA further legislative, regulatory and policy prescripts have been developed to give direction and guidance to departments on the implementation of Fraud Prevention Plans.

It is important to note that although the PFMA does not explicitly mention "fraud", it is meant to prevent instances where public monies and related resources were appropriated for uses other than those for which these were intended. The PFMA addresses the issue of fraud in the following sections:

- Section 38. (1)(c)(ii), which concerns the "general responsibilities of accounting officers" in the public service. This section specifically states that these officials "must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct".

- Section 38. (1)(g), which concerns accounting officers reporting immediately, and in writing, the particulars of said expenditure (as described above) to the National Treasury and to tender authorities where the procurement of goods and services is involved.

- Section 38. (1)(h)(iii), where accounting officers must take appropriate and effective disciplinary steps against officials who make or permit such expenditures.

- Another section of the PFMA that impacts on fraud is section 40.(3)(b), which states that the annual report and audited financial statements of departments, trading entities and constitutional entities must include the particulars of any material losses through criminal conduct, and any unauthorised, irregular, fruitless and wasteful expenditure occurring during the relevant year.

- Finally, Chapter Ten of the PFMA concerns disciplinary procedures dealing with financial misconduct.

The PFMA embeds the issue of fraud prevention in a broader discussion around the roles and responsibilities of accounting officers (Heads of government departments) in maintaining sound financial management. Fraud prevention is implicitly located in the Act's reference to the prevention of activities that undermined the legitimate and sound use of public finances, that is, unauthorised, irregular expenditure and material losses resulting from conduct judged to be criminal.

A more explicit mentioning of fraud prevention arose a year after the PFMA came into being, in an accompanying document published in October 2000 by National Treasury[14]. This document stated that "The Act [PFMA] aims to modernize financial management in the public sector, and in the process, to reduce fraud, corruption and waste." It then accentuated the organizational importance of creating internal controls, defined as the systems, procedures and processes designed to minimize risks that a department might be

[13] Republic of South Africa. National Treasury. 2000. Public Finance Management Act.
[14] Republic of South Africa. National Treasury. 2000. Guide for Accounting Officers: Public Finance Management Act.

exposed to as a result of fraud, negligence, error, incapacity, etc. The most significant item in the Guide was its call for government departments to develop "fraud prevention plans", as a tool to manage the risk of fraud, recommending that these plans were to be developed no later than 31 March 2001.

Treasury Regulations to the PFMA (Government Gazette number 22219) published in April 2001 gave legal weight to the more explicit references to fraud prevention planning contained in the Guide for Accounting Officers[15]. These were expressed in the following sections:

- Section 3.2.1: under the section "internal controls and internal audit", stipulated that Departments must carry out a "risk assessment" to determine the material risks to which the entity may be exposed, and to develop a "strategy" to manage these risks. The development of a "fraud prevention plan" must comprise part of this strategy.
- Section 3.2.2: requiring that the fraud prevention plan be "fully operational" by 30 June 2001.

The Treasury Regulations published in April of 2001 were amended a year later in May of 2002 (Government Gazette number 23463), which formalised the procedures governing the relationship between fraud and "risk" in section 3.2.1 by stating that a fraud prevention plan be included as part of a "risk management strategy", and further that the said Strategy be communicated to all employees (section 27.2.1)[16]. The Regulations went through a further revision in March 2005 (Government Gazette number 27388), which although no significant changes were made to the requirement that fraud prevention plans be developed, did include references to "fraud" in relation to a host of other activities carried out in public service organisations, including banking and cash management, compliance with ethical standards, and the abuse of supply chain management[17].

The publication of a fraud risk and prevention document by the National Treasury (not dated), complemented the key legislative and regulatory sources behind the creation of fraud prevention plans in the South African public service, by establishing general implementation guidelines on how government departments ought to go about managing the risk of fraud[18]. These guidelines were outlined in a section entitled: "Fraud Prevention Framework", which included discussion on the following issues:

- Integrating strategic-operational plans.
- Raising vigilance on fraud prevention.
    - Increased awareness
    - Encouraging active involvement of management and staff in fraud prevention
    - Management responsibility
- Fraud Risk Management.
    - Identifying potential for fraud
    - Assessing the risks
    - Addressing the risks
    - Monitoring progress
- Dealing with Fraud Allegations.
- Deterring Fraud.

The Public Service Anti-Corruption Strategy, introduced in 2002 by the Department of Public Service and Administration (DPSA), also outlined specific elements to be incorporated into fraud prevention and anti-corruption planning, arguing that all Public Service departments should establish a "minimum capacity" to[19]:

- Conduct risk assessments.
- Implement fraud plans as required in the PFMA.
- Investigate allegations of corruption and detect risks at a preliminary level (i.e. personnel verification).

[15] Government Gazette. 2001. Public Finance Management Act, 1999: Treasury Regulations. Number 22219.
[16] Government Gazette. 2002. Public Finance Management Act, 1999: Amendment of Treasury Regulations in Terms of Section 76. Number 23463.
[17] Government Gazette. 2005. Public Finance Management Act, 1999: Amendment of Treasury Regulations in Terms of Section 76. Number 27388.
[18] Republic of South Africa. National Treasury. Fraud and Risk Prevention: Volume 6. Undated.
[19] Department of Public Service and Administration. 2002. Public Service Anti-corruption Strategy. The DPSA renewed its call for departments to establish a minimum anti-corruption capacity in 2006 by publishing a guidelines document. See list of references.

- Enable the process of conducting further investigations, detection and prosecution, in terms of prevailing legislation and procedures.
- Receive and manage allegations of corruption through whistle-blowing or other mechanisms.
- Promote professional ethics amongst employees.

Other statutory instruments influencing Public Service fraud prevention planning include the Prevention and Combating of Corrupt Activities Act[20]. This piece of legislation includes explicit reference to the offence of fraud being committed, including in the amendment of related statutes, and otherwise corresponds with prevailing definitions of fraud in describing the "General offence of corruption". It does this by defining corruption as the acceptance, agreement or offering to accept any gratification from any other person, where a benefit is derived, and in a matter that amounts to the illegal, dishonest, unauthorised, incomplete or biased exercise, carrying out or performance of powers, duties or functions…(chapter 2, part 1, section 3).

The introduction of the Protected Disclosures Act[21] (2000), a year after the PFMA, established protection for persons with information pertaining to "unlawful or irregular conduct". This piece of legislation laid down procedures governing the disclosure of information on said conduct by employers and employees in the public and private sectors, and the protection of individuals making such disclosures. The issue of disclosure speaks directly to the detection and subsequent management of conduct exposing governments departments to potential risks emanating from unlawful or irregular conduct, which could include activities defined as fraud.

A chronological summary of the key legislative and regulatory provisions governing fraud prevention planning in South Africa is given in **Table 3**.

Table 3: Framework for Public Service fraud prevention plans in South Africa

Public Finance Management Act (1999)	• Section 38, Section 40, Chapter 10, which together concern material losses experienced by departments, actions to prevent losses, and disciplinary procedures for dealing with financial misconduct
Guide for Accounting Officers: PFMA (2000)	• Recommendation that departments develop Fraud Prevention Plans no later than 31 March 2001
Protected Disclosures Act (2000)	• Affording protection for persons with information concerning unlawful or irregular conduct, which could include engaging in fraud
Treasury Regulations to the PFMA (2001)	• Section 3.2.1: Departments must carry out a risk assessment and develop a strategy to manage risks. A Fraud Prevention Plan must comprise part of this strategy • Section 3.2.2: Fraud Prevention Plans be fully operational by 30 June 2001
Revisions to Treasury Regulations to PFMA (2002 and 2005)	• Risk management strategy, which comprises Fraud Prevention Plan, must be communicated to all employees • More references to "fraud" in relation to activities carried out by public service organisations
Public Service Anti-corruption Strategy (2002)	• Departments establish a minimum capacity to combat fraud and corruption

[20] Government Gazette. 2004. Prevention and Combating of Corrupt Activities Act. 2004: Treasury Regulations. Number 26311.
[21] Government Gazette. 2000. Protected Disclosure Act, 2000: Treasury Regulations. Number 21453.

Prevention and Combating of Corrupt Activities Act (2004)	• Outlining offences in respect of corrupt activities (inc. fraud), relating to public officers
Fraud Risk and Prevention: Volume 6, National Treasury (not dated)	• Wholly concerned with fraud prevention planning, including a variety of topics relating to awareness, management responsibility, risk assessment, monitoring progress, investigations, and deterring fraud.

3.2.2 Legislative and Regulatory Frameworks on Fraud Prevention: International Perspectives

All over the world countries seem to have developed legislative and regulatory frameworks on fraud prevention. For the purpose of this report, relevant examples from Commonwealth countries are referred to. The countries are Australia and United Kingdom (UK). The Australian Financial Management and Accountability Act (1997) requires that the heads of government agencies develop and implement a "fraud control plan[22]". The Act states that the Australian government's "fraud control policy" be revised regularly taking into account the changes taking place in the environment in which its agencies operated, including the introduction of the Financial Management Accountability (FMA Act).

Features of an effective "Fraud Control Plan" developed by Australia's Attorney-General's department share a number of elements identified in South Africa's planning processes, which include the undertaking of risk assessments, allocation of responsibilities and mechanisms for implementing fraud prevention strategies, information concerning an agency meeting relevant fraud control training requirements, the collection and reporting on fraud and fraud control information, and detailing how employees, contractors and members of the public can report fraud.

In the United Kingdom, the Treasury department has developed guidelines for managing the risk of fraud in Public Service organisations (2003)[23]. These guidelines recommend the development of a "Fraud Policy Statement" and "Fraud Response Plan", in addition to government departments undertaking systematic assessments of fraud risks. Following the Australian government's description of the ideal features that a "Fraud Control Plan" ought to exhibit, the United Kingdom (UK) Treasury suggested that fraud prevention policy and a Fraud Response Plan should include a number of provisions that correspond with fraud prevention plans developed and practised in South Africa. Such provisions include allocation of responsibilities for managing fraud, dealing with fraud if it occurs, training related to fraud prevention and detection, and procedures for reporting and investigating fraud.

