Fraud profiles of public sector institutions in South Africa

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ABSTRACT
This paper examines the phenomenon of fraud in South Africa’s public sector, as represented by the various national and provincial departments, local authorities and public entities. A literature study on the subject provides the basis for the questionnaire design used to collect perception based data on fraud related subjects.

The research supports the supposition that different fraud profiles exist between various groupings such as the nine provinces in South Africa, institutions ranked by size or according to the various spheres of government, as well as other criteria.

The study contributes towards the identification of specific preventative and detective measures in the fight against fraud. It also provides an understanding of the general fraud profile of South Africa’s public sector.

Key words
Fraud, corruption, public sector, national and provincial departments, public entities, local authorities, fraud profiles

1 BACKGROUND
1.1 Fraud and corruption a universal concept
It is not necessary to present a lengthy discourse to support the notion that fraud, defined as “a deceitful act, intended to gain advantage” (Collins English Dictionary, 1995) is an unwanted phenomenon in the public sector in South Africa. From this broad, yet publicly orientated definition it also is apparent that the term of fraud includes the concept of corruption. No government can claim that its public sector is free of fraud, hence the fight against fraud / corruption can factually be described as universal. The phenomenon of fraud is therefore most topical and it is for that reason surprising that the topic has not attracted more research efforts.

In 1999, South Africa’s (then) Deputy President, Mr Mbeki, described the fight against fraud as a national priority, thereby giving irrevocable urgency to all activities related to the prevention of this phenomenon (First National Anti-Corruption Summit, Cape Town, in April 1999).

The country’s President confirmed his position and even extended it during the opening of the Second National Anti-Corruption Summit in March 2005.

“Fraud and corruption … is inimical to development. It constrains our ability to fight poverty, negatively affects economic development, damages social values and undermines democracy and good governance” (Mbeki, 2005).

According to the South Africa based Institute for Security Studies (ISS), the thirteen member countries of the Southern African Development Community (SADC) have experienced a significant increase in organised criminal activities during the past fifteen years. There is a growing influence from transnational organised groups and indigenous organised criminal networks are becoming more sophisticated (Institute for Security Studies, 2005).

The ISS further reports that not much is known about organised crime in Sub-Saharan Africa.

In the South and Southern African context, organised crime and corruption tend to depict two sides of the same coin. Organised crime fuels corruption and corruption facilitates organised crime. Although not all corruption can be associated with organised crime, the strong nexus between the two has led to a close co-operation within the ISS between researchers of organised crime and corruption researchers. Current anti-corruption research projects focus on devising innovative anti-
corruption strategies in South Africa and on legislative research in SADC member countries to support them with the implementation of the SADC Protocol against Corruption (Institute for Security Studies, 2005).

At the United Nations Convention Against Corruption, in 2003, the States, parties to this Convention, articulated their concern “…about the seriousness of problems and threats posed by corruption to the stability and security of societies, undermining the institutions and values of democracy, ethical values and justice and jeopardizing sustainable development and the rule of law.” (United Nations Convention Against Corruption, 2003).

The UN Convention’s agreement was signed by South Africa’s Minister for the public service and administration, Ms Fraser-Moleketi. During the signing ceremony, the Minister underlined the urgency with which the South African government viewed its fight against fraud: “The illicit proceeds of corruption represent a substantial loss of resources for the countries affected. Their diversion causes great political instability and undermines the economic and social development of the countries involved” (Fraser-Moleketi, 2003).

“This is also in line with one of the stated aims of the New Partnership for Africa’s Development (NEPAD). In the chapter entitled “A New Global Partnership” it is agreed that members will set up co-ordinated mechanisms to combat corruption effectively, as well as commit themselves to returning the proceeds of such practices to Africa. The recovery of looted assets will make a critical difference to African societies and economies damaged by the corrupt activities that generated the assets.” (Fraser-Moleketi, 2003).

During the much publicised Shaik-trial an anti-corruption expert testified in court that “public sector corruption costs South Africa between R50 and R150bn per year” (Van Vuuren:2005). Comparing this to South Africa’s gross domestic product of R2,813bn the figure of R150bn represents about 5 percent of South Africa’s gross domestic product.

In 2004, Social Development Minister Zola Skweyiya revealed that social grant scams cost the State R2bn a year and that as much as R10bn may have been lost to corrupt practices in the first 10 years of democracy in South Africa. The sectors most open to corruption were the public service, the construction industry, followed by the arms and defence industry. Corruption thrived on the silence of the people involved in the act and therefore it was difficult to estimate its full the extent. However, a conservative calculation showed that roughly 10% of all transactions per country were corrupt. According to the African Union, corruption costs the continent at least US$150bn in "squandered wealth" (Van Vuuren, 2005).

According to the World Bank, bribes cost the global economy over US$1 trillion every year, with a substantial amount of public funds lost in government contracting (Transparency International: 2004) (also refer to Salbu, 1999; Pieth, 1999 & Olowu, 1999).

1.2 The fight against fraud and corruption

Numerous international and multilateral instruments to prevent and combat fraud and corruption have been created, including, inter alia:

- the Inter-American Convention against Corruption, adopted by the Organization of American States on 29 March 1996,
- the Convention on the Fight against Corruption involving Officials of the European Communities or Officials of Member States of the European Union, adopted by the Council of the European Union on 26 May 1997,
- the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, adopted by the Organisation for Economic Cooperation and Development on 21 November 1997,
- the Criminal Law Convention on Corruption, adopted by the Committee of Ministers of the Council of Europe on 27 January 1999,
- the Civil Law Convention on Corruption, adopted by the Committee of Ministers of the Council of Europe on 4 November 1999,
- the African Union Convention on Preventing and Combating Corruption, adopted by the Heads of State and Government of the African Union on 12 July 2003, and

In Southern Africa in particular, the following South African Development Community (SADC) countries have signed and underwritten a Protocol against Corruption (1998):

- The Republic of Angola
- The Republic of Botswana
- The Democratic Republic of Congo
- The Kingdom of Lesotho
- The Republic of Malawi
- The Republic of Mauritius
- The Republic of Mozambique
- The Republic of Namibia
- The Republic of Seychelles
- The Republic of South Africa
- The Kingdom of Swaziland
- The United Republic of Tanzania
- The Republic of Zambia
- The Republic of Zimbabwe.

