EVALUATION OF FRAUD PREVENTION MEASURES IN UNEMPLOYMENT INSURANCE FUND, NORTH WEST PROVINCE

SEMFENG AGNES MODIKOE

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By

SEMFENG AGNES MODIKOE

Submitted in part fulfillment of the requirement for the degree of Master of Business Administration in the Department of Business and Government Leadership in the Faculty of Commerce and Administration at the North-West University, Mafikeng Campus.

SUPERVISOR: MR M. ANTWI

DATE SUBMITTED: OCTOBER 2004

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DECLARATION

"I declare that the dissertation for the degree of Masters of Business Administration at the North West University hereby submitted, has not previously been submitted by me for a degree at this or any other university, that it is my own work in design and execution and that all material herein has been duly acknowledged".

ACKNOWLEDGEMETS

I would like to thank all those who contributed to the successful completion of my mini dissertation. I thank All Mighty for giving me strength, courage and perseverance in completing this research. I thank my family for giving me support during this period. I pass my gratitude to Candice Morkel who took me off the ground. To Mary Makgotloe who, as a Risk Management Officer in the Province, supplied me with all the UI information pertaining to fraud. Thanks to the North West Labour Centre officials who responded to the questionnaires, for without that, the completion of the research would have been impossible

ABSTRACT

The fraud prevention measures in Unemployment Insurance Fund, North West Province, were evaluated in this study. The manual on fraud prevention measures was formulated and started implementation in 2000, and since then, no review was made. Different literature was reviewed to find out what other researchers say about the related problem. In reviewing literature, it was found out that, fraud had an adverse effect in any business, and the best way to combat or prevent it, was to formulate and implement some preventative measures, monitor and review them at least annually.

Data gathering was conducted by distributing questionnaires to different staff of Unemployment Insurance Fund throughout the North West province. The questionnaires were aimed at identifying the most vulnerable areas to fraud, evaluating the effectiveness of fraud prevention measures, identifying different types and causes of fraud and finding out whether contributors and their employers are well informed about the Unemployment Insurance Fund.

The study found that the existing fraud prevention measures were not quite effective in the sense that they are reactive than preventive according to the respondents. Claims, accounts and registry sections were identified as the most vulnerable sections. The most prevalent types of frau din the UIF were found to be cheque, cash, and identity frauds The study again found the main causes of fraud in UIF are ineffective internal controls, lack of strict supervision, income disparities and low salaries of lower level employees. It also came to light on the study that there has not been any significant change in fraud since the year 2000 after the formulation and implementation of fraud prevention measures among the ways to reduce fraud as suggested by the employees are salary review, constant supervision ,intensive investigations and awareness campaigns .what is essential to effectively reduce the level of fraud in the UIF is effective implementation of the preventive oriented internal controls coupled with strict supervision.

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CHAPTER ONE

1.1 INTRODUCTION AND BACKGROUND TO THE SUDY

Fraud is and has been every society's cause for concern. It affects every business negatively, be it profit making business, a non-profit organization or the public sector, etc. This has called for proactive measures to combat or prevent this problem. Fraudsters are always at par with or above the preventative measures. A constant review and evaluation of these prevention programmes is the challenge of every risk manager of any business.

It is obviously impossible to prevent all losses, errors and fraud. However, the art is to ensure that there is a prudent baseline of preventative controls, supported by good intelligence that enables risks to be avoided. Similar preventative controls that give a prompt indication that things are not working as intended are important and usually cost – effective. Fail-safe procedures to investigate and recover from losses are also vital, yet most frauds are detected by accident and potential recoveries not pursued.

The Department of labour's Unemployment Insurance Fund pays millions of rands per year to various beneficiaries. For the period January 2000 to March 2001 total payments from this period amounted to **R172 662 648.20**. For the periods April 2001 to March 2002 and April 2002 to September 2002, total payments amount **to R125 467 215.50**, and **R62 673 230.37** respectively (UIF monthly Report, Accounts section). The Unemployment Insurance Fund is designed to partially replace the lost earnings of individuals who become unemployed through no fault of their own, thereby stabilizing the economy in times of recession. The Fund is controlled by the Director General: Labour. Every employee who is not a public servant contributes one percent of his or her salary to the fund, with the employer contributing it for each employee.

1.2 PROBLEM STATEMENT

Fraud in Unemployment Insurance Fund has been a cause for concern. Management has developed some preventative measures but this problem is still persistent. In chapter two the examples or incidence of fraud cases have been highlighted, which leaves the question of whether something is being done to address this problem. One may ask whether the implementation of existing preventative measures were effective or not.

The Department declared fight against fraud, and its commitment to a transparent and accountable administration is well known. In order to deal effectively and efficiently with fraud, reliable and relevant information is needed to design anti-fraud strategies and fraud prevention plans.

Unemployment Insurance Fund is made up of contributions from employees and employers, and the subsidy from government funds. These funds need to be used optimally. For this reason someone has to see to it that these funds are not being embezzled.

South Africa has an escalating rate of unemployment, and the main objective of Unemployment Insurance Fund is to assist the unemployed during their temporary loss of employment. Again, taking the rate of poverty in the country into account, one would imagine what would have been like if these funds were not properly taken care of.

It should be noted that Unemployment Insurance Fund does not encourage people to stay out of their jobs without any valid reason, hence it does not pay people who only resigned without any reason. Among the problems experienced in the UI Fund, are people who are dishonest, giving false information when making application for benefits. Information such as reason for leaving employment is, in most cases, not correctly given. Such people are defrauding the Unemployment Insurance Fund and this should be prevented at all costs.

