



Member of the Executive Council  
for Finance  
FREE STATE PROVINCE

**OPENING ADDRESS OF MEC FINANCE TO THE  
INTERNATIONAL FRAUD AWARENESS WEEK  
16-17 NOVEMBER 2017**

Let me acknowledge the presence of our;

Members of the Executive Council,  
Executive Mayors, Mayors and Councillors,  
Heads of Departments  
Provincial Accountant General,  
Municipal Managers and Chief Financial Officers,  
Our partners from the Association of Certified Fraud Examiners, PWC,  
Standard Bank and the Public Service Commission  
Media representatives,  
Ladies and gentlemen.

This year we meet under the theme; “Walking the Talk on Fraud Prevention” as we participate in the 2017 International Fraud Awareness Week. The theme is an appropriate emphasis on the necessity to put into concrete action our undertaking to prevent, detect and deter fraud in our public and private sector environments.

Our partnership with the Association of Certified Fraud Examiners (ACFE), PriceWaterhouseCoopers, Standard Bank, the University of the Free State and the Public Service Commission is nothing less than the manifestation of a coalition committed to join the global effort to minimize the impact of fraud.

In fact, Goal 16 of the United Nations’ Sustainable Development Goals is dedicated to the promotion of peaceful and inclusive societies for sustainable development, the provision of access to justice for all, and building effective,



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accountable institutions at all levels. The Goal 16 targets include, amongst others, to -;

- Substantially reduce corruption and bribery in all their forms and to
- Develop effective, accountable and transparent institutions at all levels

The ACFE is the world's largest anti-fraud organization with more than 80 000 members world-wide. The Free State provincial government has actively encouraged key officials in the broader public sector environment to pursue the Certified Fraud Examiner (CFE) qualification. This has resulted in us now having 22 qualified CFEs in the public sector environment with a further 17 who will be attending and completing the course during the current financial year. We anticipate to see the impact of this programme on our internal control environment as we increase our ability to identify and prevent weaknesses and, equally importantly, to deal decisively with the intentional contravention and circumvention of our regulatory framework.

The 9<sup>th</sup> edition of the ACFE's Report to the Nations on Occupational Fraud and Abuse gives us an idea of the magnitude of the problem of fraud and corruption globally. A few points to consider include;

- CFEs who participated in the survey estimated that the typical organization loses 5% of revenues in a given year as a result of fraud.
- Asset misappropriation was by far the most common form of occupational fraud, occurring in more than 83% of cases, but causing the smallest median loss
- Financial statement fraud was on the other end of the spectrum, occurring in less than 10% of cases but causing the highest median loss
- Corruption cases fell in the middle, with 35.4% of cases.



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- In 94.5% of the cases in the study, the perpetrator took some efforts to conceal the fraud. The most common concealment methods were creating and altering physical documents. It is unfortunate that we have become over-familiar with this in our public sector environment. But at the same time, we must note that it has also become one of the easiest ways in which we identify possible irregularities in our procurement and payment procedures.
- The most common detection method in the study was tips (39.1% of cases), but organizations that had reporting hotlines were much more likely to detect fraud through tips than organizations without hotlines (47.3% compared to 28.2%, respectively). This fact in itself emphasizes the importance of hotlines such as the National Anti-Corruption Hotline and the Presidential Hotline.
- In cases detected by tip at organizations with formal fraud reporting mechanisms, telephone hotlines were the most commonly used method (39.5%). However, tips submitted via email (34.1%) and web-based or online form (23.5%) combined to make reporting more common through the Internet than by telephone. This also suggests that we should consider the utilization of different reporting mechanisms than our traditional hotlines.
- The banking and financial services, government and public administration, and manufacturing industries were the most represented sectors in the fraud cases examined by CFEs. This is echoed by Transparency International's Global Corruption Barometer - the world's largest survey asking citizens about their direct personal experience of corruption in their daily lives. The latest findings of this series recorded the following;



