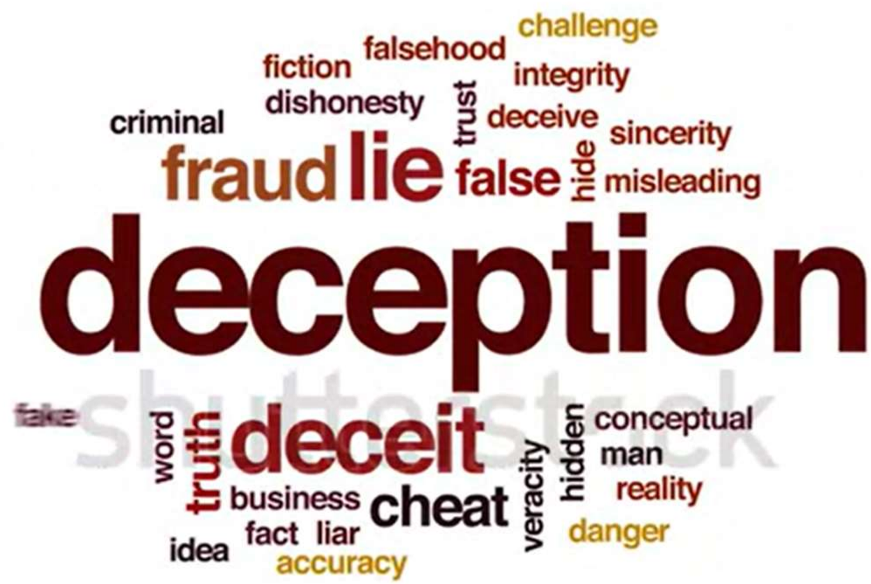
NATIONAL MFMA AFS CONSISTENCY WORKSHOP

Fraud and Ethics Lens for year-end financial reporting

#DIFFERENCE MAKERS



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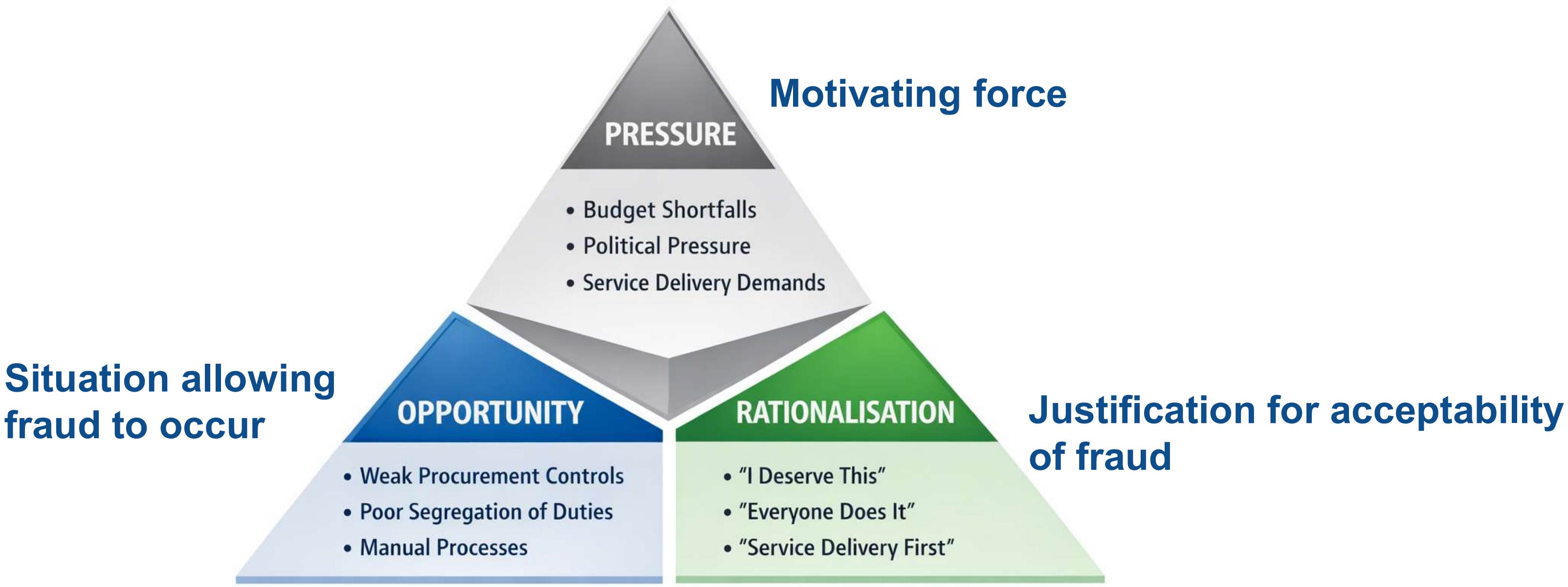
What is Fraud?