The primary problem in this study is the effectiveness of management of fraud in Unemployment Insurance Fund. The symptom of this problem is the ongoing cases of fraud despite the preventative measures developed.

1.3 OBJECTIVES OF THE STUDY

The main objective of this study is to evaluate the fraud prevention measures in Unemployment Insurance Fund in the North West Province

Other areas of consideration are:

- To analyse the success or failure of the existing fraud prevention measures.
- To identify potential risk areas
- To evaluate the existing internal controls
- To assess the change in the level of fraud since 2000
- To investigate the causes of fraud in Unemployment Insurance Fund
- To develop the workable operational model in the minimization of fraud occurrence
- To develop strategies to combat or reduce the level of fraud in the Unemployment Insurance Fund.

1.4 SIGNIFICANCE OF THE STUDY

The findings of this study will help the managers of Unemployment Insurance Fund to develop proactive measures to reduce the incidence of fraud cases in the department.

A large part of Fund constitutes funds from government, which is taxpayers' money. This study will assist in saving more of the state's funds. The Unemployment Insurance Fund is known for its deficit account, which requires the state to put extra money during the financial year, and this affects the economy of the country.

Employees will learn to maintain their integrity.

Taking the rate of unemployment in South Africa into account, one would wonder how do these poor people survive in life without earning any income. The moment they are

shed from their jobs, they are emotionally affected. Depression, loss of hope, etc. are emotional factors that are left in them and they eventually become vulnerable. Some employers do not provide pension schemes for their employers, while Unemployment Insurance Fund is the only temporarily income that one will receive for the period of unemployment.

The beneficiaries of Unemployment Insurance Fund are the most affected when fraud is committed, because someone receives the money on behalf of the rightful owner. This is purely misrepresentation, and enriching oneself with the expenses of others. If preventative controls are not put in place, the victims will become poorer.

Government is doing all it could to achieve the objective of fighting poverty and unemployment. This will only be possible if the economy is growing at a satisfactory manner. But if fraud is not controlled efficiently, this objective will not be achieved. The findings of this study will contribute to the uplifment of the standard of living of the people of South Africa due to the improved economy.

If fraud can be reduced to the minimum, service delivery will improve considerably because people will focus on the achievement of the department's objectives rather that pursuing their own interests. Unemployment Insurance Fund fraud also results in distorted statistics of unemployment rate because some people work and draw benefits at the same time.

It is with no doubt that the findings of this study will benefit other provinces.

1.5 HYPOTHESIS

It may be hypothesized that:

- Claims, registry and accounts sections of the UIF may be highly vulnerable to fraud compared with other sections.
- The main causes of fraud in the UIF may be lack of internal controls, lack of effective supervision, income disparities between managers and low employees.
- The main types of fraud prevalent in the UIF are cheque fraud, cash fraud and identity fraud.

- The existing internal controls at the UIF are ineffective.
- There has not been significant change in the level of fraud within the UIF since the year 2000.

1.6 SCOPE OF THE STUDY

Unemployment Insurance Fund is the sub-directorate within the Department of Labour. It operates in nine provinces within South Africa, and each province has a processing unit that is situated in the provincial office. Each provincial office has small offices called Labour-centres. The purpose of these small offices is to enable communities to easily access the services that Labour Department is offering. Fraud preventative measures are centrally developed by Unemployment Insurance Head Quarters, and they apply to all offices of the Fund. The study is limited to North West province, particularly in offices where fraud is more prevalent. The scope of this study covers strictly fraud in beneficiary benefits, where claims take place. Claims start at the application point to the issuing of benefit cheques to the applicants.

Since payments within the province are centrally processed, it is possible to study the whole province. All payments are done in processing office, where in Unemployment cases case, is referred to processing office.

1.7 PLAN OF THE REPORT

The report consists of six chapters. Chapter one is the orientation of the study. It consists of the background and introduction to the study, significance of the study, objectives of the study and research questions, problem statement, scope of the study and plan of the report. Chapter two consists of Literature overview. In this chapter different literature is visited to see what other authors say about this topic and what theories address it. Chapter three is the design of the research, methods used to collect data, unit of analysis and sampling design. Chapter four is the interpretation and analysis of data collected. Chapter five is the discussion, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

In this chapter relevant literature was reviewed so as to get an in-depth knowledge of causes of fraud and preventative controls, and fraud in general. Ethical and moral behaviour of employees will be looked at. Much emphasis will be on cheque fraud and identity fraud. The most crucial aspect in this chapter will be the internal controls of an organization, how to develop the effective ones. In order for controls to be effective. they must include a procedure that will detect the type of error against which protection is sought. They must include procedures to correct such errors as are found. The control or prevention of internal fraud is within the control of an organization through internal procedures. The subject matter in this study specifically deals with fraud in the public service. Notwithstanding the focus on the public sector, the review of literature will not be restricted to the public service, but will consider the private and public sector as a whole. In dealing with this subject matter, a perspective on the broader context will assist with placing the various facets of risk management in the public sector in its appropriate context. In reviewing the literature, both international and South African perspectives will be included.

2.2 TYPES OF UI FRAUD AND THEIR CONTROL MEASURES

2.2.1 Work and draw cases

Section 43(1) of the Unemployment Insurance Act 30 of 1966 states that it is a criminal offence to receive benefits whilst being employed at the same time. This type of fraud is the most common, and it is mostly detected when a perpetrator lodge a second claim. The amount of overpayment is then deducted from the current benefit payments.

