

# FRAUD PREVENTION PLAN

## 1. PURPOSE

The purpose of this Fraud Prevention Plan is to set out the approach to dealing with fraud risk at Proudly South African and to elaborate on specific initiatives to prevent fraud risks.

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The vision of Proudly South Africa is to encourage the Nation to make personal and organizational contributions to economic growth and prosperity in South Africa, thereby increasing employment opportunities and reinforcing national pride.
- 2.2 To give effect to its vision, Proudly South African seeks to be a compliant, corruption and fraud free organisation that is committed to ensuring good governance in all its operations. This Fraud Prevention Plan was prepared to effectively manage the fraud risk to which Proudly South African is or can be exposed to. As a result, Proudly South African accepts fraud as an operational risk. Such acceptance, however, does not mean it condones fraud. To the contrary, Proudly South African commits itself to actively combat fraud, including all other acts of dishonesty on a zero tolerance basis.
- 2.3 The Fraud Prevention Plan provides for, amongst others, the mechanisms for:
- Early detection of fraud;
  - The investigation of fraud in order to minimise its negative impact; and
  - Special initiatives that need to be undertaken to prevent fraud.
- 2.4 If proper fraud prevention measures are not put in place, Proudly South African is likely to be exposed amongst other to the following fraud risks:
- Misappropriation of assets;
  - Conflicts of interest and corruption;
  - Circumvention of internal controls;
  - Tender and other procurement irregularities;
  - Misuse of the Campaign's assets and resources; and
  - Misrepresentation on CVs
- 2.5 Although this is not an exhaustive list of fraud risks, it serves to highlight the importance of performing a comprehensive fraud risk assessment. The Fraud Prevention Plan will be reviewed to determine its effectiveness, long term sustainability and to align it to leading global practice. This document sets out Proudly South African strategy to effectively manage fraud risk within Proudly South African.

- 2.6 Proudly South African Fraud Prevention Plan is intended to set down the stance of Proudly South African to fraud, as well as to reinforce existing systems, policies, procedures, rules and regulations of Proudly South African aimed at deterring, preventing, detecting, reacting to and reducing the incidence and impact of fraud of whatever nature or source.

### **3. DEFINITION OF TERMS**

The term “fraud” is used expansively, and is intended to include all aspects of economic crime and acts of dishonesty. In this Fraud Prevention Plan of Proudly South African, actions constituting fraud are defined as follows:

- any dishonest, fraudulent or corrupt act;
- theft of funds, supplies or other assets;
- maladministration or financial misconduct in handling or reporting of money, financial transactions or other assets;
- making a profit from insider knowledge;
- disclosing confidential or proprietary information to outside parties for financial or other advantage;
- requesting or accepting anything of material value (free of charge or at a lesser price) from contractors, suppliers or other persons providing goods or services to Proudly South African, without proper disclosure in writing to the relevant Executive Manager;
- irregular destruction, removal or abuse of records and equipment;
- deliberately omitting or refusing to report or act upon reports of any such irregular or dishonest conduct;
- bribery, blackmail, secret commissions and or extortion involving Proudly South African employees in the performance of her or his duties;
- abuse of Proudly South African facilities; and
- any similar or related irregularity.

### **4. SCOPE**

The prevention and detection of fraud risk is the responsibility of all Executive Managers who manage people, processes and/or systems within Proudly South African; as well as any employee or interns of Proudly South African who may be able to assist in eradicating fraud risk within Proudly South African.

### **5. ASSUMPTIONS**

A fundamental assumption is that the various stakeholders within Proudly South African will support the objective to eradicate fraud risk and, where appropriate, assist in the implementation of this plan. Furthermore it is assumed that human resources in the form of fraud prevention practitioners will be provided for the execution of the various fraud prevention and detection initiatives outlined in the Framework below.