The above examples highlight the seriousness with which fraud and corruption is viewed.

In South Africa, in 1999, the Public Finance Management Act (PFMA) was promulgated.

According to South Africa’s National Treasury website (www.treasury.gov.za), the Public Finance...
Management Act (PFMA: 1999) (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) is one of the most important pieces of legislation passed by the first democratic government in South Africa. The Act promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of the limited resources. The key objectives of the Act may be summarized as being to:

- Modernise the system of financial management in the public sector;
- Enable public sector managers to manage, but at the same time hold them more accountable;
- Ensure the timely provision of quality information; and
- Eliminate waste and corruption in the use of public assets. (Our accentuation).

Chapter Ten of the Public Finance Management Act defines financial misconduct, and deals with the procedures for disciplining those public officials guilty of financial misconduct. It also provides for criminal prosecution where there is gross financial misconduct.

Chapter Nine of Public Finance Management Act lists the areas over which the National Treasury is empowered to issue treasury regulations and instructions.

Since 1999 National Treasury has published a number of Treasury Regulations versions (National Treasury: 2001, 2002, 2005) which also provide more best practices in the prevention of fraud and corruption. Section 3.2 of the Treasury Regulations (National Treasury: 2005), based on Sections 38(1)(a)(i) and 76(4)(e) of the PFMA, requires that:

“The accounting officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution. A risk management strategy, which must include a fraud prevention plan, must be used to direct internal audit effort and priority, and to determine the skills required of managers and staff to improve controls and to manage these risks. The strategy must be clearly communicated to all officials to ensure that the risk management strategy is incorporated into the language and culture of the institution.” This requirement is made applicable to national and provincial departments as well as public entities (Treasury Regulations: Section 27.2.1).

1.3 Rationale behind the fraud research project

It should be clear that in developing their risk strategies and fraud prevention plans, government institutions need relevant fraud information to take into account.

It is against this background that a research project was undertaken to obtain more information about the phenomenon of fraud in South Africa’s public sector.

It was decided to obtain information through a formal questionnaire. The public sector institutions profiled in the research project were categorised as national government, provincial government, local government and public entities.

2 THE FRAUD RESEARCH PROJECT

2.1 Questionnaire design

In order to design the questionnaires used for this research project, a literature study was firstly undertaken to identify relevant fraud related issues and to also identify possible other questionnaires that could be used as a basis for the design of the South African questionnaire. Details of sources used are set out in an endnote. In identifying these sources, the focus was to include public sector related studies.

In addition, to enable comparisons between South Africa’s public and private sectors, the key issues addressed in a survey undertaken by one of the big accounting firms in South Africa (KPMG) were largely incorporated into the questionnaire design (refer to KPMG, 1996 & KPMG, 1999).

2.2 Profile of the respondents

A total of 2150 questionnaires were sent to all Accounting Officers/Chief Financial Officers of national and provincial departments, members of Accounting Authorities public entities and local authorities. Of the total amount (2150), 1330 questionnaires were distributed to staff from public sector entities that had attended a variety of training courses, thereby indicating their active involvement in the public sector.

This yielded a total of 528 usable completed questionnaires. A number of data analyses indicated that the respondents sufficiently represent the various groupings that were created by means of the respondents’ profile (level of government; the various provinces, size of the entities; seniority and experience of respondents). These groupings were used consistently throughout the project to differentiate data. The responses to the various questions do not always add up to 528, as some respondents did not answer all questions.

Firstly the various levels of government were represented as follows: national government: 163 respondents; provincial government 171 respondents; local government 127 respondents; public entities 47 respondents; and other (non-classifiable 29 respondents).

Secondly, the representation of the nine provinces in South Africa: Eastern Cape 34; Free State 36; Gauteng 184; KwaZulu-Natal 54; Mpumalanga 20; Northern Cape 24; Limpopo 59; North West 36 and Western Cape 52.

Thirdly, the size of the institutions: From entities with an annual budget in excess of R1 billion: 142 respondents; annual budget between R250 million...
but less than R1 billion: 133 respondents; budget less than R250 million: 232 respondents.

Fourthly, the respondents’ management position: top management 253; middle management 146; junior management 124.

Lastly, the number of years’ experience in the public sector: 5 years or less 139 respondents; 6 to 10 years: 99; 11 to 20 years: 177; more than 20 years of experience: 107 respondents.

2.3 Conclusion

The respondents constitute a representative sample with reference to the following criteria:

- type of institution in the public sector (level of government)
- provinces
- size of institution (annual budget)
- management position
- experience in the public sector.

2.4 Research results

The results of this survey are essentially perception based. Many questions aim to assess the way in which the respondents perceive the problem of fraud. In effect, however, these perceptions are formed and based on real-life experiences in the respondents’ working environment. From this perspective the research results contribute towards a better understanding of the phenomenon of fraud and allow the researchers to gauge critical elements thereof.

The researchers believe that a follow-up survey will provide even more useful information as it will allow us to identify trends. The questionnaire design allows the researcher to perform various analyses, based on the profile categories of the respondents. Each answer can be analysed according to the level of government, the province, size of the institution, level of management and experience of the respondents.

2.4.1 The existence of fraud

There is no doubt that fraud is perceived to exist at very high levels. Nine out of every ten persons questioned, positively state that they see fraud in the public sector as a major problem. No significant deviations from the above profile were identified for the various groupings based on the profile of the respondents and the institutions they are associated with.