Solutions and preventative measures put in place for this particular type of fraud. To date, there are more that 3000 cases of this kind of fraud. The most perpetrators are

claimants who claimed maternity benefits and did not disclose the correct date resumption of duty. This overpayment is picked-up when the very same person lodges another claim. Others who commit this type of fraud are claimants who moved from private sector to government departments. It is not easy to get records of these people since they will never claim for UI benefits again.

- Head of Business Unit: Beneficiary Services must embark on an awareness/scare-off campaign by means of: radio talk shows; articles in local newspapers; detailed publication of finalized cases; notice boards; etc.
- The head of the Business Unit: Management and Support Accounts Section must implement the following measures, as soon as an overpayment is detected that cannot in total be recovered from a current cycle of benefit payments:
  - Generate a letter of stern warning immediately, with a response date of three weeks.
  - If no reaction, the cases with a value in excess of R500.00 must without delay be referred to the Business Unit Inspection and Enforcement Services for collection. The unit should at least make an effort to recover 50% of all referred cases.
  - If no reaction from the defaulter, prosecution must follow as a third step (for all case in excess of R1000.00)
- Officials from the department must ask the applicant at the application point, and at every subsequent visit, if he/she has found employment in the meantime, and clearly explain the concept of work and draw and the repercussions thereof, where after the applicant will be required to sign as proof of understanding.
- If the answer is positive, the division Extensions must be informed to immediately stop further payment till after the matter has been investigated and sufficient proof obtained. The employment period must then be verified with the current employer, proof be placed on the file of the applicant, and arrangements must be made with the employer to deduct the overpayment, if any, from the defaulter's salary/wage.

- No overpayment will be ever cancelled unless investigated by an inspector who must verify the period of service, salary, etc.
- Communication channels must be established in the regions. If one region knows of a suspected fraudulent trend/syndicate, all available detail must immediately be relayed to the other region.

Looking at the above stated solutions and preventative measures, one may ask whether they are effective. A question of enforcement will also need to be answered.

2.2.2 Fraudulent Contributory Record Cards

Contributory cards are always tempered with, particularly earnings and periods of service. Syndicates who forge these cards and use fictitious beneficiaries to claim the benefits also abuse the card and proceeds are the shared. A card may be obtained from the Fund by means of fraudulent application for the card. The application form UF85 is completed with a person's name using an active employer's reference number. A person who is working in a Personnel Division of that business can easily commit this type of fraud.

Internal control procedure in Regions

- All old cards still in circulation should be verified as standard procedure
- All alterations on old and new cards should be verified.
- All suspicious entries on old and new cards be verified by a senior official.
- Scrutinize the card for three watermarks on the front card
- When still in doubt, the red number at the back of the card can be checked against those of the printers of the card.

Security features – the printing process

UIF make use of Security Printing to prevent the contributor record card from becoming soft targets. One of the following features are used:

- Papers: These papers are single-tone all over Honeycomb design-90 gsm. They are the highest grade of security in the world and have anti-forgery features

which include pen and ink sentisizing, solvent, chemical sentisising, corrector ink indicators, protection against ball pen ink removal and resistance to mechanical erasure.

These papers have invisible fibres, which fluoresce when irradiated by ultra violet light, accept chemical reactive links and are compatible with all high-speed readers: sorters and printers.

- Inks: the chemical reactive ink bleeds when solvent falsifying reagents are utilized in attempts to alter information.

Security features – the card itself

Security is incorporated in the design and inks used in the printing process.

What measures put in place to verify the authenticity of a contributor's record card?

The following should verified:

i. The font against UF74 cards
ii. The employer against the reference number of the business
iii. That the specific card number has been issued to the person mentioned on the card
iv. That the identity number matches the person's name, via the Home Affairs screen
v. A clock number on the card with the employer
vi. Authenticity of the signature of employer/delegated person
vii. If the applicant can sign his name on the card, but can only produce a thumbprint on the application form
viii. That all three watermarks are clear and visible on the card
ix. The outside border for discrepancies
x. The number in red at the back of the card with the printers, and against the printing date at the printers and the fund
xi. The patterns and all three watermarks at the back of the card
xii. All information as correct at the back of the card

2.2.3 Fraudulent Identity Documents

Identity theft involves acquiring key pieces to someone's identifying information in order to impersonate that person, and commit various crimes in that person's name.

In most instances, identity documents are stolen and photo replaced. In some case changes to the identity number itself had been made. This is found to be done mostly by foreigners in order to obtain privileges such as permanent residence or work opportunities. Local residence uses this to commit cheque fraud and other financial gain. There are more that 20 cases in the provinces to date. Although not many, there is a need to curb this in future.

In the case of the fund's IT systems, the identity field is automatically subjected to the Check Validation Digit test and criminals are able to manipulate numbers to comply with this test. The check for a valid number will reject an invalid Identity number, which can then simply be entered into the other reference field, and the application can still be approved. This poses a great fraud risk as the control that checks the validity of the ID number can be bypassed.

Internal control measures

Emphasis to be placed on the fact that written permission should be obtained from the Claims Officer before the other reference number field may be used.

Security Features – Bar Coded Identity Documents

As from 1 July 1986 identity documents are issued in a uniform manner to all population groups, and feature the 13 digit bar coded identity number. An identity number now consists of:

- **The first six identity numbers** that represent the person's year, month and day of birth
- **The 7th number** repents the gender. From 0 to 4 is for females and from 5 to 9 is for males.
- **The next three numbers** are an indication of the sequence of application.