## **6. FRAMEWORK**

- 6.1 The Fraud Prevention Plan provides for the process in terms of which Proudly South African will mitigate, control and reduce the risk of fraud. The Fraud Prevention Plan also provides for, amongst others, the mechanisms for the early detection of fraud and for the professional investigation of fraud offences so as to minimize the negative effects of fraud. Proudly South African's Fraud Prevention Plan will focus on addressing the root causes of fraud. This document is not all-encompassing and should not be seen as the only process relevant to Proudly South African's fraud prevention initiatives. It will be reviewed on an on-going basis.
- 6.2 Specific initiatives to be undertaken to prevent fraud are listed below and thereafter discussed in greater detail:
- Training
  - "Tip-offs Anonymous"
  - Recognition
  - Supplier and Trading Partner Awareness
  - Pre-Employment Vetting
  - Expediting Disciplinary Processes
  - Lessons Learnt
  - Proactive Fraud Detection
- 6.3 Over and above these specific initiatives, which are designed to be a deterrent and to contribute to a "fraud adverse" environment, effective internal controls are, and will always remain, the best protection against fraud. Internal controls are, by nature, designed to protect Proudly South African against fraudulent activities. The Fraud Prevention Plan accordingly relies on an effective Corporate Governance function that utilises the risk based approach to its work and ensures that compliance to internal controls is achieved, so as to minimize opportunities for fraud.

## **7. FRAUD INITIATIVES**

### **7.1 TRAINING**

- 7.1.1 Proudly South African will provide a comprehensive training programme to highlight the risk of fraud in Proudly South African, empower employees to recognise fraud in its infancy and to guide the fraud prevention team in developing the most optimum processes in combating fraud.
- 7.1.2 Training is vital for every fraud prevention plan, as this is the process through which employees are empowered to become actively involved in fraud prevention and detection. A number of modules will be presented at varying intervals, depending on particular staff categories and their future roles in the fraud prevention process.

## **7.2 'TIP-OFFS ANONYMOUS'**

- 7.2.1 Through this service, all stakeholders can report suspected fraud. This service is a useful tool through which the momentum and interest in the fraud prevention initiatives can be maintained.
- 7.2.2. Proudly South African will put in place mechanisms that comply with the Protected Disclosures Act 26 of 2000, in terms of which employees and outsiders are encouraged to pass on any information or reasonable suspicions on fraud that they may have. Mechanisms will be put in place to ensure that such information or suspicions are channelled to persons who will deal with them appropriately.
- 7.2.3 Proudly South African will secure an independent contractor with specialist knowledge to manage the "Tip-Off Anonymous" service, which reports to the Chief Financial Officer.
- 7.2.4 Should the information received through this service be useful and result in fraud being uncovered, appropriate action/steps shall be taken against the perpetrator(s). The Chief Financial Officer shall identify and report to the Audit and Risk Committee cases involving:
- Hoax calls;
  - Allegations of a criminal nature;
  - Allegations which could potentially justify disciplinary action; and
  - Other reported issues and/or alleged irregularities (i.e. Human resources disputes, personality clashes, political or racial grievances, sexual harassment, xenophobia, etc.).
- 7.2.5 The report of the Chief Financial Officer shall also identify specific tip-offs requiring further investigation. Information on non-fraud related matters will almost inevitably also be received, and provision has therefore been made for communicating such information to the relevant Division and/or responsible Executive Manager. Such information should not be disregarded as it may result in the whistle blower losing faith in the system. Awareness of the "Tip-Offs Anonymous" hotline is crucial to its success. As a result the promotion of awareness thereof shall form part of the communication strategy for the Fraud Prevention Plan.

## **7.3 RECOGNITION**

Due to the sensitivity of whistle blowing, it may be advisable in some cases not to publicly recognise employees who pass on information leading to fraud detection, so as to avoid threats of intimidation or reprisal. In such instances private recognition is the preferred option, in which case the Chief Financial Officer or the Human Resources Executive Manager may write a personal letter of commendation, which will be placed in the employee's file.