2.4.2 Fraud awareness levels

Respondents were asked to rate the general fraud awareness level in their organisation on a scale of 1 to 6 (6 being a very high awareness level). A general fraud awareness factor was calculated from the available data. The overall awareness factor based on all respondents’ data is 3.58.

- The fraud awareness factor per type of institution (government sphere) is as follows: National 3.75; Public entities 3.62; Provincial 3.49; Local 3.39.

- The fraud awareness factor in the various provinces is as follows: North West 3.94; KwaZulu-Natal 3.85; Gauteng 3.63; Limpopo 3.61; Western Cape 3.56; Northern Cape 3.38; Eastern Cape 3.35; Mpumalanga 3.20; Free State 3.11.

- The fraud awareness factor in institutions, grouped according to size is as follows: Large institutions 3.65; Medium institutions 3.65; Small institutions 3.51.

- The fraud awareness factor in the various management levels is: Top management 3.50; middle management 3.80; junior management 3.49.

- The fraud awareness factor in the various age/experience groups is: 5 or less years of experience 3.23; 6 to 10 years 3.51; 11 to 20 years 3.66; 20+ years 3.83.

In the various spheres of government, local government displayed the lowest fraud awareness factor (3.37) as compared to the highest level (3.75) in national government.

A high fraud awareness factor normally results in relatively lower fraud occurrences. This supposition is supported by the data relating to the North West province. North West province has the highest fraud awareness factor (3.94) and also the lowest occurrence factor (43% - refer Chart 5.3). Departments are consequently advised to improve their fraud awareness levels as a first step in combating fraud.

As staff becomes more experienced, their fraud awareness levels increase substantially.

2.4.3 Changes in the fraud awareness levels

The study furthermore assessed the respondents’ perceptions as to whether or not the fraud awareness levels were increasing or decreasing. This was measured on a scale of +3 to –3. The final values are relatively closely concentrated around the zero mark, indicating that respondents have not experienced a significant change in the fraud awareness factors in their surroundings. The overall average score is +0.62. This indicates that compared to last year, the level of fraud awareness has increased, but not greatly.

The increase/decrease in levels were most significant in four provinces (around the +1 mark: Eastern Cape, KwaZulu-Natal; North West & Western Cape. The highest factor for any group was identified as a +1 fraud awareness level change in public entities.
### 2.4.4 Future trends regarding fraud

Respondents were asked to indicate how they expected the level of fraud occurrences to change in the year ahead (scale of +3 to −3).

In national departments (-0.3), provincial departments (-0.81) and public entities (0.7) staff expected fraud occurrences to decrease, whilst staff from local authorities expected the fraud occurrences to rise (+0.27).

Expectations concerning the provinces indicated that levels were expected to stay virtually unchanged (range +0.13 to −0.48) with the exception of Mpumalanga (decrease of 1.21), Northern Cape (decrease of 0.87) and Limpopo (decrease of 0.88).

The fraud occurrences in local government and large organisations to a lesser extent, are the only ones expected to rise. It is notable that perceptions regarding fraud awareness and the occurrence of fraud differs between top and middle management.

### 2.4.5 Fraud occurrences

This section probed the participants’ knowledge of occurrences of fraud cases in their various institutions over the past year (Have there been cases of fraud in your institution during the past year?). In an indirect way, the responses to this question provide information as to the fraud awareness amongst employees.

Positive responses (yes) represented 61%; negative responses (no) 26% and unsure (don’t know) the remaining 13%.

The various levels of government and public entities show no material deviations from the mean (61% yes), but positive responses grouped per province showed definite differences. Limpopo 80% yes; Mpumalanga 74%; KwaZulu-Natal 72%; Free State 64%; Western Cape 61%; Northern Cape 58%; Gauteng 55%; Eastern Cape 50% and North West 43%.

In general, the fraud occurrence levels are higher in provincial governments.

Fraud occurrences rise as the size of the organisation increases (large organisations have the highest level of fraud occurrences).

### 2.4.6 Quantification of fraud cases

Respondents were asked to quantify, if possible, the fraud losses experienced by their institutions in the past calendar year. 136 respondents (26%) provided a figure, whilst 74% indicated that they were not able to provide a figure.

The simple mean of the fraud figures provided by respondents was calculated but found to be unreliable. Due to the reduced respondent figure, it was not possible to provide meaningful analyses for all attributes.

As with similar studies, respondents were not able to provide accurate fraud loss data. There are a variety of reasons for this and further research is necessary before an definite reason may be found for this tendency.

### 2.4.7 Factors that increase fraud

The results of numerous other studies were used to identify factors which are conducive to the occurrence of fraud (refer to endnote 5). In other words: factors which, if they exist, create a positive environment for fraud. Respondents were asked to rank these factors according to their perceived order of influence. The following scale was used:

- 1 = least likely reason for fraud to increase
- 10 = most likely reason for fraud to increase

The results are (in order of importance): Weak internal controls (factor 7.0); bad management (6.63); lenient penalties (6.43); low social values (5.93); low salaries (5.80); economic pressures (5.68); socio economic imbalances (4.80); inadequate legislation (4.76); high work load (4.64) and other factors (3.37).

From the above data it is clear that weak (or inadequate) internal controls are seen as the most influential factor in creating a fraudulent environment. Two other factors seen as contributing specifically towards fraud are: weak (bad) management and lenient penalties.

The following factors were ranked lowest and therefore are perceived to have a lesser contribution towards the creation of fraudulent environments: high work loads; inadequate legislation; socio economic imbalances.

An analysis of this data by sphere of government shows somewhat different “fraud leaders”. The three most important factors contributing to fraud as seen in the various spheres of government are:

- National government: low salaries, weak internal controls, bad management.
- Provincial government: weak internal controls, bad management; lenient penalties.
- Local government: weak internal controls, low social values, bad management.
- Public entities: bad management, weak internal controls, lenient penalties.