- **The 11th** digit indicates a person's citizenship. 0 is for South African and 1 is for a non-South African citizen.
- **The 12th digit** will always be either 8, but can be a 9 depending on the availability of a specific range of identity numbers in the Population Register.
- **The 13th digit** is the controlling number, and features a formula, confirming the validation of the identity number as issued by the Department of Home Affairs.

Identity documents take different forms in South Africa. A green bar-coded Id, driver's license, passport, birth certificate, etc., are used. Counterfeit, stolen, or illegally obtained Identity documents are a cause for concern. The theft of innocent people's Id documents through fraudulent means and the claiming of whatever is due to the victim is a common

form of identity fraud. This is pure misrepresentation and should not be tolerated at all costs.

The Center for Immigration Studies in United States has discovered that criminals obtain the victim's identity by gaining access to government records. Making birth and death records public gives criminals access to these records (Dinerstein 2002:2).

In South Africa, deceased's records are published in Sowetan, the national newspaper so as to reach friends and relatives all over the country. This is how criminals can get hold of the deceased's particulars and use that to his advantage. This has previously occurred

where the same he Id numbers are used by two people. In most cases the Id numbers were previously used for the claim of death benefits (financial benefits for the deceased contributor). In this respect the Department of Home Affairs department was questioned but no clear answer as to how this happened was obtained.

In the evaluation of Unemployment Insurance Fund in America (US GAO, 2000:5), revealed that almost 2000 UI claims in U.S. totaling $3.2m were paid to individuals using Social Security Numbers that do not exist or belong to the deceased.

From the evaluation of Unemployment Insurance Fund of the United states of America, it is clear that the problems encountered by our UI fund is South Africa are more or less

similar in nature with that of U.S. Areas of fraud identified in the management of U.S. UIF are overpayments which range from work-and-draw, failure to register for employment services, to fail to seek employment. In their findings, General Accounting Office (GAO) reported the lack of benefit- payment control and too much focus on claims processing activities. This is exactly what is happening in the South African UI. DoL. The other cause of the problem discovered was that more emphasis is places on payment timeliness than on payment accuracy. This may be due to the pressure exerted by the applicants to the processing office because they are influenced by their unemployment situation. As a result of this situation they become so impatient.
Taking information from applicant at face value is also dangerous. A thorough verification is needed to enhance payment accuracy.

There should be performance indicators to assess the performance of controlling fraud. (Barret, 2001:5). From the researcher's experience in the DoL. UI. there is a lack of fraud performance indicators to assess the performance of controlling fraud. Not at any stage has the evaluation of fraud prevention or control measures taken place.

The following are measures put in place to identify fraudulent Identity Document

- The names and identity number on pages 1 to 4 must correspond.
- The sizes of figures and letters must be of the same kind.
- The font will always be of a plain kind
- The spaces between figures and letters respectively must be the same
- The forenames, surname and place of birth must be vertically in line
- The date of issue will be after 1 July 1986
- The date of birth must be shown as the same as the first six digits of the identity number
- The lamination must completely cover pages 1 to 4 and must not show any signs of being tampered with
- The green coat of Arms in documents recently issued must appear in four places, and must touch the photographs on page 1 at two places. The Coat of

Arms, being part of the lamination strips, will always appear the same distance from each other at all times.

- A full set of fingerprints of the applicant and a clear copy of the ID book must be referred to the Department of Home Affairs. In this case the Claims Officer should refuse the claim provisionally until the valid identity document is submitted.

2.2.4 Fraudulent cheques

As already mentioned in the previous chapter, cheque fraud in UI involves officials from the department cashing cheques intended for beneficiaries, and most of the stolen cheques involve death benefits, since it is currently the largest amount of benefits paid out by the Fund. Some cheques are stolen by syndicate either through an inside contacts. Almost more than 50 cases have been identified, mostly involving UI employees.

Cheques can be stolen, forged or counterfeited. Blank cheque has a market value of only R300.00 while the used cheque has the market value of up to R30 000.00, depending on the business profile. Signatures on the blank cheque can easily be forged. A criminal can copy the Managing director's or the Financial Director's signature from the memo on the notice board by using the following manner: muscle forgery, tracing, and rubber stamp hot cheque sandwich, scanned.

Different methods of forgery can be used such as obliteration, insertion, alteration, surgical tempering, mechanical erasure and chemical erasure.

According to "Forensic Intelligence", what you put in a garbage bin may put your company at risk. Completed, discarded application forms; Id numbers written in a piece of paper; etc., are normally thrown into a garbage bin. It is likely that an intelligent fraudster will use that information to his advantage and to the detriment of others. These documents need not be put in a garbage bin. "Everything is better shred than read". It is very risky in UI when taking an enquiry from the applicant, the ID

numbers are written in a piece of paper together with the surname and names of the applicant. An intelligent fraudster may come across such information in a garbage bin and use it to the detriment of the rightful owner of the particulars. There is a lot of misrepresentation taking place where, especially money is involved.

"Integritas Forensic Investigation" identified some potential areas of cheque fraud in general and the detection and prevention measures to them. Among others are: -

- Counterfeit cheques: this is the reproduction of cheques resembling the original. Fraudsters use scanners, photocopiers, printers, etc. to accomplish this mission.

To prevent or detect this, during monthly reconciliation, one has to cheque the white stripe of MICR encoded numbers on the bottom of the cancelled cheques.

- Stolen cheques: sample signature cards are stolen from the bank and used on the blank cheques.

The remedy to this was not mentioned. The blank UI cheques are kept safely in the strong room, where access is restricted. This is the control measure that is in place at the moment.