## **7.4 SUPPLIER AND TRADING PARTNER AWARENESS**

Proudly South African shall endeavour to obtain all relevant information about its trading partners to limit its exposure to potentially unsavoury business associates and, also to incorporate these trading partners into Proudly South African's fraud prevention initiatives. Proudly South African will therefore, amongst other measures:

- Initiate “Get to Know your Supplier” programmes;
- Set suitable ground rules for all interactions between trading partners and Proudly South African’s employees;
- Set clear guidelines on “unacceptable gifts”;
- Make attempted extortion a reportable offence;
- Commit trading partners to a Client-Supplier Code of Conduct;
- Ensure that Proudly South African knows exactly with whom it is dealing. This can be achieved by asking for all relevant information directly from the supplier; and
- Encourage trading partners to become actively involved in fraud prevention and early reporting thereof.

#### **7.4.1 Client-Supplier Code of Conduct**

7.4.1.1 Just as Proudly South African binds its employees to abide by Proudly South African’s Code of Ethics so, too, its trading partners will be expected to conform to an agreed set of norms and standards for good business practice. The Client-Supplier Code of Conduct shall endeavour to provide for an undertaking by trading partners to adhere to Proudly South African’s policies, including related principles, essential to establish a healthy trading partnership. Such a document requires formal and written acceptance by the respective trading partners and serves to achieve a contractual obligation between the parties.

7.4.1.2 The Client-Supplier Code of Conduct shall, inter alia, make provision for:

- the maintenance of open and honest communication;
- undertakings to report all attempted, suspected or actual fraudulent activities;
- undertakings to co-operate / participate with any investigation / enquiry initiated by or on behalf of Proudly South African; and
- Suppliers consent to the disciplinary jurisdiction of Proudly South African, without limiting Proudly South African’s right to any other legal recourse, including the blacklisting of suppliers.

#### **7.4.2 Approved Supplier Database**

As part of Proudly South African’s fraud prevention strategy, all suppliers are required to actively assist in eradicating fraud from the organisation. Suppliers are required to register for inclusion in the approved supplier list. The existing supplier database will be updated from time to time with accurate information.

#### **7.4.3 Report Fraud**

All suppliers will be required to report any incident where any Proudly South African’s employee attempts to solicit favours, gifts, kickbacks or donations from suppliers of whatever nature and/or amount. Under no circumstances may the supplier accede to any such requests or demands from any employee.

#### **7.4.4 Disclose Gifts**

To reduce possible fraud or corruption by suppliers and Proudly South African’s employee, all gifts offered by suppliers to Proudly South African’s employees officials must be formally

disclosed. Gifts of a potentially significant monetary value should not be accepted, and any such offer must be disclosed to the employee's Executive Manager, from whom guidance should be sought if in any doubt as to whether or not the offer of a gift is regarded as of significant value. Each employee must maintain an arm's length relationship with suppliers at all times and must guard against undue influence. A gift declaration register must be maintained and updated annually by Proudly South African.

## **7.5 PRE-EMPLOYMENT VETTING**

To ensure that Proudly South African limits its exposure to hiring potential fraudsters, the Human Resources Division must ensure that all relevant details about prospective employees are acquired prior to their employment. The screening process will typically include a review of:

- References;
- Criminal records;
- Civil claims records;
- Disciplinary records;
- Insolvency;
- Other businesses;
- Qualifications – CV audit;
- Technical competence.

### **7.5.1 References**

When checking references of prospective employees, care should be taken to ensure that the prospective employee's entire career history is disclosed.

The reference checking process can only be considered as complete when Proudly South African has the assurance that there were no undisclosed acts of dishonesty relating to a prospective employee's previous employment.

### **7.5.2 Criminal records**

It is difficult to obtain criminal records of prospective employees as such information is under the exclusive control of the South African Police Services, which is not authorised to release it on demand. It is important, however, for the employer to know whether a prospective employee has a criminal record as this would significantly affect the related risk profile.

Differentiation should be drawn between crimes involving dishonesty and crimes that are not likely to affect the employee's work. It should therefore be a requirement that all applicants submit full disclosure of any criminal records. In addition, a prospective employee must, prior to his/her appointment, accept in writing that the non-disclosure of a criminal record or pending criminal case shall be a dismissible offence.