South African fraud prevention guidelines in the Public Service compare favourably with those of developed countries such as UK and Australia. Both the Australian and United Kingdom's experiences display indications that fraud prevention plans emerged out of a similar legislative and policy process to that of South Africa.

3.3 CONCLUSION

This chapter reviewed the legislative and regulatory framework governing fraud prevention planning in South Africa. Legislative developments to support fraud prevention were accelerated after the introduction of the Public Finance Management Act in 1999, and between its introduction and the present day, no less than eight legislative, regulatory and policy instruments could be identified as impacting directly on fraud prevention planning. In addition, South Africa's legislative and regulatory framework for fraud prevention seem to be positively in line with measures adopted by other countries, especially the creation of instruments strategically designed to combat fraud in the U.K and Australia.

[22] Attorney-General's Department. 2002. Commonwealth Fraud Control Guidelines. Canberra: Commonwealth of Australia.
[23] HM Treasury. 2003. Managing the Risk of Fraud: A Guide for Managers. London: HM Treasury

Chapter Four

FRAUD AND RISK PREPAREDNESS

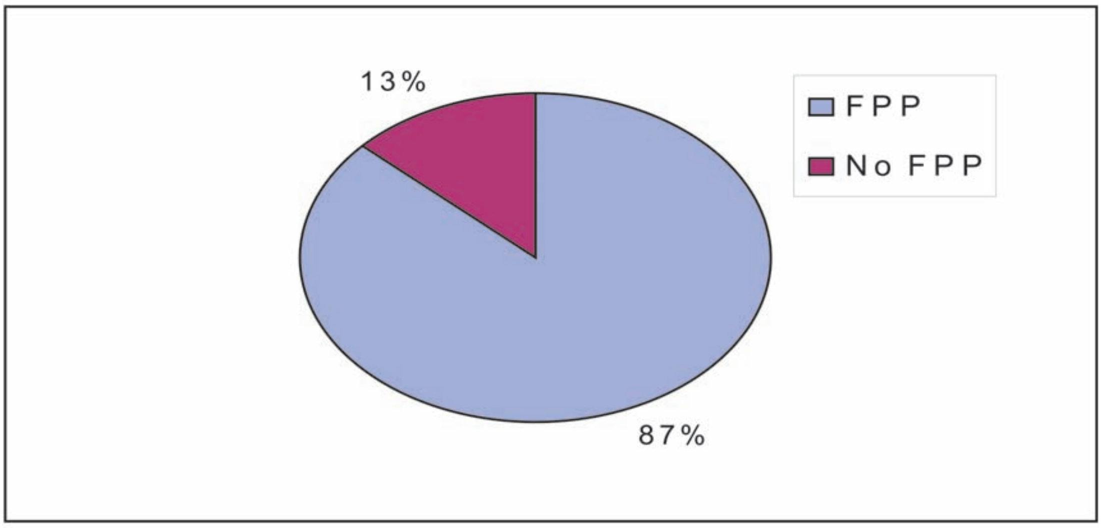
4.1 INTRODUCTION

According to Treasury Regulations, all departments are required to develop and implement plans and systems on fraud prevention. Departments need to be well-prepared to deal with fraud whenever it occurs. This chapter presents findings on the instruments departments have developed and applied on fraud prevention and risk management. It was assumed that the existence of instruments on fraud and risk preparedness would serve as an indication of the readiness of departments to implement fraud prevention plans. The findings in the chapter have focused on the existence, content, review and assessment of departmental fraud prevention and risk management instruments. The areas of inquiry on fraud and risk preparedness include existence of Fraud Prevention Plans, how often these Plans were reviewed, the content of the Plans, how their effectiveness was assessed, and how effective government officials have judged these Plans to be. Findings on the content and effectiveness of departmental risk management strategies, and the frequency of risk assessment activities would also be presented in this chapter.

4.2 EXISTENCE AND FREQUENCY OF PLANS AND RISK EXERCISES

The study sought to establish whether departments had put Fraud Prevention Plans in place. **Figure 4** below indicates that 87% of departments reported to have had FPPs in place. There was no significant difference when the data was compared between national and provincial departments, where 93% of national departments sampled reported having FPPs, compared with 85% of provincial departments[24].

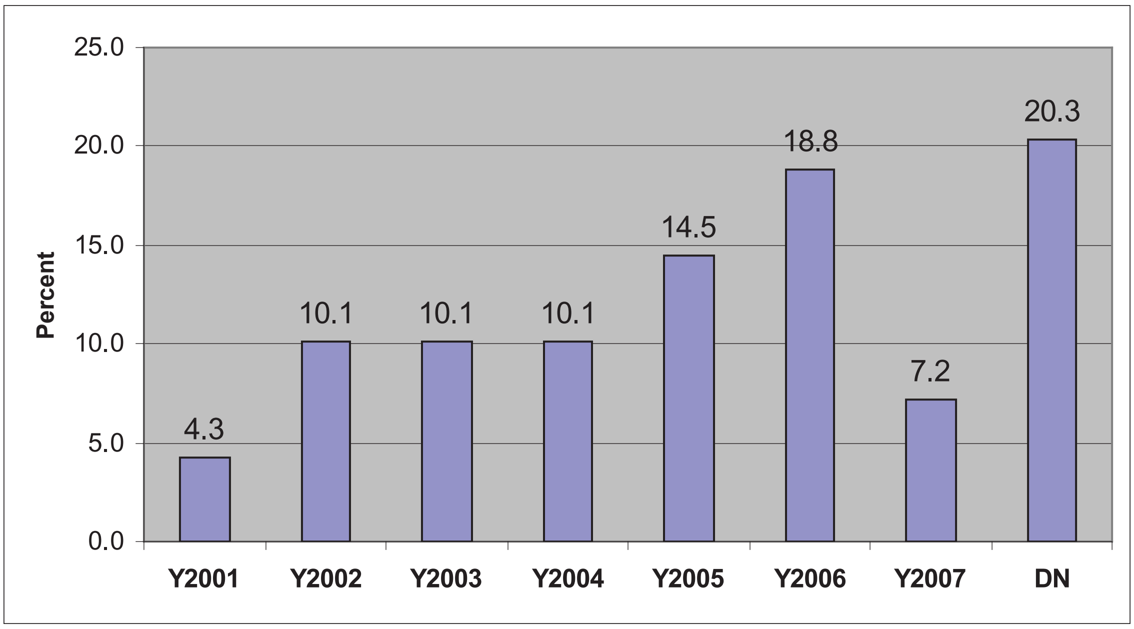
Figure 4: Existence of fraud prevention plans (N=69)



To check the reliability of departmental claims that they did in fact have FPPs in place, interviewers who collected data in this study were requested to obtain a hard copy of these plans from departments. The findings showed that indeed, all departments had hard copies of the plans. This is an encouraging finding because the existence of such plans at least create a springboard from which actual fraud prevention can be directed. Interestingly, these findings contrast sharply with the results of a 2001 survey conducted by the PSC. In that survey, all provincial departments were asked whether they had developed a Fraud Prevention Plan, and only 49% reported having developed such plans[25]. This finding suggests that progress is being made in the development of FPPs in the Public Service.

[24] FPPs were also widely represented amongst and within departmental sectors participating in the study.
[25] Republic of South Africa. Public Service Commission. 2002. Report on Risk Management: A Provincial Perspective. Pretoria: Public Service Commission.

Figure 5: When did a department's FPP first come into effect? (N=69)

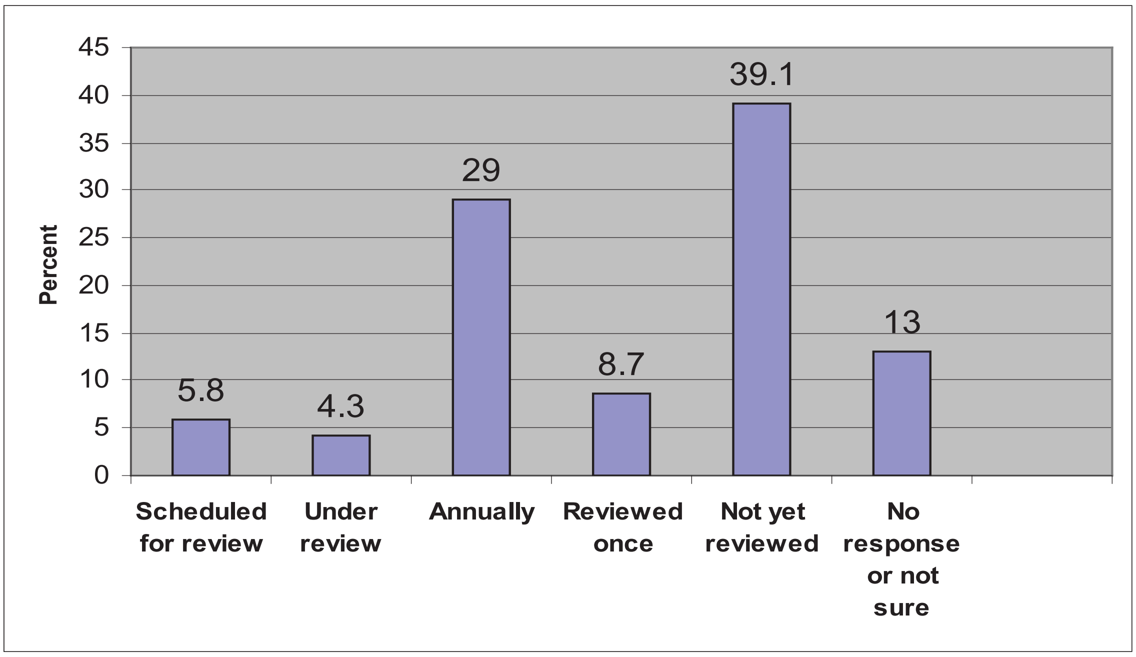


(The total excludes 4.3% of departments that said their FPPs first came into effect prior to 2001)

Departments were asked to indicate when their FPPs first came into effect, or became operational. The findings show that 33% of departments indicated that their FPPs first came into effect in 2005 and 2006. These findings mean that departments only developed and implemented their fraud prevention plans 3 to 4 years after they were legally required to do so in 2002 as mandated by PFMA. Over 20% of departments could not recall for certain when their plans first came into being. Perhaps the key respondents in those departments that could not recall as to when their plans came into being were new in their respective departments. They were not yet in the employ of the departments when the plans were introduced.