- Forged cheques: fraudsters forge cheques by either adding or removing information by using chemicals and sharp instruments. The information that can be altered is amount of beneficiary.

To detect this, a ledger entry should be checked by numbers and amounts.

- Account closed: this occurs when an account holder does not destroy cheque of which the account has been closed.
- Issue cheques to fictitious beneficiaries: This is common and if not detected early can jeopardize the whole operation. This is prevalent in other provinces in DOL UI, where a fictitious file has been created and payment eventually made to a non-existent beneficiary.

This can only be prevented and detected when a monthly reconciliation and cheque writing is done by different people. Proper segregation of duties is of utmost importance

- New account: fraudsters use information of individuals, such as ID document and employment particulars to open new bank account. False information such as telephone numbers and addresses are supplied. This information is used to defraud businesses and banks.

Government has introduced the preventative control measures in March 2001. This includes abolishing "crossing cancelled" cheques, and "account payee only" after the name of the payee.

This law has its own limitations. Poor people who do not have bank accounts find it difficult to cash their UI cheques. Bank and building societies refuse to help such people, as they are no longer employed. The only provision made for such people is to cash their cheques at shops where they are compelled to buy at a certain amount in exchange for cashing the cheques. It has its own limitations as the risk now is transferred to the poor, where they are easily robbed (day-light-robbery).

According to the Forensic Accountants, disgruntled employees can do a lot of damage in an organization. They may alter the payee name to their own; change the payee name back to the original name at reconciliation; and create false invoices.

This can be prevented when the owner or manager or supervisor is the first one to open the monthly bank statement before it can reach the hands of the reconciliation clerks.

Secondly, the importance of the segregation of duties cannot be overemphasized. Cheque- writing and monthly reconciliation need to be done by different people.

Thirdly, be watchful of change of lifestyles, keeping note of any personal problems (Crime Advisory Fraud, 2002: 2).

Internal controls to avoid cheque fraud

- Only authorized personnel should be empowered to order cheques
- When cheques are receive they must be counted and entered into a register
- All cheques (used and unused) should be securely stored in an area with limited access
- Cheque orders should not exceed six month's supply. This allows for easy reconciliation and storage.
- Cheque statement should immediately be reconciled to enable early detection of irregularities.
- Authorized signatories should not be the same people that reconcile the account.
- All returned cheques should be physically mutilated either by using a perforating machine or by punching a hole through the MICR encoded line
- Cheque duties should be segmented. The following duties should be segregated:

a) Cheque stock custody
b) Cheque production and signing
c) Bank statement and reconciliation
d) Payment processing

- Conduct periodic audits

2.2.5 Syndicate Fraud

Syndicates make fictitious entries on contributor record cards, most often in respect of the periods of service and earnings. This amended card is then presented to the Fund in order to claim for an extended period against a higher salary.

They issue fraudulent Identity Documents, apply "legally" for a card by using an active registered employers'. reference number, obtain this card through an inside contact at the business, apply for benefits.

They steal the Fund's benefit through an internal contact. Details on the cheque (name. Id number and the value of the cheque) are changed through chemical processes and then deposited in a false bank account.

A syndicate can walk the "legal" path by registering an entire fictitious business, by following the registration procedure, pay the monthly contributions for a few employees, and apply for the blue cards in the normal way. They will then almost certainly backdate the application in order to give their employees the maximum credits in the shortest possible time.

Staff members within Corporations are being blackmailed, bribed or threatened by syndicate members who want to use them for perpetrating fraud. These staff members will be in sensitive positions: anything from a security guard to an accounts clerk or even a Financial Director. It is therefore crucial to rather have preventative measures in place than having to deal with syndicate crime. These preventative measures need to be reviewed and evaluated regularly so that this battle of fraudsters can ultimately be won by the department, and this eventually the country as a whole.

In order to prevent this, the Fund has established some preventative controls:

- The processing Office can randomly during certain periods make copies of all sick, maternity, death and otherwise applications, and thoroughly check them for trends.
- The regions must reward the whistle blowers in order to show their appreciation for tip-offs.

2.2.6 Failure to look for employment

UI Act states that the applicants who are entitled to the benefits should be capable and available for work, a mere resignation does not warrant an applicant to receive benefits. At the application points, applicants are asked the reason for leaving employment, some gave false reasons (UI applications).

2.2.7 Receiving payments on behalf of another person

There were applicants who work-and-draw, who send their colleagues to collect the cheques on their behalf. This went unnoticed because of the negligence by the application clerks. In this case it was cash payment made at the bank. During this process, the application clerks assist the bank tellers to make payments, and the application clerk committed this type of fraud. The rightful owner of the payment was told that the payment was not processed yet, and was given another date to collect money. The application clerk arranged with one of his relatives to collect that particular money, and this was where fraud started (Labour Centre, UI section).

2.2.8 Failure to issue receipt by the cashier

There is only one case identified where a cashier failed to issue the receipt to the employer for the payment of UI contributions. When the fraud was identified and investigated, it was found that the cashier in question was set up, as she was new. She was given the false receipt book to issue to the employer in question (Labour Centre, UIF accounts section).

2.3 RED FLAGS OF FRAUD

It is evident that the person's behaviour or lifestyle suggests the possibility of fraud. However this does not indicate with absolute certainty that these factors are supported by fraud. In their research into "Red Flags of Fraud," Grabonsky and Dudfield(2001:2) mentioned that behavioural anomalies are among these red flags of fraud. These advocates of red flags of fraud describe an anomaly as a variation from predictable patterns of behaviour. Behavioural anomalies refer to unusual patterns of behaviour. If a person lives an extravagant life that is not commensurate with his salary, one has to suspect foul play.