### **7.5.3 Civil records**

Civil records give a good indication of the track record of individuals. If a person is recruited for a management position, for example, it is important to determine whether that person has any civil judgments or adverse listings. A prospective manager may prove to be unsuitable for the post if his or her credit history reveals major financial indiscretions in his or her past. As civil judgments affect the risk profile of an individual, it is important to consider this factor before employment is confirmed. Civil judgments are easily obtained through any of the recognised credit bureaus.

As with criminal records, all prospective candidates shall be required to disclose any civil judgments against their names. This should include pending civil matters. Failure to disclose such information shall be regarded as a disciplinary offence.

#### **7.5.4 Disciplinary records**

It is important for Proudly South African to know whether the candidate has a history of disciplinary actions against him/her from previous companies. Learning about these falls in the category of “learning from other people’s mistakes” and is invaluable in assessing the risk exposure the candidate presents before employment is confirmed. The disclosure of disciplinary cases shall include those that were settled or withdrawn as a result of the candidate’s resignation.

#### **7.5.5 Insolvency**

A person who has previously been declared insolvent is often a high fraud risk. It shall therefore be mandatory for prospective employees to disclose any declared insolvency. A credit bureau check would reveal such a fact and shall therefore be undertaken as a matter of course.

#### **7.5.6 Other businesses**

It is important to ascertain from all applicants whether they have other businesses in which they are involved or hold a share. This information is important as it could impact on the applicant’s objectivity if he/she were to be in a position to favour that company or on his or her ability to commit fully to his or her responsibilities to Proudly South African.

#### **7.5.7 Qualifications**

Most applicants will submit curriculum vitae (CV’s) in support of their application. These CV’s will typically list all the applicant’s academic, professional, technical and other qualifications. Proudly South African is exposed to risk if it appoints a person who has submitted false qualifications. Apart from the obvious risks, this is also an indication of dishonesty. CVs shall therefore, be carefully audited and, when in doubt, investigated. Consideration shall be given to, amongst others, the following:

- Whether the time span makes sense (two years to obtain a law degree, etc.)
- Whether the academic institution stated offers these courses.

Most fraudsters who submit false qualifications will focus on qualifications which are difficult to check, especially those from foreign universities or universities which have since closed down. Such University qualifications should be considered as high risk. The qualification check

shall be undertaken not only for prospective employees, but also for current employees as part of the fraud prevention initiatives and employee risk assessments.

### **7.5.8 Technical competence**

Assessing the technical competence of a prospective employee is an integral part of the screening process, but not directly linked to the fraud risk assessment. The past disciplinary records and reference checks shall be considered carefully in this regard.

## **7.6 EXPEDITING DISCIPLINARY PROCESSES**

The benefits of an aggressive response to fraud are often negated by slow and inefficient disciplinary processes, which could drag on for extended periods. Proudly South African will actively address this issue by assessing the current case load of disciplinary processes in progress and seek possible solutions to facilitate their prompt finalisation in terms of the applicable disciplinary processes. Initiatives under consideration include:

- Providing special training to initiators, investigating officers and presiding officers
- Setting up a panel of prosecutors, investigating officers and presiding officers
- Outsourcing these functions, where necessary
- Essentially completing investigations before suspending officials (where practical)
- Finalising the hearings within the shortest period of time

## **7.7 LESSONS LEARNT**

7.7.1 A review of past cases shall be undertaken in detail to facilitate the learning process, thereby addressing past weaknesses to prevent a repeat of such offences. Proudly South African commits its Legal Department to assess all major fraud cases from the following perspective:

- Internal controls that were either deficient or non-existent to facilitate the detection of the fraud.
- Internal controls that did not identify the fraud at an earlier stage.
- Warning signs that were not recognised.

7.7.2 An assessment of the responses to the above shall be undertaken to prevent a recurrence of the fraud and to ensure that identified weaknesses are addressed or that additional training is provided.

## **7.8 PROACTIVE FRAUD DETECTION**

7.8.1 In order to seek evidence of fraudulent transactions, identify fraud-prone environments and address the underlying causes of fraud, proactive fraud detection will be undertaken. Through this process, a visible presence will be maintained that will act as a major deterrent to would-be fraudsters.