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- 57 % of people globally thought their governments were doing badly at fighting corruption in their country
- Around the world nearly 1 in 4 said that they paid a bribe when accessing public services in the last 12 months
- People were asked to identify which institutions they felt were most corrupt and these were the findings;
  - The police and elected officials were joint first with 36 % of people responding they were highly corrupt, more than for any other group or institution.
  - 35 % believed government officials were most corrupt,
  - 34 % rated business executives as most corrupt
  - With 33 % of respondents rating local government as most corrupt
  - The relevant country's Prime Minister / President and tax officials were viewed by 32 % of respondents as most corrupt.
  - Judge / magistrates were believed to be most corrupt by 30 % of respondents and even religious leaders are viewed with skepticism with 18 % of respondents rating this group as most corrupt
- The 2016 Report to the Nations furthermore reports that fraud perpetrators tended to display behavioral warning signs when they were engaged in their crimes. The most common red flags included living beyond means, financial difficulties, excessive control issues and recent divorce or family problems. At least one of these red flags was exhibited in 78.9% of cases.



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- In 40.7% of cases studied as part of the 2016 Report to the Nations, the victim organizations decided not to refer their fraud cases to law enforcement, with fear of bad publicity being the most-cited reason. Of the cases in the study, 23.1% resulted in a civil suit, and 80.8% of such completed suits led to either a judgment for the victim or a settlement.

There is a definite need for some serious self-introspection to begin to understand our contradicting attitudes towards corruption. The statistics indicate that 57 % of citizens globally believe that their government is doing badly in fighting corruption but 1 in 4 people concede that they have paid a bribe when accessing public services during the preceding 12 months. It appears that about 40 % of victim organizations fear the consequences of bad publicity more than the loss of revenue through acts of fraud and corruption.

In hearing these statistics, one is reminded of the former Chairperson of the Federal Reserve of the USA, Alan Greenspan's rather cynical comment that; "Corruption, embezzlement, fraud - these are all characteristics which exist everywhere. It is regrettably the way human nature functions, whether we like it or not. What successful economies do is keep it to a minimum. No one has ever eliminated any of that stuff."

These contradictions also say much about the values and ethics we bring into our work environments. Last week during the media launch of International Fraud Week, I reflected on the growing demand for the promotion of a culture of ethical governance and intolerance of fraud and corruption in the public and private sector. We will only realize that objective if we consciously change our attitudes and behaviors at an individual level and cascade that to our immediate and broader work environments. At the commemoration of International Corruption Day last year, Minister Jeff Radebe commented; "The fact is, corruption cannot flourish if we all take personal responsibility to stop it."



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The need for change is further emphasized by Transparency International's 2016 Corruption Perceptions Index. Over two-thirds of the 176 countries and territories in the 2016 index fall below the midpoint of the scale of 0 (being highly corrupt) to 100 (very clean). The global average score is a poor 43, indicating endemic corruption in a country's public sector.

In the 2016 Index, South Africa finds itself with Montenegro, Oman, Suriname and Senegal sharing position number 67 out of 176 countries with a score of 45.

The National Development Plan calls for the development of a society with zero tolerance for corruption. We have recognized the fact that corruption is a societal issue and require the combined effort of government, business, civil society organizations and ordinary citizens to act against corruption. Government identified the need to develop an over-arching anti-corruption strategy to ensure a more coordinated and comprehensive approach against corruption.

The development of the National Anti-Corruption Strategy was initiated in September 2015 and has taken into account all of our existing institutional structures and efforts to fight corruption. The vision of the National Anti-Corruption Strategy builds on the National Development Plan and aims to achieve an;

- Ethical and accountable state, business and civil society sectors in which all those in positions of power and authority act with integrity;
- Citizens that respect the rule of law and are empowered to hold those in power to account; and
- A country with zero tolerance of corruption in any sphere of activity and with substantially reduced levels of corruption.



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The Anti-Corruption Discussion Document was launched during May this year and the all-encompassing National Anti-Corruption Strategy will emanate from this discussion document, which will have the input of government, business, labour and civil society. The finalization of the National Anti-Corruption Strategy will further strengthen our combined effort in the fight against corruption.

Allow me to extend my appreciation to our partners, the ACFE, PWC, Standard Bank, the University of the Free State and the Public Service Commission for ensuring that we are able to have this two day conference. It is my hope that we engage actively with the presentations over the course of the next two days so that we empower ourselves in our continuing fight against corruption.

Let me conclude in the same way I did at the media launch with the very appropriate quote of Martin Luther King Jr, namely that; “The time is always right to do what is right”. Let us remember these wise words as we continue our programme to participate in the global fight against fraud and corruption.

Thank you.

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