Grobosky and Dudfield (2002:3) go on to say that statistical anomalies are red flags of fraud. An example is when the tax-deduction on work-related travel expenses exceeds the gross income of an individual.

Most fraud cases are an inside job, be it fraud occurring inside or outside of the company. Employees collude with clients to commit fraud, and this results in a syndicate operation. Some cases of fraud in UI result in employees colluding with applicants or employers where solicitation is involved.

Going back to behavioural anomalies, an employee may work long hours and never take a vacation to conceal his fraudulent activities. An employee on the lookout for fraud opportunities may unusually be inquisitive about those aspects of a company's operations involving payments. Having executed fraud, an employee may resign abruptly prior to his theft being detected (Grabosky and Dudfield 2001:3).

Where accounting practices are lax and financial control systems are weak, detection and/ or prevention of fraud will never materialise.

2.4 ETHICAL THEORY

In her research on "Student Academic Dishonesty and Moral Judgement", Marcoux (2002: 17) states that ethical theory helps to frame the way students make decisions about academic dishonesty and how faculties play a role in that ethical equation. People who lack moral ethics commit fraud. An organization needs to decide upfront what kind of ethics it wants.

George Sammet, former vice president of international ethics and business conduct for Lockheed Martin Corp, states in his presentation that organisations with value-driven ethics policies fare better, and organizations that implement values and ethics programmes promote loyalty.

People with integrity and honesty always treasure a company's values, as a result they remain loyal to their employers. The company's ethics policy should be communicated to all stakeholders. Sammet (1998:3) states that face-to-face contact with people is the best way to convey message than sending a document or written statement. This is the

responsibility of management in ensuring that effective control measures are in place and procedures are appropriately followed to detect fraud.

Ethics-related judgement of mangers should be improved. Failure to do this will put the company in a risky situation. Sammet (1998: 4) is of the opinion that every company should have its own ethics officer who reports to the CEO.

It is important for any organization's policy to be reviewed periodically. An ethics policy is as important as other company policies and the mission statement. Policies should be reviewed periodically so as to keep abreast of new developments.

Ethics and morals should be everybody's concern in an organization, be it a cleaner or a CEO. According to Sammet, good leadership incites loyalty and keeps track of its people.

In addition to reviewing ethics, employers need to be reminded time- to –time about the ethics policy. The advocate of value- based ethics, Sammet, says "ethics training is perishable", people forget overtime what the rules and policies are. Employees should be encouraged to discuss concerns and any unethical behaviour in a company. This will certainly reduce fraud to a large extent. Sammet calls for the safety of whistle-blowers

A clear statement of commitment to ethical business behaviour throughout the organization should help to ensure that staff know that they are expected to follow the rules without circumventing controls and that they should avoid or declare any conflicts of interest (Treasury 1999: 3). If the staff is working under the right conditions, the opportunity for them to commit fraud is minimum. Therefore staff should be motivated and well taken care of so that they should take care of the organization. HM Treasury guide for managers state that under right conditions staff itself, is an excellent deterrent against fraud.

In his Audit Report to the Department of Agriculture Australia (AFFA), the Auditor General, Barret (1996) mentioned that in order to control and prevent fraud, an ethical workplace culture should be created. This can only be achieved by making the organization's overall fraud prevention policy and fraud control plan available to staff.

Through the department's intranet information system, this will be possible. Managing conflict of interests and emphasizing values and ethical conduct in induction of new employees are considered to be the best promoters of ethical workplace culture.

2.5 UI Fraud Unit

The DoL, UI in North West Province has a Fraud Unit section, which is centralised, at Head Office, Pretoria. This office is responsible for issues of fraud and develops some preventative controls in this respect. In each Provincial Office there is an Administrative Officer who is responsible for the risk management in UI. This AO's task is to handle fraud cases that are detected by the assistant claims officers and data capturer during their processing of claims. If detected, the incident is reported to the Fraud Unit at Head office. The latter will then take over until the matter is resolved. The Head Office Fraud Unit will give the provincial office the go ahead to elect the investigating officer who will investigate the case. From a handbook detailing the management of "Micro finance Institutions, an organization should organize a business risk department or operational audit unit which is staffed by people with experience and expertise.

Fraud control measures should be built in at the operational level as they are often more effective than internal auditors' post review (MFI handbook 2001:14). In the previous chapter, an accounting clerk failed to give an employer the receipt for the payment of UI contributions, with the intention of defrauding him. This is the result of lack of fraud control measures at the operational level. Had it not been the employee concerned claiming maternity benefits, this shortfall would not have been detected. Control measures are more reactive that proactive. In MFI it was discovered that loan officers might collect and then steal client's payments if operational procedures are lax. They simply fail to report payments they receive. Considerable time may lapse before a supervisor learns that the payment is late and checks up with the client. This is what happens when control measures are not built-in at the operational level.

The other weakness inherent in the UI DoL is the centralization of Internal Audit department. As he/she is directly concerned with preventing fraud and evaluating controls that ensure the achievement of the organization's objectives, the internal auditor should be decentralized to the provincial offices.