An <u>intentional act</u> by one or more individuals among management, those charged with governance, employees or third parties, involving deception to obtain and unjust or illegal advantage.

FRAUD TRIANGLE



Fraud Triangle in a Municipal Context

FRAUD AND ETHICS RISK AREAS AT YEAR-END

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1

Unusual journal entries

- Manual adjustments at year end
- Unsupported journal entries
- Journal entries posted by senior officials

Deliberate misrepresentations in financial statements

2

Revenue manipulation

- Inconsistent revenue recognised month-to-month
- Spikes at year end
- Grant revenue management
- *Unfunded budgets*

Deliberate misrepresentation of financial performance

FRAUD AND ETHICS RISK AREAS AT YEAR-END

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3

Expenses/Payables/Accruals understatement

- Intentional omission or understatement of expenses
- Unexplained drops in provisions (debtors impairment)
- Missing supplier invoices

Deliberate concealment of liabilities to present better financial health

4

Asset valuation and existence misstatements

- Impairment assessments not conducted
- Impairment losses not recognised
- Incorrect capitalisation of WIP
- Non-existent assets recognised in the fixed asset register (consultant's work not reviewed, stadiums, goods not received MIs)

Overstatement of service delivery capabilities

FRAUD AND ETHICS RISK AREAS AT YEAR-END

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5

Inadequate or misleading presentation and disclosures

- Incomplete or omitted notes to the financial statements
  - Contingent liabilities not disclosed
  - Undisclosed commitments
  - Undisclosed electricity and water losses
  - Incomplete related parties disclosure
  - Missing budget vs actual differences explanations
  - Missing MFMA disclosures – Bids awarded to family members of employees in the state, councillors arear accounts
- ‘Other’ line items in the cash flow statement

Withholding material information from the public, force balancing financial statements

6

UIFWE concealment

- Deliberate omission
- Inappropriate write off and condonement

Avoiding transparency and accountability

FRAUD AND ETHICS RISK AREAS AT YEAR-END

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7

Overstatement of performance information

- Overstatement of achievement of performance targets

Deliberate misrepresentation of performance due to political pressure, avoiding accountability, demonstration of service delivery

8

Weak governance

- Weak tone at the top
- Weak internal control environment
- Lack of segregation between preparer and reviewer
- Lack of automated systems and controls
- Easy override of automated controls
- Poor record keeping
- Weak internal audit unit
- Lack of or weak audit committee

Opportunity for fraud

CONTROLS AND INTERVENTIONS TO IMPLEMENT AT YEAR-END

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Journal entry management

- Cut-off date
- Detailed review and approval by CFO

Lockdown and version control of the AFS

- Restrict access to the AFS
- Maintain version logs and change tracking
- Authorised changes only

Review high risk areas

- UIFWE
- Accruals and payables
- Revenue
- Contingencies and commitments
- Cash flow statement
- MFMA disclosures

Verification of reported performance information

- Site visits
- Internal audit reviews

CONTROLS AND INTERVENTIONS TO IMPLEMENT AT YEAR-END

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Independent external reviews

- Peer reviews
- Treasuries
- *External reviewer*

Internal audit involvement

- Timely reviews by internal audit
- Detailed reviews on risky areas

Audit Committee reviews

- Timely submission to audit committee

CONTROLS AND INTERVENTIONS TO IMPLEMENT AT YEAR-END

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Overall

- Continuous oversight over the preparation process
- Timely corrective action on findings raised
- Transparent communication with assurance providers
- Consequence management
- Continuous monitoring of fraud indicators

Questions?

THANK YOU

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