There is a marked difference between the way in which the various spheres of government view the contribution of low salaries towards fraud. Whilst national governments rate this as the factor contributing most towards a fraudulent environment, local governments rate this factor’s contribution relatively low (second lowest after high work load).

Low salaries also occupy a relatively lower position in public entities, with “bad management” taking top
position. The different rankings of the various factors point to unique fraud profiles in the various categories.

2.4.8 Types of fraud

The fraud occurrences can be linked to three main categories of persons: employees (excluding management); management and outsiders. The respondents' feedback provides more information on these three categories of fraud:

- employee fraud;
- management fraud;
- fraud by outsiders.

When asked to indicate the estimated percentage of the above three categories of fraud as they occur in the institution of the participants, without exception, in all categories an identical ranking was observed: Employee fraud is the main fraud category (making up almost 50%) followed by fraud by outsiders and lastly management fraud (20%).

The analysis also indicates that employee fraud has a higher level of occurrence in smaller organisations.

Whilst the fraud profile is not significantly different in the various spheres of government, the results (refer to table 2.1) show that the various categories of fraud in the different provinces vary substantially. This indicates the existence of a different fraud profile in the various provinces – a factor which should be incorporated in a successful fraud prevention strategy.

Examples for the above supposition: Free State has the highest relative level of employee fraud, but its management fraud is second lowest. Limpopo on the other hand has the highest level of management fraud, whilst its employee fraud is ranked second lowest. Mpumalanga has the lowest level of employee fraud, but the second highest level of management fraud.

Table 2.1: Levels of employee, management fraud and fraud by outsiders

<table>
<thead>
<tr>
<th>Province</th>
<th>Level of fraud (percentage)</th>
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<tbody>
<tr>
<td></td>
<td>employee</td>
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<tr>
<td>Free State</td>
<td>59</td>
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<tr>
<td>KwaZulu-Natal</td>
<td>57</td>
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<tr>
<td>Western Cape</td>
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<td>North West</td>
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<td>Eastern Cape</td>
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<td>Northern Cape</td>
<td>46</td>
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<tr>
<td>Gauteng</td>
<td>44</td>
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<tr>
<td>Limpopo</td>
<td>43</td>
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<tr>
<td>Mpumalanga</td>
<td>43</td>
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</tbody>
</table>

2.4.9 Occurrence of certain types of employee fraud

The results of other studies and research sources were used to identify the various types of employee fraud which occur most frequently. These were presented to the respondents who were then asked to rank them in order of their frequency of occurrence.

The following types of employee fraud were presented (abbreviation in brackets):

- bribes, secret commissions and gifts (bribes);
- cheque fraud (cheque fraud);
- irregular expenditure (irregular exp);
- fruitless and wasteful expenditure (f & w exp);
- unauthorised expenditure (unauth. exp);
- expense account fraud (fraud. claims);
- procurement fraud, kick-backs, etc. (procurement fraud);
- leave fraud (leave fraud);
- wage/salary fraud e.g. ghost workers (wage fraud);
- theft of stationery and other inventories (inventory theft);
- theft of assets (asset theft);
- other (other).

Taking all responses into account, “bribes” comes out at the top of the rankings of employee fraud (factor 8.3).

The other types of employee fraud were ranked as follows: inventory theft (8.05); fruitless and wasteful expenditure (7.64); procurement fraud (7.49); irregular expenditure (7.2); asset theft (6.88); unauthorized expenditure (6.62); leave fraud (6.64); cheque fraud (5.86); fraudulent claims (5.22); wage fraud (4.39) and other fraud (3.52).

As the prime employee fraud type, “bribes” was analysed further as ranked in the various provinces, in the various spheres of government and as ranked in the institutions ranked by size. This produced the following values:

North West 10.3; Limpopo 9.8; Mpumalanga 9.7; Gauteng 8.4; Eastern Cape 7.9; Western Cape 7.8; Free State 7.7; KwaZulu-Natal 6.7; Northern Cape 5.7.

Local government 9.2; provincial government 8.3; national government 8.1; public entities 7.4.
Large institutions: 8.38; medium institutions 8.37; small institutions 8.31.

As stated earlier, the results from various other studies and research sources were used to identify the various types of employee fraud which occur most frequently. In order to identify additional types of employee fraud (over and above the ones used), respondents were given the option to rank an additional point “other”. If the item “other” was ranked above 5 points (out of a scale of 12), respondents were asked to identify the nature of the item “other” they had in mind.

The following additional types of employee fraud were thereby identified (ranked in order of frequency of occurrence):

- use of state assets for private use /property misuse (especially vehicles);
- time fraud (people not working a full days’ work);
- misuse of petrol/garage cards;
- tampering with records and changing information;
- appointment of people who do not qualify.

The above five types of employee fraud should be incorporated in future studies in order to identify their levels of occurrence relative to other types of employee fraud.

Other conclusions regarding employee fraud:

**Bribes** represents the largest category of employee fraud. Wage fraud amongst employees is ranked lowest. There is a significant difference in perceived levels of occurrence between the lowest and highest type of employee fraud. The **bribe** factor ranks 89% higher than the **wage fraud** factor.

The problem of “bribes” stands out in local authorities, larger organizations and the provinces of North West, Limpopo and Mpumalanga. Of all categories only one ranking exceeds the factor of 10, namely “bribes” in North West.

The item “fruitsless & wasteful expenditure” ranks relatively high as a major category of employee fraud (third highest). If respondents’ comments on the returned questionnaires are taken into account, it becomes clear that “time fraud” is seen as the most significant “fruitsless & wasteful expenditure”.

