

DIFFERENCE MAKERS

NATIONAL MFMA AFS CONSISTENCY WORKSHOP

Fraud and Ethics Lens for
year-end financial reporting



CA(SA)

AGA(SA)

at AT(SA)

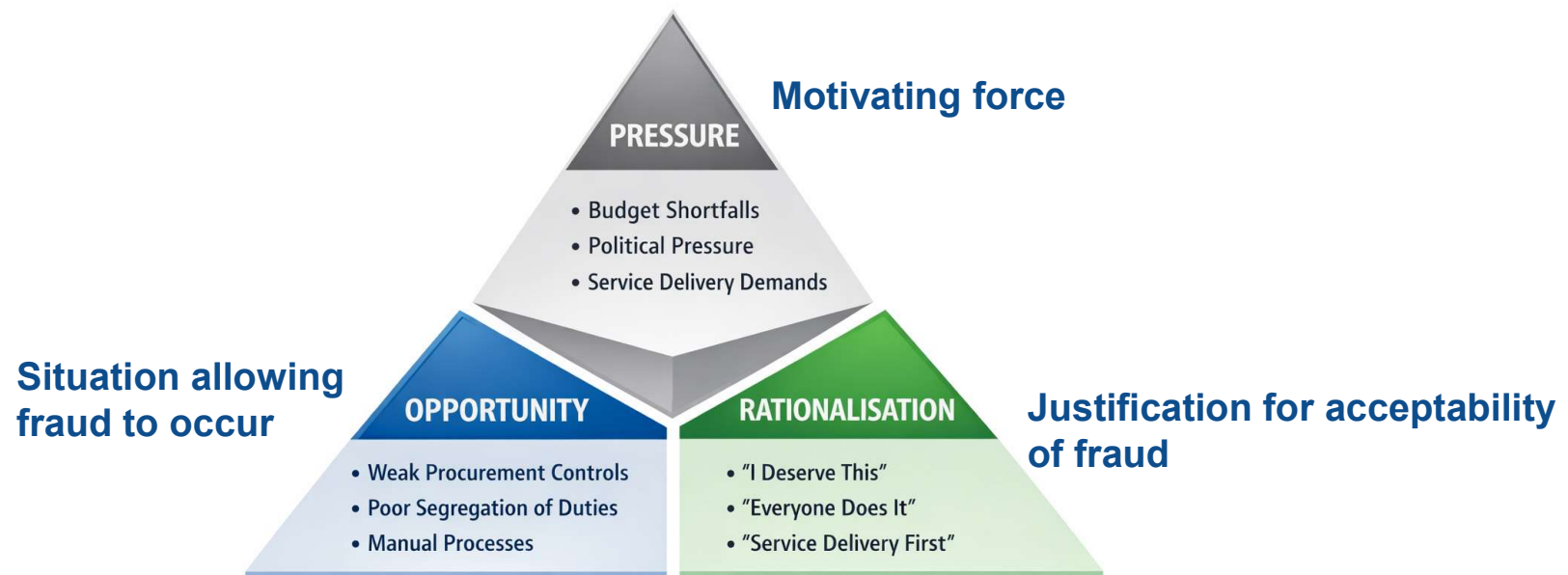
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DIFFERENCE MAKERS™

What is Fraud?

An intentional act 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

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

Deliberate misrepresentation of financial performance

FRAUD AND ETHICS RISK AREAS AT YEAR-END

3

Expenses/Payables/Accruals understatement

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

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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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
 - Related parties
 - 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 cash flow statement

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UIFWE concealment

- Deliberate omission
- Inappropriate write off and condonement

Avoiding transparency and accountability

FRAUD AND ETHICS RISK AREAS AT YEAR-END

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



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



Independent external reviews

- Peer reviews
- Treasuries

Internal audit involvement

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

Audit Committee reviews

- Timely submission to audit committee

Independent external reviews

- Peer reviews
- Treasuries

CONTROLS AND INTERVENTIONS TO IMPLEMENT AT YEAR-END



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

#DIFFERENCE MAKERS

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