2.6 INTERNAL CONTROLS

The importance of internal controls in every organization should not be underestimated. It is the management tool to combat or prevent fraud. However, there are limitations of internal controls identified by SAIGA. These are among others, people mistakes, override by management, illusion of control, etc. Effective internal controls are built into and form an integral part of the organizational activities as they provide reasonable assurance that management's objectives will be achieved and that the risk associated with these objectives will be minimized (Botha 2003:22). Internal controls can be developed easily, but the implementation, like the implementation of any other policy, is difficult. It requires everybody in the organization to participate in the implementation thereof. Failure to put these controls in place will impair the smooth operation of the organization. Any mismanagement cannot thus be detected. In order for controls to be effective, they must include a procedure that will detect the type of error against which protection is sought, and procedures to correct such errors as are found (Arens 2000: 286). The control or prevention of internal fraud is within the control of an organization through internal control procedures. In his "Introduction to Internal Control and Control Risk", Arens (2000: 287) states that good internal control prevents defalcations than good auditors find. In the previous chapter it was stated that UI benefits are exclusively for the beneficiary who is eligible and entitled to it, the adequacy and effectiveness of internal controls in UI need to be reviewed periodically, failing which will excercabate the problem of poverty.

In their selected findings of the first Public Sector Fraud Survey, SAIGA (2003) found that weak, or lack of proper controls were seen as the most influential factor in creating a fraudulent environment. Bad management and lenient penalties were also seen to contribute significantly to fraud. The survey also found that organizations prefer

internally orientated actions (internal investigations, etc) to the involvement of outside parties, e.g., police, Auditor General.

What are internal controls and why are they important? Internal controls are defined as the methods employed to help ensure the achievement of objectives through careful design (Botha 2003: 21). The system of internal controls can help business units operate efficiently and effectively to provide a reasonable level of assurance, assets or products will be adequately protected.

There are five objectives of the fraud prevention and control model, and these objectives should form part of every institute's fraud prevention strategy.

- **Prevention:** to stop incidents of fraud from occurring
- **Deterrence:** to deterring potential fraudsters from even attempting any fraudulent activity.
- **Disruption:** to make life as difficult for the fraudster as possible. Keep the fraudster on the move and under pressure.
- **Identification:** a good fraud prevention strategy will help to identify high-risk activities and weaknesses in the control environment.
- **Civil Action/Criminal Procedure:** effective strategies will reduce the likelihood of needing to resort to costly civil actions or time consuming, disruptive police investigations.

From the Treasury (1999:7), a guide for managers, there are different steps in managing fraud risk, which, if followed properly, will yield best results.

- Identification of risk areas: identify areas that are vulnerable to fraud risk. These areas include handling cash and allocating or distributing grants, where there is responsibility for letting or managing contracts, etc.
- Assess scale of the risk: identify and assess what measures are already in place to prevent fraud.
- Allocate responsibility for risk: employ experienced personnel, funding, etc.

- Allocate need for revised controls: evaluate adequacy of existing controls and establish what further controls or changes to existing controls are required to reduce the risk.
- Implement the revised controls
- Monitor implementation of controls

David Cafferty of Matson, Driscoll, Damico Ltd (2001) presented a practical fraud prevention model, which he assured, that, if followed properly, will yield best results for any organization. The following are challenges facing management of every company-:

- To consider fraud risk as an integral part of an overall corporate risk management strategy. Fraud is like any risk that faces the organization.
- To develop an intergrated strategy for fraud prevention and control. If elements of the strategy are drawn together they will form a holistic and complementary raft of fraud countermeasures. Organizations that follow this model are less likely to suffer catastrophic losses from fraud.
- To develop an ownership structure which cascades downwards throughout the organization. Fraud prevention is everybody's responsibility, but top management acceptance, and ownership is essential if the strategy is to work. Specific ownership responsibilities may also be placed on individual managers or on the internal audit department.
- To introduce a fraud policy statement. All Accountants echo this. Its importance cannot be overemphasized. This is the foundation stone of the organization's fraud prevention strategy. It should emphasise the organization's attitude to fraud, its determination to combat and prevent fraud, and a commitment to punish those found guilty of wrongdoing. All members of staff should easily understand it.
- To introduce an Ethic Policy Statement. This is a code of business conduct emphasizing the norms and values expected in daily activity, and it supports the fraud policy statement.

- To actively promote policies throughout the organization. Every employee should know the policies of the organization. Staff cannot be made accountable for fraud prevention unless they are made aware of its importance and the benefits arising from it. Copies of the policy should be issued to all members of staff and to those with whom the organization does business. This ensures that customers and suppliers know exactly where the company stands on fraud and ethical issues. This will serve as an organization's marketing tool.
- To establish a sound control environment. Adherence to procedures coupled with positive approach is the most powerful weapon to control fraud. Senior management needs to lead by example and to provide the right direction. Staff shortages can lead to inadequate supervision.
- To establish sound Operational Control Procedures. Policies and procedures developed by the managers should be documented and executed to counter identifiable risk and to achieve business objectives. Examples of operational control procedures include authorization controls, segregation of duties, physical security, and transaction controls.
- To include a fraud education, training and awareness programme. Strategy for the program should be developed. All staff from top to bottom should be aware of the general risk of fraud from internal to external threats. They need to be educated as to specific threats facing them in the workplace, both in general terms and specific threats affecting their own business unit or function; e.g. personnel, procurement, sales, etc. They should then be trained to identify, and respond to the threats.
- To introduce a fraud response plan as an internal element of organizational contingency planning. The existence of this plan reduces the likelihood of panic, ensures that the staff at all levels understand what is required of them, ensures that the effective action is taken, ensures the security and integrity of evidence, and can limit the damage caused by the fraud.
- To introduce a whistle-blowing policy. Like fraud policy statement, many advocates of fraud prevention and control measures have echoed whistle-

blowing policy. People should be encouraged to come forward to report instances of fraud and malpractices. This is the Board's and senior management's responsibility to ensure the proper implementation of this. Protective legislation for whistle blowing should be in place and an opportunity to report anonymously should be provided. The Protected Disclosure Act was promulgated in 2000 to protect the whistleblowers. Whistleblowers were found to be playing an important role in assisting organizations with the discovery of fraud (SAIGA 2003).