Those departments that did have functioning FPPs were then asked to indicate how often they reviewed these Plans. Although Treasury Regulations do not specify the precise intervals at which FPPs ought to be reviewed, the inclusion of this question was meant to establish some basis for future comparison. The results displayed in Figure 6 below show a mixed picture, where 39% of the departments indicated that they had not yet reviewed their plans. This included departments that reported having no FPP in place, departments whose plan had only recently come into existence (that is 2007), and other cases where plans had simply not yet been reviewed. A further 30% of departments indicated that they review their FPPs annually, with a further 4% mentioning that their plans were presently under review.

Figure 6: How often does the department review its FPP? (N=69)



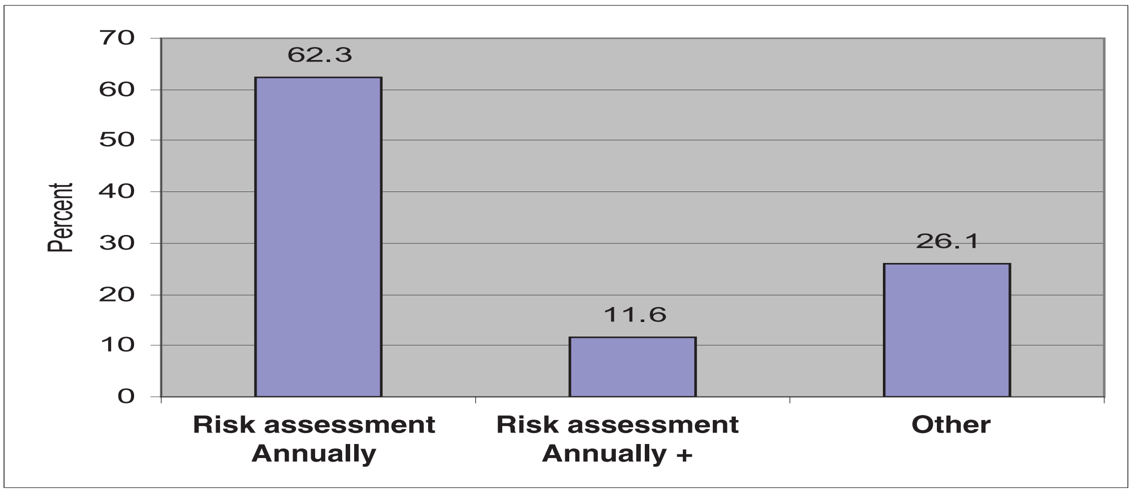
Departments operate within a changing environment whereby assumptions that shape an FPP in one year may need to be reconsidered in the next year. It is therefore important for departments to ensure that they review their FPPs periodically so that their relevance and appropriateness are not overtaken by events.

A more encouraging picture was found when Departments were asked how often they conducted "risk assessments". Firstly there is no uniform interval at which risk assessments are expected to be carried out. Treasury Regulations only indicate that these should be conducted on a "regular" basis, but National Treasury has recommended that risk assessments be undertaken preferably every two or three years, or when significant change has occurred[26]. Risk assessments are considered crucial to informing the development of FPPs, by helping to identify existing and emerging risks in the operational environment of a department, which might materially impact on it. The relationship between risk assessments and FPPs specifically revolves around areas of risk being potentially susceptible to fraudulent activity.

Figure 7 below shows that over 62% of departments indicated that they conducted risk assessments on an annual basis. A further 11% of departments reported that they conducted these more frequently, including bi-annually, and even quarterly. This compares favourably with PFMA-prescribed intervals for risk assessment.

[26] Republic of South Africa. National Treasury. Fraud Risk and Prevention: Volume 6. Undated.

Figure 7: How often does department conduct risk assessment? (N=69)

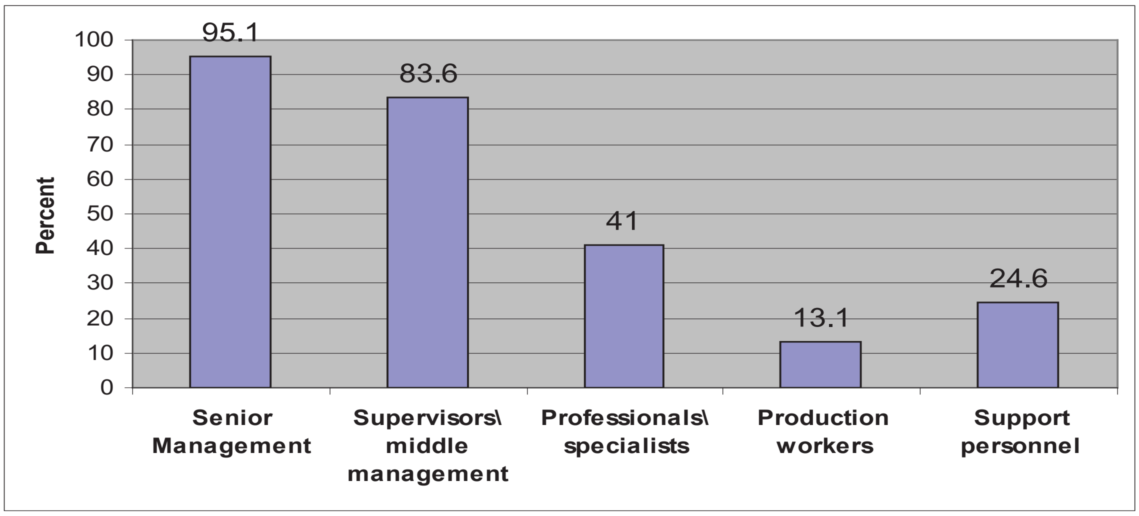


Data on the frequency of risk assessments was then compared with an analysis of supporting documents received from departments, which showed that 55 departments out of the 60 (92%) that provided hard copies of their FPPs also provided some evidence of a risk assessment or management plan. Having noted this, it was of some concern that the review of FPPs has not seemingly kept pace with the frequency of risk assessments being conducted by departments. This might mean that the lessons learnt during the reviews are not incorporated in the fraud prevention plans.

4.3 DEVELOPMENT AND CONTENT OF FRAUD PREVENTION PLANS AND RISK EXERCISES

The study sought to establish the involvement of employees in the development of plans and in risk exercises. In this regard there was a focus on the extent to which departmental employees were involved in fraud and risk assessment activities. Employee involvement is important for building awareness and educating staff about the issue of fraud, and measures to prevent it. **Figure 8** below shows the categories of employees that were involved in the development of FPPs. The officials involved include both senior managers and middle managers, and to a certain extent, officials at the lower level such as production and support personnel.

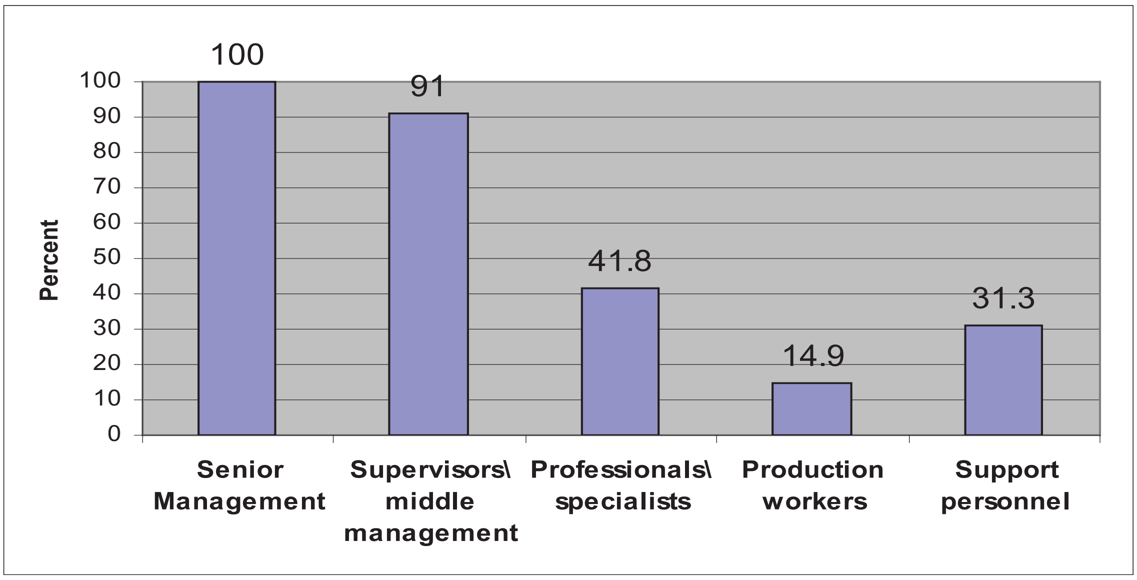
Figure 8: Involvement of employees in development of FPP (N=61)



A relatively higher number of departments indicated that senior and middle managers are the ones that are actively involved in the development of fraud prevention plans in their respective departments, compared with other categories of employees.

Figure 9 below shows a similar picture with no discernible difference in the high level of involvement of senior and middle managers in the risk assessment process. Again, departments could select more than one category of employees.

Figure 9: Involvement of employees in risk assessment process (N=67)



An important observation from **Figures 8 and 9** above is the extent of the disparity in the level of involvement of managers versus other employees in fraud prevention planning and risk assessment. PSC studies have reported certain trends in fraud involving entry supervisory levels in the Public Service[27]. Given such trends, it would be important to ensure that involvement in risk assessment and the development of FPPs is broadened as part of educating all staff and building the ethical conscience of departments.