7.8.2 Annual verification exercises will be carried out to ascertain whether staff have interests in any entities that are suppliers to Proudly South African; if so this may be indicative of potential conflicts of interest. Data analyses will, likewise, be performed to ascertain whether staff shares bank accounts with creditors (including PAYE payments to SARS, medical aid subscriptions, pension fund contributions and trade union

subscriptions). Regular analyses of payment data pertaining to creditors will be undertaken to ensure no duplicate payments are made.

- 7.8.3 Apart from the normal internal auditing process, a risk assessment may highlight unacceptably high levels of risk in certain Divisions which may justify the deployment of a specialised fraud detection team. This will be undertaken through a combination of internal and external resources. At least one risk area shall be subjected to intensive fraud detection per annum. Proactive fraud detection can be a major deterrent to fraudsters as it holds an element of surprise in that fraudsters will not be aware of the area of business that is being reviewed and therefore may not have an opportunity to conceal their fraud. They would not be able to hide, misfile or destroy incriminating documentation. The practice of having a proactive fraud detection team will serve as a strong deterrent.

## **8. IMPLEMENTATION**

In order to ensure focused vigilance in the management of fraud risk, a Fraud Prevention Steering Committee (FPSC), consisting of risk and compliance practitioners, and representatives of functional areas such as Legal, Human Resources, Finance and Procurement services will be established. The FPSC will ensure the effective implementation and management of the various fraud prevention initiatives. The specifics on how these guidelines are to be implemented are documented in **Annexure A**.

## **ANNEXURE A**

## **FRAUD PREVENTION PLAN**

### **Training**

Provide comprehensive and formalised training to assist in highlighting the risks of fraud; thereby empowering employees to recognize fraud in its infancy.

Head of Legal to:

- Compile training material;
- Rollout training workshops initially to senior and middle managers and then to other staff.

31/03/2013

### **Tip-Offs Anonymous**

Implement a communication strategy for Proudly South African awareness of the whistle blowing hotline.

Head of Legal to:

- Ensure the successful rollout of the Tip-Offs hotline;
- Create regular awareness of the hotline facility by means of posters, pamphlets, and other internal communications;
- Provide regular feedback to the Audit & Risk Committee on the number of calls received from Tip-Offs.

31/03/2013

### **Recognition**

Implement a recognition programme to appropriately recognise persons who provide information which results in action being successfully taken against offenders.

Executive Managers of Proudly South African's Divisions may write a personal letter of commendation which will be placed in the employee's file.

On-going

### **Supplier and Trading Partner Awareness**

Implement supplier and trading partner awareness programmes to limit the supplier's exposure to, and participation in unethical business practices.

The Chief Finance Officer to:

- Compile a supplier code of conduct and submit to Board for approval and implementation;
- Implement and maintain a gift declaration register.

TBA

### **Pre-Employment Vetting**

Ensure that staff vetting processes, which limit exposure to hiring potential fraudsters, are in place.

Executive Manager HR to ensure that:

- An adequate process is in place for the vetting of prospective employees and staff;
- Staff vetting procedure is continuously assessed to determine its effectiveness.

TBA

### **Expediting Disciplinary Processes**

Ensure prompt finalization of matters in terms of the applicable disciplinary processes.

Executive Manager HR to ensure that:

- Training is arranged to equip Executive Managers to effectively deal with the disciplinary process.

TBA

### **Lessons Learnt**

In order to ensure on-going fraud awareness we need to share the lessons learnt from previous matters with relevant stakeholders.

Head of Corporate Governance to:

- Arrange workshops with relevant stakeholders such as Finance and HR with a view to creating fraud risk awareness.

31/03/2013

**Proactive Fraud Detection**

Identify fraud-prone environments and review underlying root causes in order to detect fraud.

Head Legal to:

- Plan and execute projects aimed at proactively detecting fraud within the vulnerable areas of Proudly South African.

TBA

**Fraud Prevention Steering Committee (FPSC)**

Ensure focused vigilance in the management of fraud risk.

Head of Legal to:

- Ensure that a FPSC is formed in consultation with relevant role-players;
- Ensure that the FPSC adds value in addressing fraud risk within Proudly South African.

31/03/2013