Provinces display individually unique fraud profiles and substantial variances are recorded. For example, whilst Northern Cape province has the lowest relative ranking of **bribes**, inventory fraud is ranked highest. Similarly sharp differences are recorded in other provinces.

The above information allows provinces, spheres of government and various sized organisations to identify abnormal levels of occurrence unique to their type or organisation and to design their fraud strategies and fraud prevention plans accordingly.

### 2.4.10 Occurrence of certain types of management fraud

The research identified the following types of management fraud as occurring most frequently. These were presented to the respondents and they were asked to rank them in order of their frequency of occurrence.

Types of management fraud (abbreviation used in charts in brackets):

- bribes, secret commissions and gifts (bribes);
- cheque fraud (cheque fraud);
- irregular expenditure (irregular exp);
- fruitless and wasteful expenditure (f & w exp);
- unauthorised expenditure (unauth. exp);
- expense account fraud (fraud. claims);
- procurement fraud, kick-backs, etc. (procurem. fraud);
- leave fraud (leave fraud);
- salary fraud e.g. ghost workers (salary fraud);
- theft of stationery and other inventories (inventory theft);
- theft of assets (asset theft);
- other (other).

In this category (management fraud) “bribes” again featured as the highest ranked type of management fraud (factor 8.71).

A different profile (from employee fraud) does however emerge if individual values are compared. Management fraud’s profile follows:

- Bribes (8.71); fruitless and wasteful expenditure (8.43); irregular expenditure (8.11); procurement fraud (7.78); unauthorized expenditure (7.76); inventory theft (6.50); fraudulent claims (6.48); leave fraud (6.25); asset theft (6.05); cheque fraud (5.07); salary fraud (4.35) and other fraud (2.51).

As the highest ranked management fraud, “bribes” was analysed further as ranked in the various provinces, in the various spheres of government and as ranked in the institutions ranked by size. This produced the following values:

- Provinces: Limpopo 9.88; North West 9.69; KwaZulu-Natal 9.36; Western Cape 9.04; Free State 8.87; Gauteng 8.41; Northern Cape 7.33; Mpumalanga 7.17; Eastern Cape 7.13.

- Spheres of government: Local government 9.45; provincial government 9.08; public entities 8.91; national government 8.01.

- Institutions ranked by size: Medium institutions 9.04; small institutions 8.76; large institutions: 8.72.

In order to identify additional types of management fraud (over and above the ones provided), respondents were given the option to rank an additional point “other”. If the item “other” was ranked above 5 points (out of a scale of 12), respondents
were asked to identify the nature of the item “other” they had in mind.

The following additional types of management fraud were thereby identified (ranked in order of frequency of occurrence):

- non disclosure of interests / nepotism;
- inflation of travel & subsistence claims;
- irregular approval of tenders;
- time fraud (various schemes);
- property misuse.

The above five types of management fraud should be incorporated in future studies in order to identify their levels of occurrence in relation to other types of management fraud.

**Other conclusions regarding management fraud:**

The information shows that the different types of fraud have varying occurrence levels in the various staff categories (e.g. inventory theft is not as common amongst management staff as it is amongst other employees).

In general, the types of management fraud are, as expected, centered around those functions which are unique to management (e.g. authorisation).

As with employee fraud, bribes also ranks highest amongst management. Similarly, respondents' comments indicate that the high rating of fruitless & wasteful expenditure also seems to relate mainly to time fraud.

The relatively low ratings of wage fraud and salary fraud indicate that both management and other employees do not rate this as a big problem, thereby indicating that current systems are minimizing risks in this regard.

Management’s other relatively low ranked fraud problems are asset theft and cheque fraud.

These findings differ substantially from findings of a similar study in the private sector (KPMG 1999). In the private sector theft of monetary and physical assets made up 81% of fraud losses.

**Fruitless & wasteful expenditure** as well as **irregular expenditure** are identified as the major management fraud problems in the Northern Cape. The relative values are very high with fruitless & wasteful expenditure exceeding a factor of 10 in this province.

**2.4.11 Occurrence of certain types of fraud by outsiders**

The research carried out, identified the following types of fraud by outsiders which occur most frequently. These were presented to the respondents, who they were asked to rank them in order of their frequency of occurrence.

Types of **fraud by outsiders** (abbreviation used in charts in brackets):

- bribes, secret commissions and gifts (bribes);
- extortion, blackmail (blackmail);
- false representations (false represent);
- theft of assets inventory, etc. (theft);
- procurement fraud, kick-backs, etc. (procurem. fraud);
- delivery of sub-standard products (low quality);
- other (other).

As with employee fraud and management fraud, “bribes” are ranked in the highest position (factor 5.38). The other types are ranked as follows: procurement fraud 4.87; false representations 4.70; low quality 4.38; theft 3.93; blackmail 3.09; other 1.64.

The analysis of bribes (being the prime fraud by outsiders) shows noticeable variances with regard to the various categories (provinces, spheres of government and size of institutions).

Provinces: Limpopo 6.07; Free State 5.72; Western Cape 5.66; Mpumalanga 5.44; KwaZulu-Natal 5.33; Northern Cape 5.17; Gauteng 5.12; North West 4.83; Eastern Cape 4.81.

Spheres of government: Provincial government 5.74; national government 5.33; local authorities 5.27; public entities 4.96.

Size of institutions: Large institutions 5.63; medium institutions 5.48; small institutions 5.15.

This supports the supposition that fraud occurrences are not identical everywhere, but differ depending on various characteristics associated with public sector institutions.

In order to identify additional types of fraud by outsiders (over and above the ones used), respondents were given the option to rank an additional point “other”. If the item “other” was ranked above 4 points (out of a scale of 7), respondents were asked to identify the nature of the item “other” they had in mind.

The following additional types of fraud by outsiders were thereby identified (ranked in order of frequency of occurrence):

- cheque fraud (various schemes);
- fraudulent claims/documentation.