The study also sought to establish the actual content of Fraud Prevention Plans. Departments were asked about the broad structure of their Plans, which included issues such as the "prevention", "detection", and "investigation", of fraud, which have all been covered in the legislative, regulatory and policy framework governing fraud prevention. The findings show that over 60% of departments reported that their FPPs contained provisions governing the prevention, detection and investigation of fraud.

Table 4: A detailed assessment of departmental FPPs (N=62)

	N	%
Allocate mgt. responsibilities	56	90.3
Scope of applicability	56	90.3
Zero tolerance	57	91.9
Investigate reported incidents	58	93.5
Publish sanctions	26	41.9
Protect whistleblowers	55	88.7

Table 4 above shows that over 90% of departments reported that their FPPs contained provisions concerning the allocation of management responsibilities for fraud, procedures to investigate incidents reported (largely corroborated by an analysis of the actual Plans), the adoption of a "zero tolerance" attitude towards fraud, and defining the scope of the Plan's application. The allocation of management responsibilities in FPPs was assessed against an analysis of the actual FPPs received by departments.

[27] Republic of South Africa. Public Service Commission. Report on Financial Misconduct. 2005.

One aspect of a Fraud Prevention Plan's content that appeared particularly prominent was the protection of whistleblowers, or those reporting on suspected fraudulent activity. When elsewhere in the survey departments were asked to specifically describe how protection was provided to employees who reported on fraud **(Table 5)**, where in some cases departments made reference to more than one form of protection, the results showed that 20% were citing a whistle-blowing policy.

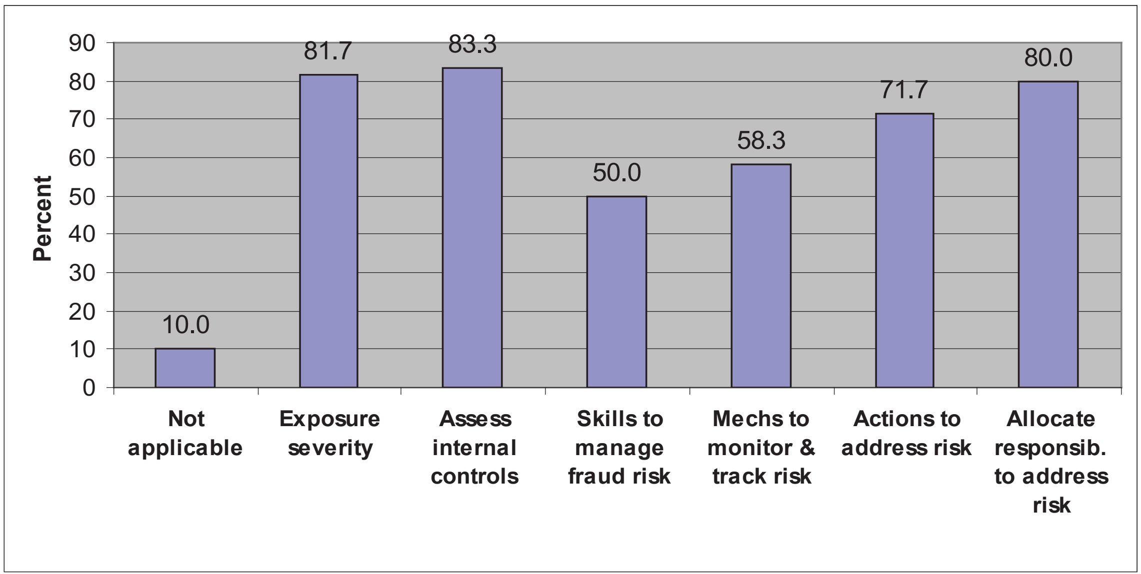
Table 5: Protection provided to employees who report on fraud (N=65)

	N	%
Anonymous reporting	25	38.4
General reference to Protected Disclosures Act	16	24.6
Reference to departmental whistle-blowing policy	13	20.0
Confidentiality (reference to how disclosures are treated)	11	16.9
Other[28]	13	20.0

The findings show that 38% of departments allowed for anonymous reporting, and nearly a quarter (24.6%) of the departments implements the Protected Disclosures Act (PDA)[29] to protect those employees who might blow whistle on fraud and corruption in their respective departments. While it is necessary to note that 20% of the departments made reference to the use of whistle blowing policies or it must be pointed out that this figure is disappointing given the importance of whistle blowing in the fight against corruption, it is expected of departments to pay more attention to this area.

Furthermore, the study sought to broaden its inquiry by asking departments about the contents of their "risk management strategies." These strategies are specifically mentioned in Treasury Regulations to the PFMA as the vehicle under which FPPs are supposed to be developed and implemented.

Figure 10: Assessing the contents of departmental Risk Management Strategies (N=60)



The findings reflected in **Figure 10** above indicate that a greater proportion of departments reported that they have risk management strategies, and they have made provision for the assessment of internal controls, or procedures for minimising the adverse impact on a department's operations of risks. As high as 81% of departments indicated that their strategies identified the severity of their exposure to risks. A large number of departments also pointed out that their risk management strategies covered the allocation of responsibilities to address risks.

[28] Other included categories such as not sure, support from HoD Office, and use of National Hotline
[29] Republic of South Africa. Protected Disclosure Act, 2000.

Only 58% of departments acknowledged that their risk management strategies specified mechanisms to monitor and track risks, which do not correspond with data presented earlier on the frequency with which departments appear to be engaging in risk assessment exercises. Finally, the number of departments indicating that their risk management strategies specified the skills required to manage fraud risk was at 50%.

4.4 ASSESSMENT, MEASUREMENT AND EFFECTIVENESS OF FRAUD AND RISK ACTIVITIES

Departments were asked to identify formal indicators they use to assess the effectiveness of their FPPs. **Table 6** below shows that 18.2 % of the departments indicated that indicators were not applicable to them. This might mean that these departments did not have any formal indicators they apply to assess the effectiveness of the FPPs.

Table 6: Formal indicators to assess the effectiveness of fraud prevention plans (N=55)

	N	%
Not applicable	10	18.2
Year-to-year comparison of fraud statistics	24	43.6
Reduced incidents	28	50.9
Improved usage of anti-corruption hotline	18	32.7
Improved public image	19	34.5
Improved good faith reporting	25	45.5
External validations for improving internal controls	22	40.0

The study has found that majority of departments (51%) assess the effectiveness of their FPPs through reduced incidents of fraud reported in their respective departments. This was followed by improved good-faith reporting at 45.5%, year-to-year comparison of fraud statistics (43.6), and external validations for improving internal controls (40%). Indeed, reduced incidents of fraud reported in departments might be a positive indicator of the success of the fraud prevention plans. However, it is important to note that there might be instances where fraud might be happening and no one getting to know about and therefore not reporting such incidents. This means that reduced incidents might not be the only reliable indicator of the effectiveness of fraud prevention plans. It might need to be complemented by other well-developed measures.

Augmenting the question on the identification of formal indicators, departments were also asked to identify what instrument(s) they were putting in place to measure the impact of their Plans. **Table 7** below shows that responses were given by only 56 departments, accounting for 81% of the sample.

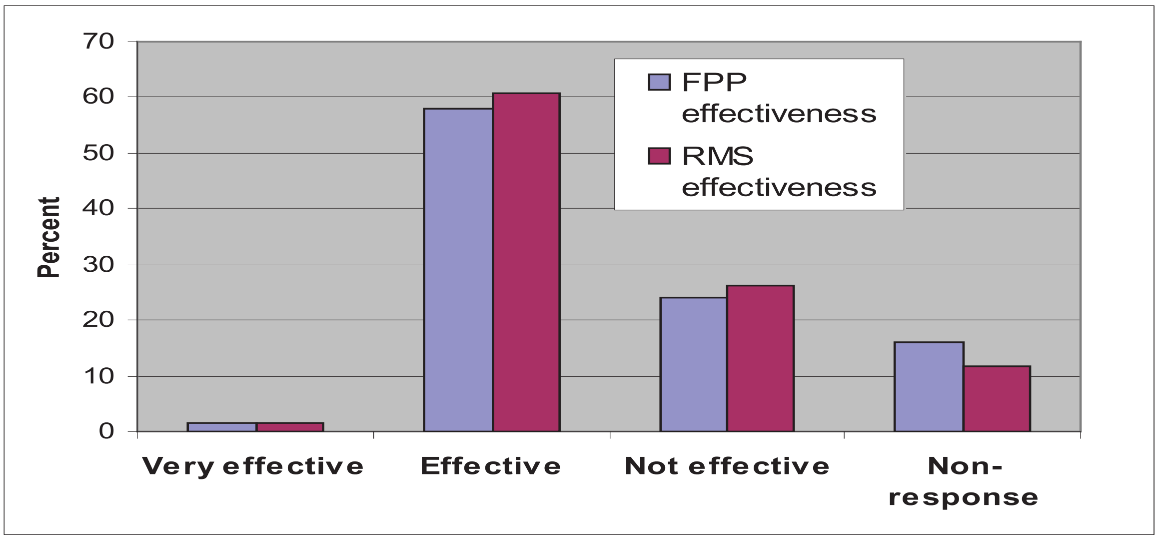
Table 7: Instruments put in place by departments to measure impact of FPP (N=56)

	N	%
Reporting structures, forums, and practices	22	39.2
Collection and analysis of data on fraud (inc. risk assessments)	19	33.9
None	18	32.1

The findings show that 39.2% of departments indicated that the impact of their fraud prevention planning was evaluated through reporting practices, structures and forums. Nearly 34% indicated that the impact of the FPPs in their respective departments is done through the data collected on fraud.

Departments were asked to describe the effectiveness of their FPPs and risk management strategies (RMSs). The findings are shown below in **Figure 11**.