The above two types of fraud by outsiders should be incorporated in future studies in order to identify their levels of occurrence in relation to other types of fraud by outsiders.

**Other conclusions regarding fraud by outsiders:**

As with employee fraud and management fraud, bribes are identified as the highest ranking type of fraud by outsiders.

Disparities regarding the ranking of bribes as a fraud in the various provinces and their relative position in management, other employees and outsiders,
indicate that bribes are not necessarily exchanged between management and outsiders. This aspect needs to be subjected to further research in order to identify the exact nature and characteristics of bribes.

Dishonest acts such as changing of information, procurement fraud and misrepresentations were also ranked high in this category.

The findings confirm the existence of blackmail. Although ranked in a lower position than most other types of fraud by outsiders, the seriousness of this crime merits special attention and strategies need to be designed to focus on this phenomenon.

2.4.12 How were frauds discovered?

The literature study identified factors which contributed to the discovery of fraud. Respondents were asked to rank these factors according to their perceived order of influence. The following scale was used:

- 11 = most frequent reason for the discovery of fraud;
- 1 = least frequent reason for the discovery of fraud.

The following factors were presented (abbreviation used in charts in brackets):

- by accident (by accident);
- internal control system (i/control);
- internal auditor (i/auditor);
- notification by Police (Police);
- whistle blowing, employee tip-off (whistle blower);
- by fraud investigation, in house (in house invest.);
- by fraud investigation, consultant (consultant);
- by outside party, e.g. contractor, public (outsider);
- by external auditor, e.g. Auditor-General/RAA (AG Office);
- notice by other department of government agency (other gov agency);
- other (other).

The research results identify "whistle blowers" as the prime source whereby frauds are discovered. The ranking of the other sources by respondents provide useful information as to the effectiveness of other detection mechanisms:

Whistle blowers 8.10; internal control 8.02; internal audit 7.43; by accident 7.06; in-house investigation 7.01; outsiders 6.18; Office of the Auditor-General 5.96; consultants 5.14; other government agency 4.69; police 4.05; other 2.35.

The respective contributions of internal auditors and external auditors were subsequently juxtaposed in the various spheres of government. From this analysis the superior contribution of internal audit (as opposed to external audit) is confirmed.

- National government (internal 7.48 / external 5.96)
- Provincial government (internal 7.06 / external 6.84)
- Local government (internal 7.95 / external 5.08)
- Public entities (internal 7.76 / external 5.14).

The Office of the Auditor-General should note the perceived varying contribution that their audit work has in the various provinces with regard to the discovery of fraud:

Limpopo 7.39; Free State 6.59; Northern Cape 6.58; Eastern Cape 6.50; Mpumalanga 6.2; North West 6.00; Gauteng 5.81; KwaZulu-Natal 5.70; Western Cape 4.52.

The data collected in this section in particular allows for a magnitude of comparisons and analyses, which cannot all be presented in this article due to space limitations set by the Editorial Board of the Southern African Journal for Accountability and Auditing Research.

Other conclusions with regard to the fraud detection factors:

The above information confirms the important role that whistle blowers play in assisting organisations to discover fraud. The Protected Disclosures Act, No.26 of 2000, protects employees who make certain disclosures. As this Act, promulgated in 2000, gains more public realization, it will further strengthen this source of fraud discovery.

Internal audit plays a far more important role in fraud detection than external audit does. It is only in the provinces where the role of the external auditor (Office of the Auditor-General) competes well with the internal audit components.

The gap between the fraud detection role of internal and external auditors is largest amongst local authorities and public entities. In both these groups a more active involvement of Registered Auditors and Auditors (private sector auditors), with numerous public entities having private sector audit firms as their auditors was found.

Relatively large differences between the Offices of the Auditor-General in the various provinces are recorded. The province in which the Office of the Auditor-General has the largest impact is Limpopo and the lowest is the Western Cape.

2.4.13 Actions taken when frauds were discovered

The literature study identified various actions which organisations took upon discovering fraud. Respondents were asked to mark actions taken in their particular institutions. This response distinguishes itself from other responses because respondents were not asked to rank these factors. An overall ranking of the steps taken is obtained by
combining the marked steps of all respondents. Respondents could mark more than one “step taken when fraud was discovered” if more than one action was taken.

The following “steps taken when fraud was discovered” were presented (abbreviation used in brackets):

- conducted criminal proceedings (criminal);
- conducted disciplinary proceedings (disciplinary);
- conducted internal investigation (internal);
- conducted external investigation (external);
- kept it quiet (quiet);
- permitted employee to resign (resign);
- reported to the Auditor-General (A-G);
- reported to the Police (Police);
- reported to relevant Treasury (treasury);
- reported to the Audit Committee (audit com).

Most frequently taken action identified by the respondents was “internal investigations” (324 respondents marked this action, followed by: disciplinary proceedings (302), criminal (262), Police (247), Office of the Auditor-General (155), external investigations (128), audit committees (117), treasury (102), resign (85) and kept it quiet (40).

The data collected allows one to conclude that organisations prefer internally controlled and orientated actions (internal investigations, disciplinary proceedings, etc.) to the involvement of outside parties (Police, Auditor-General).

Without exception the option “conducted an internal investigation” ranked highest in all provinces.

Without exception the option “kept it quiet” ranked lowest in all provinces, indicating that frauds are actively dealt with.

Responses to this question are extremely homogeneous (compared to other questions) and no particular aspects or group of responses stands out significantly.

2.4.14 Steps to prevent and fight fraud

Eleven actions (identified during the literature study) were presented to the respondents who were asked to mark them if they were relevant in their organisation. More than one action could be marked.