Figure 11: Effectiveness of fraud prevention plans and risk management strategies (N=69)



The findings showed a convergence of opinion pertaining to the effectiveness of FPPs and risk management strategies. Sixty per cent of the departments were largely of the opinion that their instruments were "effective", followed by a quarter of departments indicating that their fraud prevention plans and risk management strategies were "not effective". Fifteen per cent of departments did not provide any response to this question. Perhaps lack of response is an indication of not being sure whether their FPPs were effective or not. Lack of response to the question can also be an indication that the officials who served as sources of information from the departments were not informed about the effectiveness of the FPPs.

However, when departments were asked to comment on how the effectiveness of their FPPs could be improved the findings showed that 65% of departments cited a need to establish sufficient capacity to implement FPPs as well as a need to strengthen their Plans and planning activities for implementation. This might mean that departments were not satisfied with the effectiveness of their fraud prevention plans as indicated on **Figure 11** above. To improve the effectiveness of these plans, departments should be encouraged to use the standards developed for the PSC Public Service Monitoring and Evaluation System[30] for evaluating departments' compliance with the constitutional value of accountability. The following fraud prevention standards are included in this checklist:

- A comprehensive implementation plan and responsibility structure must be developed to implement and give effect to the department's fraud control strategy.
- Fraud prevention strategies must be based on a thorough risk assessment.
- A fraud database should be in place.
- It must be clear that every employee has a responsibility to contribute towards eliminating fraud.
- Service users, suppliers and the broader community should be made aware of the department's stance on fraud and corruption. What steps are planned to ensure this?
- It should be clear to everybody to whom and how fraud should be reported.
- A clear policy on protected disclosures must be in place.
- Accounting officers must be clear that there is no discretion in the reporting of fraud to either the police or other independent anti-corruption agencies.
- Provision must be made for the investigation of fraud once reported.
- All instances of suspected fraud must be promptly examined by the department to establish whether a basis exists for further investigation.
- Fraud investigations must be conducted without interference by management.
- Investigations must be undertaken by skilled officers.

[30] Public Service Commission. Public Service Monitoring and Evaluation System. Revised Research Guide and Assessment Questionnaire: 10 July 2006

- The expected standards of conduct (code) must be clear. The Public Service Code of Conduct must be adapted to the specific circumstances of the department.

Table 8: How effectiveness of FPPs could be improved (N=63)

	N	%
Establish sufficient capacity to implement, and strengthening Plan and planning processes	41	65
Awareness of fraud prevention and Plan	22	34.9

The findings show that 34.9% of departments stated that awareness of fraud prevention and related departmental planning could be improved. It may be useful to consider this gap in fraud prevention awareness against an earlier observation which showed a low level of involvement of employees below management level in the development of these plans as shown on **Figure 8** in this chapter.

Table 9: How effectiveness of risk management strategy could be improved (N=63)

	N	%
Establish sufficient capacity to implement risk management	23	36.5
Diffusion of responsibility for risk management	17	26.9
Awareness	12	19

On the issue of the improvement of the effectiveness of risk management, 27% of departments expressed a need to diffuse responsibility for risk management widely across their employees, which in particular emphasised a stronger role for departmental managers. A need to improve awareness of risk management was further cited by 19% of departments. It is noteworthy that departments were expressing similar themes of implementation capacity and awareness building in relation to how their FPPs and risk management strategies could be improved, which is unsurprising given that these two instruments are meant to be closely linked. It is interesting to consider the issue of implementation capacity for risk, and more specifically fraud risk management, against data presented earlier in **Figure 10** in this chapter, which showed that 50% of departments indicated the need to have capacity on risk management strategies to manage fraud risk.

4.5 CONCLUSION

This chapter presented findings on the fraud and risk preparedness of public service departments. The study found that given the baseline nature of its research, coming only six years after Treasury Regulations which required departments to prepare FPPs, it was encouraging to see that a very high percentage of national and provincial departments participating in this survey were reporting to have FPPs in place. The contents of these Plans, as well as departmental risk management strategies, were also of a generally high standard, covering a range of key issues in fraud and risk management.

Chapter Five

FRAUD PREVENTION STRUCTURES AND MECHANISMS

5.1 INTRODUCTION

According to the Public Finance Management Act (PFMA) of 1999, departments are required to have in place functional fraud prevention structures and mechanisms. These are the structures and procedures that would facilitate the departments' efforts in dealing with fraud. The fraud prevention structures and mechanisms should be an integral part of the fraud prevention plans of the respective departments. This chapter presents findings on the departments' structures and mechanisms for carrying out fraud prevention plans. The findings show the effectiveness of structures and mechanisms departments had put in place to implement fraud prevention and risk management activities. The chapter also presents findings on the roles and responsibilities allocated to various officials in the respective departments. Findings on the existence and functionality of fraud prevention structures such as internal audit and audit committees are presented.

5.2 ALLOCATION OF ROLES AND RESPONSIBILITIES FOR FRAUD PREVENTION

The study sought to establish how roles and responsibilities on fraud prevention were allocated to departments' officials. To this end, departments were asked to indicate what specific responsibilities for fraud prevention were being performed by a selection of management officials and structures. The pre-selected questions on the responsibilities focused on the following activities: oversight, planning, implementation, monitoring and evaluation, and reporting.

The findings in **Table 10** below show that departments regard the responsibility of Accounting Officers, or heads of department as almost exclusively (90%) one of oversight. The responsibilities of the Chief Financial Officers (CFOs) are regarded as to ensure the implementation of fraud prevention measures in the respective departments at 73% and reporting on fraud prevention matters at 71%.

Table 10: Allocation of fraud prevention responsibilities by position of employee or structure

	Accounting Officer	CFO	Internal Audit	Audit Committee	Senior Mgt.
Oversight	90.5	60.3	42.6	75.4	36.1
Planning	33.3	69.8	36.1	6.6	70.5
Implementation	17.5	73.0	34.4	3.3	86.9
M&E	33.3	68.3	88.5	65.6	70.5
Reporting	39.7	71.4	78.7	54.1	65.6
N=	63	63	61	61	61

The role of the internal audit (IA) structure is mainly viewed in terms of monitoring and evaluation (88%) and reporting (78%). The role of the Audit Committee (AC) is mainly that of oversight (75%) followed by monitoring and evaluation (65%). The findings on the roles and responsibilities of various officials on fraud prevention are consistent with how these functions are defined in Treasury Regulations. These findings show that there is awareness among departments of the Treasury Regulations which is positive and encouraging to note. It is important for public servants to know rules and regulations that govern the sector they work in. This is likely to reduce the cases of fraud and other related challenges.

Table 11: How sharing of responsibilities for fraud prevention can be improved (N=62)

	N	%
Strengthen accountability practices	31	50
Increased awareness	17	27.4

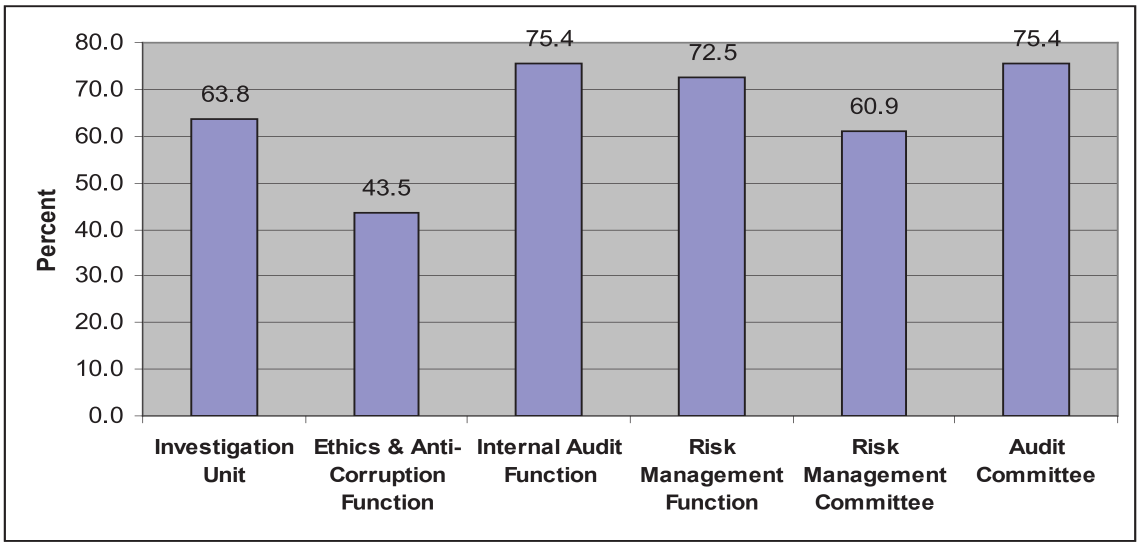
Departments were asked how sharing of responsibilities on fraud prevention could be improved. The findings show that 27% of departments indicated that improvement can be done through raising awareness about the need for fraud prevention and plans that are being put in place to deal with such a challenge. Indeed, information sharing among government employees could play a significant role in addressing fraud in the Public Service. These findings might suggest that there should be concerted efforts to deepen the level of awareness among employees on a regular basis.

Departments were further asked if responsibilities related to fraud prevention had been formally included in the work plans and/or performance agreements of staff. The results showed that only 50 departments or 72% of the sample responded to this question. Of those departments that responded to this question, 82% indicated that this was the case with their Accounting Officers (heads of department). This is consistent with the level of responsibility attached to these officials in the Public Finance Management Act. Again, 80% of departments indicated that responsibilities for fraud were also included in the performance agreements of senior managers, which also corresponds with the high degree of management responsibilities attached to this level, as seen in **Table 10.**

5.3 THE EXISTENCE OF FRAUD PREVENTION STRUCTURES

The study also enquired about the structures departments had put in place to implement fraud prevention. The results at **Figure 12** below show that various structures on fraud prevention are in place in various departments. The most common structures are internal audit (75.4%), audit committee (75.4), risk management (72.5) and investigation unit (63.8).

Figure 12: Fraud prevention structures in place (N=69)



Majority of departments reported to have specialised fraud and risk-related structures other than the internal audit and Audit committees, where the mandate extends beyond fraud and risk[31]. Structures mandated specifically to conduct investigations were reported to be in existence in 63% of departments. Other fraud and risk-related structures identified by departments included those responsible for "Minimum Information Security Standards[32]", a "Senior Management Activity Council", and a "Planning and Chief Financial Officer Technical Committee". Surely, the existence and functionality of the suggested structures could play a significant role in addressing fraud in the Public Service.

[31] According to Treasury Regulations to the PFMA, the scope of Internal Audit includes assessing the operational procedures and monitoring mechanisms governing transfers made and received. The scope of Audit Committees entails reporting broadly on the effectiveness of internal controls, the quality of financial management reporting, and the evaluation of financial statements.

[32] Noted that MISS personnel are tasked with the protection of classified departmental information, and preventing and investigating security threats to a department, which encompasses the reduction of corruption and in a related sense "fraud" in government. See Parliamentary Monitoring Group (2002). Available from: http://www.pmg.org.za/briefings/briefings.php?id=67(Accessed 26 July 2007).

The following sections will focus on data obtained on internal audit and audit committees, which were the most common fraud and risk-related structures observed in departments.

5.4 THE INTERNAL AUDIT

During the survey, the PSC sought to establish the role of the internal audit in the respective departments. The findings show that 94% of departments indicated that they have a functional internal audit unit. Although in many departments an internal audit function was being carried out, this service was not provided by a department's own internal audit structure. This was most prevalent at the provincial level, where in many cases internal audit structures were centralised in provincial Treasuries or Premiers' Offices. **Figure 12**, below shows how Internal Audit functions were carried out in respective departments. The findings show that there is no uniformity on how Internal Audit units work in various departments. It is also not clear as to which one of the several approaches of conducting Internal Audit is most effective than others. Surely, the size of department and availability of resources determine the type of Internal Audit a department can afford.

Table 12: Practice of Internal Audit function (N=65)

	N	%
Your Dept operates a fully-in-house Audit Unit (IAU)	26	40.0
Your Dept shares the IA function with other Depts	7	10.7
Your Dept co-sources the IA function with the private sector	19	29.2
Your Dept fully out-sources the IA function	1	1.5
Your Dept makes use of a provincial shared services centre	26	40.0

The results showed that 40% of departments received internal audit services from a centralised structure, which was exclusively limited to provinces[33]. It was also observed that 10% of departments indicated that their internal audit function was shared with other departments. Looking only at provincial departments, it was found that 48% of these were making use of a provincial shared services centre (centralised internal audit). Nearly 30% of departments also indicated that they co-sourced the internal audit function with the private sector. This was most prevalent in the provinces, which accounted for 68% of those departments that co-sourced the internal audit function.

Substantive planning for the performance of the internal audit function was generally evident, with over 90% of departments reporting the use of annual internal audit plans and Audit Charters, and 77% stating that quarterly reports were prepared for an Audit Committee on the implementation of their Plans. Other activities informing the internal audit function included special requests, risk assessments, and regular meetings and report-back sessions.

The specific fraud-related responsibilities assigned to the internal audit function emphasised the assessment and giving of advice on the effectiveness of the Plan and related planning tools, such as risk assessments. This accounted for 53% of departments. This is consistent with the picture presented in **Table 10**, where departments were emphasising the monitoring, evaluation and reporting function of internal audit. The consistency of the findings in **Table 10** on page 28 in this document might suggest a level of awareness among government officials in the respective departments on fraud prevention procedures.

[33] Shared internal audit services is permitted under Treasury Regulations to the PFMA.

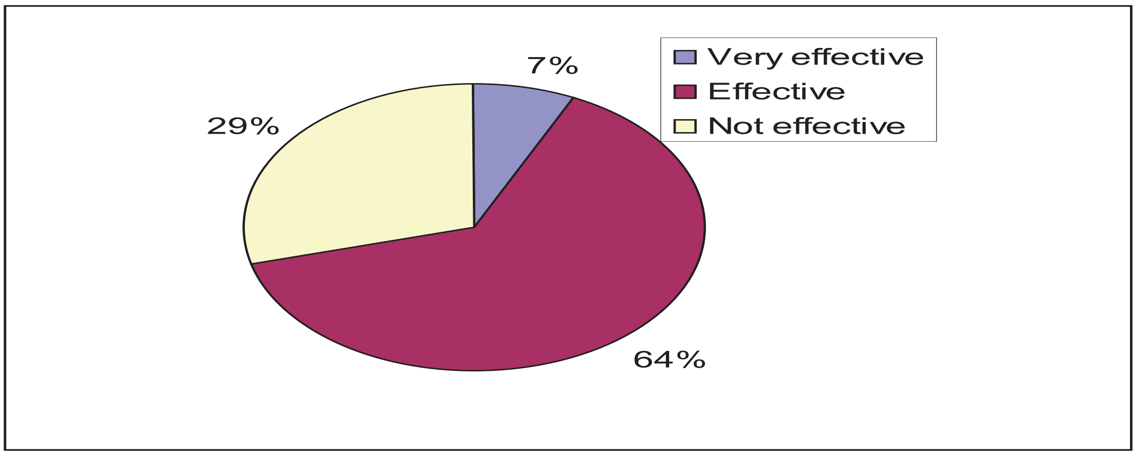
Table 13: Specific authority/responsibilities of IA for FPP (N=52)

	N	%
Assessment (M&E) and advise on effectiveness of FP Plan and related planning tools	28	53.8
Fraud-related investigative/detective responsibility	15	28.8
No specific responsibilities for fraud prevention	11	21.1

Twenty-eight per cent of departments indicated that their internal audit services were involved in fraud-related investigative and detective work. Over 20% of departments stated that no specific responsibilities for fraud prevention were assigned to their internal audit services, which in a few cases was due to FPPs not being in place.

When asked to comment on the effectiveness of their internal audit functions in the prevention and management of fraud, 71% of departments rated it as effective **(Figure 13)**. About a third (29%) of departments viewed their internal audit function as not being effective in the prevention and management of fraud.

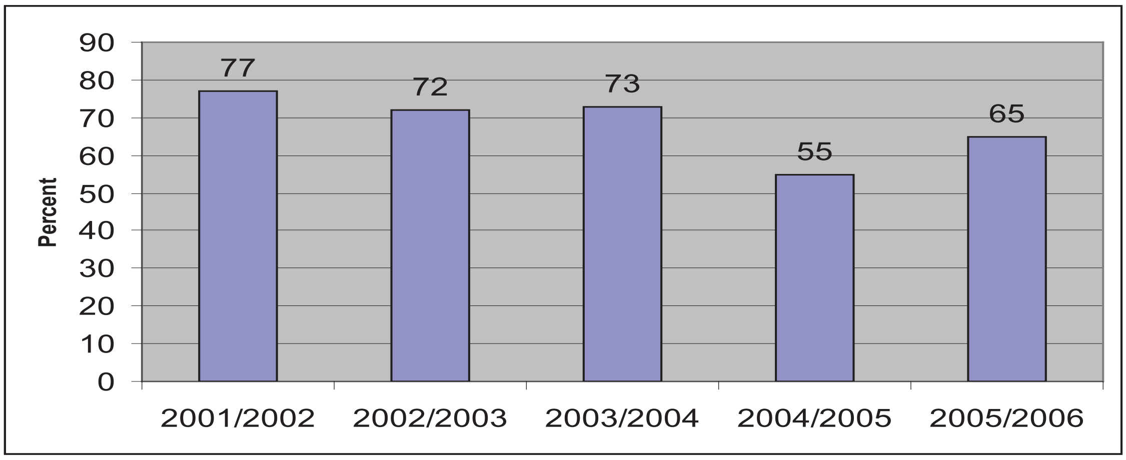
Figure 13: Effectiveness of IA function in prevention and management of fraud (N=55)



In its latest report on Financial Misconduct[34], the PSC indicated that despite a reduction in the percentage of fraud and theft cases reported over the last five years (**Figure 14**), the sustained high prevalence of these cases (65%) "…remains disconcerting and may be ascribed to a lack of proper control systems."

[34] Republic of South Africa. Public Service Commission. Report on Financial Misconduct for the 2005/2006 Financial Year.

Figure 14: Fraud and theft cases as % of financial misconduct cases[35]



It should be reiterated that a perceived lack of proper control systems should not be limited to the internal audit function alone, whereas previously reported by this study, departments could be doing more to fully constitute more specialised risk and anti-corruption structures, as well as improve awareness of their fraud prevention and risk management strategies. There is a need to look at various approaches applied by departments to deal with the challenge of fraud and its prevention. Departments should be able to document their efforts in as far as fraud prevention is concern. This is the only way their efforts would be known.

When departments were asked to indicate how the effectiveness of their internal audit functions could be improved, 67% of departments indicated that a variety of capacity challenges had hampered the performance of internal audit.[36] The coding of these responses showed that the following were being experienced as challenges in the respective departments:

- Skills development and training
- Vacant posts needing to be filled and additional posts created
- Retention of personnel
- Insufficient budgets
- In a number of cases there was a need to decentralise internal auditing from provincial level, to a more effective departmental specific arrangement

The study conducted by the Office of the Accountant General on internal audit and audit committees[37] in 2006 also found out that there was a need for capacity building within the internal audit units of the respective departments. The findings have shown that 29 national departments have a vacancy of 45%[38] in the internal audit unit. At the provincial level, the vacancy rate at the internal audit unit was at 27%. The high vacancy rate is likely to be indicative of the lack of capacity in both national and provincial departments in internal audit.