The following steps / actions to prevent fraud and to fight fraud were presented (abbreviation used in brackets):

- implementing a fraud prevention plan (FP Plan);
- forensic review by consultants (consultants);
- implementing a Code of Ethics (Ethics Code);
- improve internal controls systems (internal control);
- involvement of internal audit function (internal audit);
- involvement of Audit Committee (Audit Committee);
- investment in security systems (security systems);
- increasing visible deterrents: warning signs, etc. (visible deterrents);
- reference checks on employees (references);
- training in fraud prevention (training).

An option “other” was also given, the results thereof are presented at the end of this section.

Two prevention measures stand out from all the others. They are internal control (marked by 433 respondents) and internal audit (355). Other factors were ranked as follows: Ethics Code (290), fraud prevention plans (286), training (233), audit committees (212), security systems (180), references (130), consultants (97) and visible deterrents (96).

The two highest ranking factors (internal control and internal audit) were further analysed to show how they rank in:

- the various provinces (table 2.2)
- the various spheres of government
- the various institutions ranked by size.

Table 2.2: Internal control and internal audit in the various provinces

<table>
<thead>
<tr>
<th>Province</th>
<th>Percentage of participants who identified the measure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>internal control</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>100</td>
</tr>
<tr>
<td>Western Cape</td>
<td>96</td>
</tr>
<tr>
<td>Free State</td>
<td>94</td>
</tr>
<tr>
<td>North West</td>
<td>91</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>86</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>85</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>79</td>
</tr>
<tr>
<td>Gauteng</td>
<td>79</td>
</tr>
<tr>
<td>Limpopo</td>
<td>75</td>
</tr>
</tbody>
</table>

These results are particularly useful to gauge the relevant measure’s perceived usefulness in the various provinces. Once again, the different data suggests that not all measures are at the same stage of perceived effectiveness in all provinces. A good example is the ranking of internal audit in Mpumalanga compared to Limpopo province.

An analysis of this data by sphere of government also shows differentiated results: Internal control and internal audit as seen in the various spheres of government are:

- National government: internal control 76%, internal audit 62%.
- Provincial government: internal control 84%, internal audit 58%.
- Local government: internal control 93%, internal audit 73%.
- Public entities: internal control 93%, internal audit 76%.

Internal control and internal audit as seen in the various institutions ranked by size:
Fraud profiles of public sector institutions in South Africa

In order to identify additional actions taken (over and above the ones used above), respondents were given the option to list “others”.

The following additional steps taken by organisations to prevent and to fight fraud were thereby identified (ranked in order of frequency of occurrence):

- Fraud hotline (encourage whistle blowers);
- Forensic auditing (by internal audit component);
- In-house corruption and investigation team.

The above steps should be incorporated in future studies in order to identify their levels of occurrence in relation to other steps taken by organisations to prevent and to fight fraud.

Other conclusions regarding the factors that prevent fraud:

The importance of good internal control systems is, once again, highlighted.

Fraud prevention plans still feature very low in local authorities (22%) as compared to provincial departments (70%), national departments (66%) and public entities (65%). This may be attributed to the effect of the Public Finance Management Act (PFMA) and Treasury Regulations on governance and internal control arrangements. Local authorities, through the Municipal Finance Management Act (MFMA) were only subjected to these requirements (fraud prevention plans, etc.) five years later (PFMA came into effect on 1 April 2000, MFMA on 1 July 2004).

The three strongest actions taken to prevent fraud and to fight fraud, are internal controls; internal audit; Codes of Ethics and fraud prevention plans. Apart from the Code of Ethics, the Public Finance Management Act and the Treasury Regulations have specific provisions to ensure that public organisations give the necessary attention to these aspects.

The use of fraud prevention plans in the Free State, Northern Cape and Western Cape rank below 50%. The Western Cape and Free State rely more on general internal controls, the Western Cape having the highest rating in respect of internal audit.

Limpopo has the lowest internal control rating, second lowest internal audit rating, lowest Code of Ethics, but highest rating of the fraud prevention plan to prevent fraud and to fight fraud. Data such as this, points to unique characteristics (identifying weaknesses and strong points) in the fraud prevention strategies of the various provinces.

2.4.15 Fraud prevention plans

The Treasury Regulations (Government Gazette 21249: 31 May 2000) require that the Accounting Officer of each national and provincial department develops a fraud prevention plan no later than 31 March 2001. This fraud prevention plan is a key element of an effective and efficient internal control system.

In terms of a later version of the Treasury Regulations issued in April 2001 (Government Gazette 22219: 09 April 2001 – also applicable to public entities), the Accounting Officers have to provide a certificate to the relevant treasuries that a risk assessment has been completed and that the fraud prevention plan is fully operational.

It follows that the fraud prevention plan has to be a written document, developed through an inclusive process, communicated to the staff concerned and that staff would be trained to implement its contents.

Participants in this research project were asked to indicate the following by means of a “Yes” or “No” response (abbreviations used in graphics are shown in brackets):

- Does a fraud prevention plan exist? (existence)
- Is the plan in writing? (in writing)
- Were members of all levels of staff involved in the development? (staff involved)
- Was “top management” involved in the development? (management involved)
- Has the Audit Committee been involved? (Audit Comm. involved)
- Has its contents been communicated to employees? (communicated)
- Have employees been trained to implement it? (training provided)

In analyzing the results of this question, taking into account the above stated requirements of the Treasury Regulations, the focus falls on the percentage of participants that gave “no” as an answer.

Existence (51% “no” answer), in writing (52% “no”), staff involved (78% “no”), management involved (43% “no”), audit committee involved (64% “no”), communicated (72% “no”) and training provided (80% “no”).

Results of the existence of a fraud prevention plan in a provincial context are as follows (percentage of participants indicating “no”): Northern Cape 74%, Free State 70%, Mpumalanga 67%, Western Cape 60%, Limpopo 54%, KwaZulu-Natal 54%, North West 48%, Gauteng 43%, Eastern Cape 42%.