5.5 THE AUDIT COMMITTEE

The study also assessed the use of an Audit Committee (AC) as the most common fraud and risk-management and oversight structure in departments. The findings show that 97% of departments indicated that they have well-established and functional Audit Committees in place. The discrepancy between this figure and the lower figure of 75% indicating that they had an AC structure in place is most likely explained by the significant number of departments that share audit committees (50.8%, (N=65)), which again is permitted by Treasury Regulations[39]. This study concedes that the way in which separate questions were posed,

[35] Republic of South Africa. Public Service Commission. 2007.Report on Financial Misconduct for the 2005/2006 Financial Year. .Pretoria: Public Service Commission.
[36] This was based on 52 departments responding, or 75% of the sample.
[37] Data from the Office of the Accountant-General, National Treasury, was provided directly to the PSC
[38] This was calculated on the difference between number of "posts" listed and number of posts "filled"
[39] Of the percentage of departments indicating that they shared their audit committees with other departments, all but one were at the provincial level

one asking if Audit Committees were amongst the structures put in place by departments in response to fraud prevention, the other concerning whether departments had established Audit Committees, may have confused departments about whether they needed to cite the existence of Audit Committees servicing only their individual departments, or Committees that they shared with other departments. Having said this, the significant finding was that nearly all departments (97%) were being serviced by an Audit Committee. The findings of the study did not establish the functionality, composition and independence of the Audit Committee. A functional Audit Committee is likely to deal effectively with the challenge of fraud in the Public Service.

It was found that nearly 70% of departments rated the services provided by their Audit Committees as effective or very effective, with the remaining 30% stating that these structures were not effective[40]. These roughly mirrored results for the same question posed about the effectiveness of internal audit. As with that question however, departmental confidence in the work of audit committees should be set against data elsewhere showing departments experiencing multiple areas of fraud vulnerability as well as the sustained prevalence of fraud and theft.

Table 14: How can effectiveness of AC be improved (N=45)

	N	%
Greater interaction with and monitoring of fraud prevention planning activities in department	16	35
General structural and functional issues: more regular meetings, attendance problems, retention and suitability of members, greater resource commitment	15	33.3

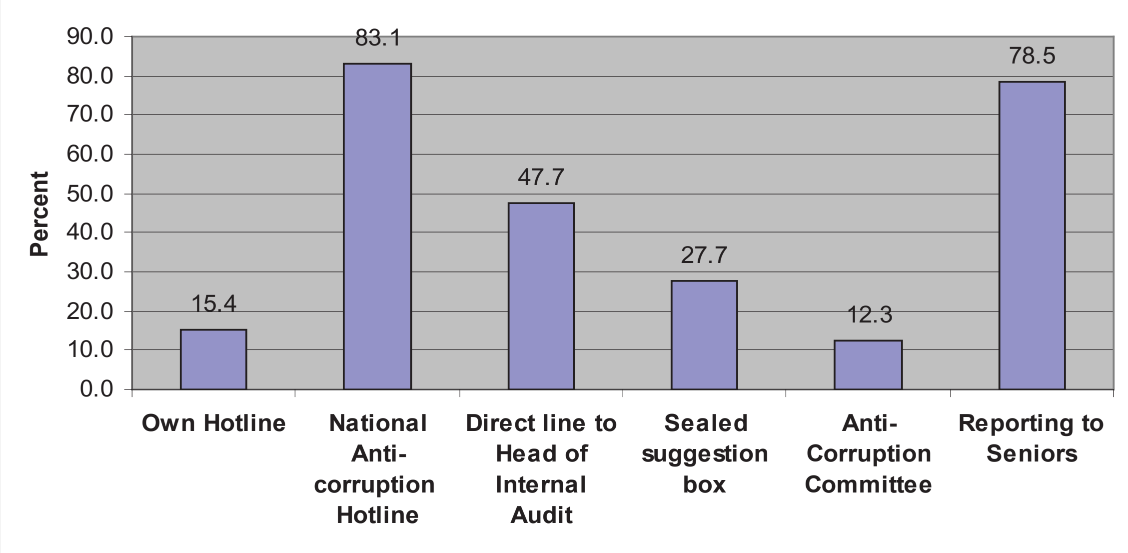
When departments were asked how the effectiveness of their Audit Committees could be improved, a very low response rate was recorded, where only 45 departments or 65% of the sample made inputs. With this in mind, a broad array of responses were given, where 35% of responding departments indicated that their Audit Committees could be more regularly interacting with departments on fraud prevention planning activities. It was also observed that a third of departments were remarking on more general issues impacting on the functioning of their Audit Committees. This included more regular meetings, problems with attendance, retention and suitability of members, and greater resources committed to the structure. Poor attendance by members of the Audit Committee is likely to affect its effectiveness in dealing with fraud. There are also instances where members of the Committee are not well-qualified and suitable. Such instances compromise the integrity of the Committee and certainly the ability to deal decisively with the Committee's responsibility.

5.6 PROCEDURES TO REPORT AND MANAGE FRAUD PREVENTION

Departments were further asked to identify mechanisms they apply to report and manage fraud prevention. The majority of departments indicated that they directed their employees to a national hotline (**Figure 15**). This was followed by 78% of departments that indicated that they have created an environment where employees could be able to report suspected cases of fraud to their seniors in their respective units. It was further indicated that suggestion boxes were available in about 28% of departments, with some departments making use of their own in-house hotline. The functionality of the in-house hotlines in the respective departments was not verified during the study.

[40] Based on 56 departments responding, or 81% of the sample

Figure 15: Procedures to enable employees to report fraud (N=65)



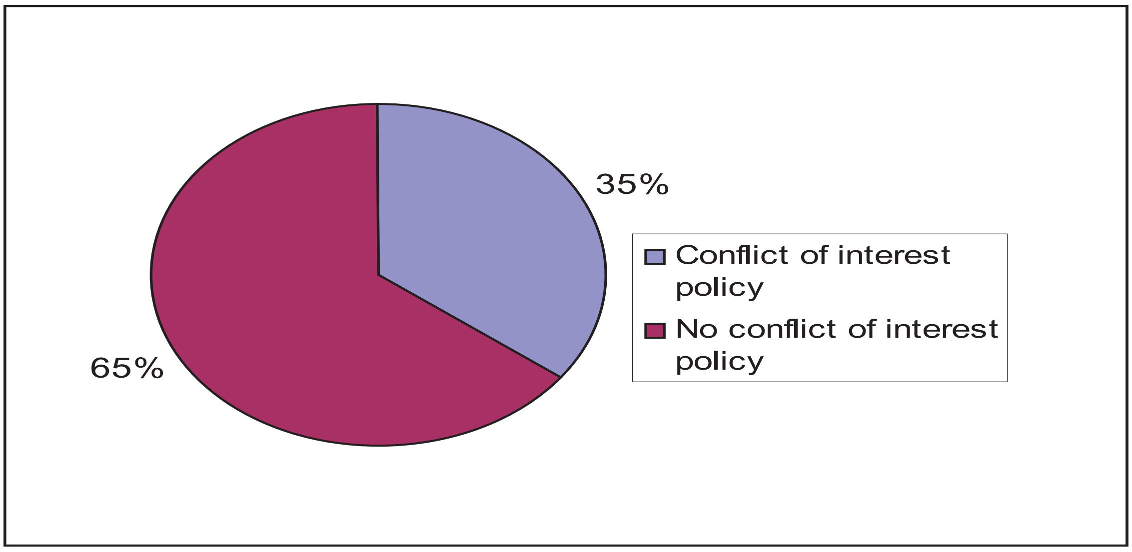
The national hotline referred to in this study is the National Anti-Corruption Hotline (NACH)[41], managed by the PSC. Contrasting the seemingly high visibility of the NACH amongst sampled departments with a recent report on the effectiveness of the NACH, exhibits encouraging signs, where the PSC indicated that the Hotline was a relatively new initiative and due to limitations in its capacity to manage the service, it had not yet been able to commence with a "wide-spread" marketing campaign[42]. In the same report however, the PSC also argued that as it did not have the capacity to investigate cases reported through the Hotline, it was incumbent on individual departments to put in place the capacity to investigate corruption. Having observed this, a high proportion of departments were, in addition to publicising the NACH, also enabling their employees to report fraud in-house, to seniors (78.5%).The relatively small percentage of departments that indicated that they have a whistle-blowing policy, as a mechanism to protect employees who report on fraud, raises concern about the effectiveness of in-house reporting. Many employees are likely to be intimidated to speak to or blow the whistle if they feel that there is no adequate system in place to protect them.

Another procedural aspect of fraud prevention which the survey looked at involved conflict of interest, where departments were asked if they implemented a "conflict of interest" policy. Procedures governing conflict of interest speaks directly to minimising the risks associated with the conduct of its day-to-day activities.The findings showed that 35% of departments reported that they had a policy governing conflict of interest in place (**Figure 16**), whilst 65% reported no such policy in place.

41 Republic of South Africa. Public Service Commission. National Anti-Corruption Hotline for the Public Service: 0800 701 701.

42 Republic of South Africa. Public Service Commission. 2007. Measuring the Effectiveness of the National Anti-Corruption Hotline (NACH). Pretoria: Public Service Commission. See Executive Summary.

Figure 16: Conflict of interest policy in departments (N=65)



When departments that did not have a conflict of interest policy in place were asked to describe how they managed conflict of interest, 44% said that this was managed by way of a declaration of financial interests, with 31% indicating that this was dealt with via a declaration of financial and procurement related interests. Declaration of financial interests and procurement related interests cannot be the sole regulators. Surely, there should be enforceable policy in place.

Table 15: How does department manage conflict of interest? (N=45)

	N	%
Declaration of financial interests (i.e. usually pertaining to senior managers)	20	44.4
Declaration of financial and procurement-related interests	14	31.1
Guided by relevant legislation (i.e. PFMA, Public Service Act)	7	15.5

Declarations were therefore the most frequent instrument used by departments to manage conflict of interest, in the absence of overarching policies on the issue. A smaller proportion of departments (nearly 16%) indicated that they were guided on the matter by relevant legislation such as the PFMA and the Public Service Act, without pointing out what specific provisions they were referring to.