Results of the existence of a fraud prevention plan in the context of the various spheres of government, are as follows (percentage of participants indicating “no”): local government 79%, public entities 51%, provincial government 47% and national government 34%.

Small institutions (66% “no”) differentiate themselves from medium (41%) and large (39%) sized institutions.

The lack of training with regard to the fraud prevention plans differs substantially from province to
province: No training provided: Mpumalanga 94%, Free State 90%, Eastern Cape 85%, Gauteng 82%, Western Cape 80%, KwaZulu-Natal 80%, Limpopo 75%, North West 62% and Northern Cape 56.

Other conclusions regarding the fraud prevention plans:

The responses indicate that the fraud prevention plan has been developed mainly by top management and that staff at various levels have not been involved. It also shows that the existence of the fraud prevention plans is still poorly communicated.

North West Province presents the most favourable scores, indicating that this province (in relation to the other provinces) has given most attention to the proper development and implementation of the fraud prevention plan. It is followed by Gauteng province, which, however, has a poor rating in respect of training.

The aspect which stands out at being most neglected is training. Departments need to focus on this aspect to ensure the successful implementation of a fraud prevention strategy.

The positive influence of the PFMA and Treasury Regulations is reflected by the fact that 80 percent of respondents from local authorities (where the PFMA and Treasury Regulations are not applicable) indicated that they do not have a fraud prevention plan, as opposed to a much lower percentage (34%) at national government level.

Small organisations have not given this aspect sufficient attention – 66% indicate that they do not have a fraud prevention plan.

3 CONCLUSION

The research results contribute to the existing knowledge pool on fraud related matters, providing information that can be used by the public sector to develop more effective and efficient fraud prevention plans and fraud prevention strategies.

The results show that fraud patterns differ in various groupings and that the resultant fraud prevention strategies have to incorporate and discount the uniqueness of the fraud patterns in the specific institutions or groupings.

A number of additional research criteria have been identified which should be incorporated in future studies on the topic of fraud.

The uniqueness of the various provinces in South Africa and their specific problems have also been highlighted by the fact that this particular grouping consistently yielded differentiated results.

ENDNOTES

1 All philosophy recognises the fact that what distinguishes us, human beings, from other forms of animal existence is that we have both material and spiritual needs.

Thus the normal human beings we would like to see and to be are people who succeed to maintain the necessary balance between these needs, between what is materially necessary and what is morally good. This is to say that the exclusive pursuit of one of these, ignoring the other, is to invite disaster.

And yet it would seem to me that many in our society are inspired by a system of values which begins and ends with the pursuit of what is materially beneficial to themselves, with no sense of what is morally correct. In many instances, our society itself describes as successful and people to be emulated those who are like the resident of Jerusalem described in Ecclesiastes, who have accumulated more wealth than any other who ever lived in that city.

No questions are asked about the ethical behaviour of any of us, as part of determining whether we should indeed be emulated or not. Success is defined as success in having addressed effectively the material needs of the human being.

And so our youth grow up knowing that to be deemed a success in our society, one must possess the luxury cars whose brand names are familiar to all of us. One must have a big and expensive house and dress in the finest garments available in the market. The issue of how these worldly goods are acquired is immaterial. Indeed, to have acquired them without having worked for them is itself applauded as demonstrating ingenuity and a fleetness of foot and mind. To steal public resources is merely to do the done thing by taking advantage of the position you find yourself in, of access to these resources by virtue of the fact that you happen to be employed in the public service.

What I am trying to suggest is that our society evolved in a manner which gave birth to a situation in which a disastrous collapse of social values occurred, to be replaced by the motion that what is good is what serves my individual material interests and pleasures.

Only the mentally blind would fail to see that the things that happen in our country everyday point precisely to this that among many of our fellow citizens there is no ethical barrier which blocks them from actions that are wrong.

If I am correct in what I have said, then we must strive to find the answer to the question - what must we all do to rebuild a system of morality in our country, a generally accepted value system that is imetical to actions that are ethically wrong! Fundamentally to create a climate in our country hostile to crime, including crimes of corrupt practice within both the public and private sectors, we surely...
must do whatever is necessary to effect that RDP of the soul.

Clearly, whatever it is that we have to do to address the issue of the RDP of the soul, we must, at the same time, ensure that we have a law enforcement system which gives no quarter to corrupt practice, whoever might be involved in such practice.

I believe that if we are able correctly to answer the question - what went wrong - we will be halfway to finding the solutions which will make it possible for all of us to realise the common dream of creating a decent, humane and caring society of which all our people would be proud.

The above is an extract from statements made by President Thabo Mbeki at the National Anti-Corruption Summit, Cape Town, 14 April 1999. SAIGA is grateful to the President’s Office for the permission given to include the President’s statements in this survey report.

Mr Hennie van Vuuren, from the Institute for Security Studies was called by the state to testify in aggravation of sentence for Schabir Shaik who was convicted on two counts of corruption and one of fraud on 2 June 2005 in connection with dealings relating to the South African government’s arms deal and his relationship with deputy president Jacob Zuma.

The researchers gratefully acknowledge the support of the Southern African Institute of Government Auditors for this project. Not only was funding provided to cover the cost of the questionnaire design, testing, printing, distribution, data capturing and processing, but the Institute’s infrastructure was made available to facilitate the distribution of questionnaires to public sector staff and other role-players that were in a position to contribute towards shaping the fraud profiles in South Africa’s public sector entities.

Other combinations of the above categories are also possible, providing a huge body of data and resultant knowledge on fraud and fraud related aspects. In presenting the research results in this article, the researchers have focused on presenting the most useful results. We acknowledge that this involves a subjective element. In order to compensate for this, the Southern African Institute of Government Auditors has agreed to consider written and motivated requests for additional research information not made available in this report.
REFERENCES


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