On the issue of conflict interest, it is worth mentioning that a recent report published by the PSC recommended that the South African public service needed to move towards a more "structured" approach to the management of conflicts of interest. In this regard, it specifically mooted the establishment of a "stand alone" conflict of interest policy, meaning the creation of a policy separate from but complementary to the public service Code of Conduct and Financial Disclosures Framework[43].

5.7 CONCLUSION

The findings on departmental fraud prevention structures and procedures showed that a majority of departments that participated in the study indicated that they have established specialised fraud prevention and risk management structures in place. The majority of departments also indicated that they have internal control mechanisms such as internal audit and audit committees to manage fraud prevention plans.

[43] Republic of South Africa. Public Service Commission. 2006. Report on Managing Conflicts of Interest in the Public Service. Pretoria: Public Service Commission.

Chapter Six

FRAUD PROFILE AND AWARENESS ACTIVITIES

6.1 INTRODUCTION

Departments are required to develop their fraud awareness activities based on their fraud profile. If a department has a high fraud profile, it should have an intensified fraud prevention awareness programme. This chapter presents findings on the type of fraud departments have experienced most, as well as the activities they have engaged in to raise awareness and educate their employees about fraud and its prevention. The type of fraud departments have experienced most range from cheque fraud, procurement fraud and bribery to subsistence and travel claim fraud, fleet management, staffing payroll and recruitment and unregistered leave. There are concerted efforts by government departments to raise awareness among their employees and educate them about the need for fraud prevention.

6.2 TYPES OF FRAUD EXPERIENCED BY DEPARTMENTS

The study wanted to establish the types of fraud departments were experiencing most. The findings are shown in **Table 16** below and they show that nearly three-quarter of departments reported that they had experienced procurement-related fraud (71.8%), followed by over two-thirds of departments indicating that they had experienced asset theft (67.2%)[44]. Such a high rate of procurement-related fraud would tend to reinforce a need, observed in chapter five in this report to strengthen conflict of interest regimes in departments. Furthermore, in its latest report on financial misconduct in the Public Service (2005/2006), the PSC recorded that the largest number of cases were identified at the level of production employees (below middle-management), which includes salary levels 1-8. The report added that the highest number of financial misconduct cases involved employees at salary levels 6 and 7. Employees at these levels were often entrusted with duties that entailed the handling of monies and the "procurement of goods[45]". It may also be worthy to mention that employees below senior and middle management did not feature prominently when departments were asked which levels of employees were involved in the development of their FPPs and risk assessment process.

Table 16: Activity areas where departments have experienced fraud (N=64)

	N	%
Not applicable	5	7.8
Bribes	30	46.8
Cheque Fraud	15	23.4
Subsistence and Travel Claim Fraud	29	45.3
Procurement fraud	46	71.8
Fleet management	35	54.6
Staffing- payroll, recruitment	23	35.9
Leave fraud	25	39.1
Wage\ salary fraud	16	25.0
Theft of stationery and other inventories	29	45.3
Theft of assets	43	67.2
Other	17	26.5

[44] Theft of assets is not by definition subsumed under "fraud", as it has been defined separately from fraud as the "unlawful taking with the intent to steal of a thing capable of being stolen". Fraud and theft have however been reported on and analysed together, under the category "fraud and theft", in PSC reports on financial misconduct. Moreover, although it may be defined separately from fraud, theft, as with fraud, exposes areas of business risk which, as a process, is shared with fraud prevention.

[45] Republic of South Africa. Public Service Commission. 2007. Report on Financial Misconduct for the 2005/2006 Financial Year. Pretoria: Public Service Commission.

6.3 FRAUD AWARENESS AND EDUCATION

In order to assess the level of awareness of fraud and fraud prevention in departments, departments were asked to indicate what they were doing to improve understanding of fraud and its prevention amongst their employees. **Table 17** below shows the activities various departments have embarked on to raise awareness among their employees on fraud and its prevention in the public service.

Table 17: Promotion of fraud awareness amongst employees (N=56)

	N	%
Fraud risk areas communicated to staff	33	58.9
Fraud Prevention Plan disseminated to staff	35	62.5
Risk Management Strategy disseminated to staff	27	48.2
Fraud prevention & awareness has been included in promotional aids. i.e. posters & flyers	29	51.8
Fraud prevention & awareness included in intra-departmental communication, i.e. newsletters, circulars, intranet	31	55.4
Dept informs staff of the outcomes of investigations & disciplinary actions	13	23.2

It is important to note that 81% (N=56) of the sampled departments responded to the question on activities designed to educate employees on fraud and it prevention.

Table 18 below shows the activities carried out by various departments in an effort to educate their employees about fraud and its prevention.

Table 18: Fraud prevention education activities by level of employee

	Workshop fraud Prevention	Ethics training	Induction	Training on PDA*	Training on Code of Conduct
Snr. Mgt	89.8	96	67.9	68	82.1
Sup/Middle mgt	91.8	88	85.7	88	92.3
Prof/spec	46.9	60	67.9	52	69.2
Production	51	56	71.4	56	74.4
Support personnel	57.1	76	78.6	64	84.6
N=	49	25	28	25	39

*Protected Disclosures Act

The findings show that at the level of employees, only supervisors and middle managers were generally benefiting from fraud-related education across the various categories. This was followed by senior managers. The findings show that there is lack of effort meant to educate those employees below middle-management. These are the employees most likely to be vulnerable to fraud and corruption because on daily basis they are involved in areas that could lead to such acts.

Departments were asked how they could enhance the effectiveness of their fraud prevention communication and awareness activities. The following were the suggested strategies:

- Greater publicising of sanctions applied in fraud cases.
- Recorded message to clients who telephone departments, informing them of how they can report suspected fraud.
- Publicising departmental fraud prevention strategies in the media.
- Greater use of information technology, i.e. intranet, screensavers, to promote awareness of fraud prevention.
- Stickers on tender documents relating to fraud prevention.

6.4 CONCLUSION

There are various types of fraud that are experienced by government departments. Departments have embarked on various activities tailored to educate employees about fraud and how to prevent it. Not all employees are targeted the same way as far as raising awareness is concerned.

Chapter Seven

CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

The study on the implementation of fraud prevention plans (FPPs) was intended to obtain information on the current state of fraud prevention activities in the Public Service. According to Treasury Regulations, all departments are proactively required to develop and implement plans and systems on fraud prevention. This chapter presents a conclusion and recommendations drawn from the findings of the study. The specific aims of the study were the following:

- To establish what progress departments have made in developing and operationalising FPPs.
- To assess the implementation processes and management arrangements for carrying out these plans.
- To establish what structures and procedures were in place for this purpose and to assess the perceived impact of FPPs.

7.2 RECOMMENDATIONS

The following are the recommendations drawn from the findings and conclusion of the study. The recommendations have been developed based on the three key areas the study investigated, which are fraud and risk preparedness, fraud prevention structures and procedures and fraud profile and awareness activities. It is therefore recommended that:

7.2.1 Fraud and Risk Preparedness

The first theme concerned the fraud and risk preparedness of departments. The study has found that there has been considerable improvement in the development of fraud prevention plans by departments since Treasury Regulations required that these be introduced in 2001. To this end, it is recommended that:

- Departments should improve the process of reviewing of their FPPs. Such improvements should among others target the frequency with which the reviews are done, the review criteria and instruments that are used. Although Treasury Regulations do not specify the exact intervals within which FPPs should be reviewed, it is important for Departments to be proactive in this regard to ensure that their FPPs are not overtaken by changes in the environment. Reviewing the FPPs on an annual basis when the strategic plans are reviewed will ensure that these plans are aligned with the management processes in the departments.
- As part of a robust review process, departments should also put more effort into involving employees below senior and middle management levels in their efforts to raise awareness among the employees. Fraud prevention should effectively become every official's responsibility. The achievement of such a step needs to be supported by education and awareness training processes.

7.2.2 Fraud Prevention Structures and Procedures

The second theme concerned fraud prevention structures and procedures. The study found the majority of departments reported to have established specialist fraud prevention and risk management structures, in addition to the internal control mechanisms such as internal audit and audit committee. To this end, it is recommended that:

- Departments expedite measures to operationalise and properly resource specialist fraud prevention and risk management structures. Structures such as Internal Audit units have a crucial role to play in the implementation of FPPs, but they can only play such role effectively if they have the required capacity.
- Responsibility for fraud prevention and risk management should be more clearly allocated and more widely diffused amongst line function managers. In this way, staff will be in a position to effectively play their role in fraud prevention.

- All in-house anti-corruption hotlines should, in accordance with a Cabinet decision, be phased out and departments should start using the NACH. This process should be implemented with immediate effect. The use of NACH is likely to contribute toward the guaranteed protection of whistle blowers in the respective departments.

7.2.3 Fraud Profile and Awareness Activities

The third theme examined by the study concerned the types of fraud experienced by departments, and the activities the engaged in to promote awareness and educate their employees about fraud and its prevention. The findings showed that departments were engaged in several activities such as training on professional ethics and code of good conduct to raise awareness of crime among their employees. To this end, it is recommended that:

- Departments should investigate the most effective means of promoting awareness and educating employees about fraud and its prevention. In the absence of such an investigation, departments run the risk of blindly implementing education and awareness campaigns in a narrow manner, and thus not achieving the required impact.

- Departments should also strengthen key internal control procedures, such as conflict of interest regimes. More robust conflict of interest policies could in particular be applied more strongly in relation to sustained high fraud risk areas and categories of employees, i.e. production level employees and procurement activities. Such policies should include requirements to disclose areas of potential conflict of interest, and mechanisms of managing such potential conflicts to ensure that they do not become a reality

7.3 CONCLUSION

The study found that there has been considerable improvement in the development of fraud prevention plans by departments since Treasury Regulations required that these be introduced in 2001. The existence of Fraud Prevention Plans was verified through the existence of hard copies in the respective departments. The study also found that the contents of the Plans, as well as departmental risk management strategies, were of high standard. It is hoped that the recommendations above will help focus efforts to heighten the development and implementation of fraud prevention plans and by so doing contribute towards promoting a high standard of professional ethics in the Public Service.

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