- To introduce a reporting hotline. This may be an internal line to the department or an outsourced service.
- To constantly review all policies and procedures. Policies and procedures can become obsolete very quickly. Consideration should be given to undertaking a review of control systems at regular intervals and in particular after restructuring, downsizing, changes in businesses, the introduction of new computer systems, and after an incident of fraud.
- To constantly monitor adherence to controls and procedures. This should be a continuous process so as to identify any weaknesses arising as a result of complacency, or what is known as delusion, before a fraud occurs. Procedures should be in place, which allow the ongoing examination of controls and procedures. Consideration should be given to introducing test programmes and reporting systems for those identifying control weaknesses, thus allowing systems to adapt to a changing environment.
- To establish a "Learn-from-Experience group". This is to establish a group of experienced staff to examine system failure or breakdown. The group should attempt to identify both the reasons for the failure and also any positive aspects from the failure or breakdown, e.g., speedy identification and reporting.
- To develop appropriate information and communication systems, as well as aiding the reporting of fraud. These systems could also encompass performance indicators, links with external parties, management reports, education and training issues, information on successful prosecutions.

systems reports, a supplier database, fraud trends and statistics, risk reviews, etc.

The above is a composite model established from common elements of four models. These four models are: The findings of the Committee Of the Sponsoring Organisations (COSO) of the Treadway Specifically; USA; Corporate Governance initiatives -: The Combines Code (CC) in UK; examples of the New South Wales (NSW), and a paper produced by Russel G. smith for the Australian Institute of Criminology (AIC).

When evaluating the US Unemployment Insurance Fund, the General Accounting Office has developed some fraud prevention and control measures that if implemented correctly will give better results. The measures are explained here under.

2.6.1 Benefit Accuracy Measurement

This quality control program randomly selects claims each week to determine the accuracy of unemployment insurance benefits paid. A group of qualified investigators reviews and verifies all aspects of the claim with employers, claimants and other sources. Areas investigated include, but are limited to, the wages or salaries of claimants, and claimants' efforts to become re-employed. Data gathered are used to determine if operational corrective actions or program enhancements are necessary for effective and efficient administration of the Unemployment Insurance Fund system (General Accounting Office: 2001)

2.6.2 Benefit Payment Control

This is an aggressive fraud and overpayment program. Benefit Payment Control uses several different detection methods to ensure the correctness of unemployment insurance benefits paid. The primary detection method is a computerized cross match system that checks benefits paid against wages reported on a quarterly basis. When overpayments are determined to have been caused by fraudulent actions, the Unemployment Insurance Division actively seeks criminal prosecution (General Accounting Office: 2001).

2.6.2 Internal Security

The Internal Security Unit is charged with the responsibility of protecting Unemployment Insurance assets, including the Unemployment Insurance Trust Fund by the prevention, detection, and investigation of fraud, waste, and abuse outside the scope of Benefit Payment Control. Any information concerning fraud, waste, or abuse not reportable to Benefit Payment Control should be provided to the Internal Security Unit.

Management's attitude plays an important role in preventing and combating crime. Prior to the development of any strategy to prevent and detect fraud, management attitudes may need to be changed. Some managers are more complacent when it comes to curbing or controlling fraud, hence a change in management attitude is needed. If fraud has never taken place in a particular organisation, some managers assume that there will never be any fraud in future. These managers are more of reactive planners than proactive planners. When doing operational planning, the risk of fraud should be taken into account and should be included in the contingencies, because this is something that may happen within a particular period, e.g. a year.

Fraud has adverse effects in any organization, be it a profit-making, non-profit-making, government organization or non- government organization, etc. It impairs performance; wastes funds, which result in pressure being put on budget; causes political embarrassment; causes damage to the company's or government's reputation; poor dividend returns reduced market share; inability to meet short-term commitments, business failing, etc.

It is suggested that a fraud risk assessment review should be taken every three to five years, or sooner if the agency faces major changes in its environment.

2.9 FRAUD RISK ASSESSMENT: DEVELOPING AN EFFECTIVE STRATEGY:

This strategy is an extract from Independent Commission Against Corruption Act, 1998. Conducting a fraud risk assessment review establishes an organization's risk profile and provides management with the information required to deal with fraud in a cost effective manner. The basic goal is to define and describe an organization's fraud risk profile and to develop an analysis of risk against controls. Management is then able to determine what fraud countermeasures may be required and where these measures are required. Risk assessment involves analyzing a list of risks and assigning values to the risks in order to determine priorities for the purposes of effective risk management (Botha 2003:12). According to Botha, there are different sets of variables in risk assessment. These are, threats to the company, e.g., theft, embezzlement, etc. Frequency of occurrence of these threats should be calculated so as for the cost-benefit analysis; vulnerabilities, i.e. weaknesses that exists that would allow the threat to materialize; extent of losses; and safeguarding of assets.

Fraud risk assessment involves: -

Identifying the major functional areas of the company

This involves identifying the company's major activity and areas in terms of products and service outputs and deliverables, revenue generation and collection, expenditure, etc.

In terms of UIF, the major functional areas are, collection of application, processing applications, issuing cheques, approval of claims; collection of contributions. All these areas are vulnerable to fraud.

Assess and rank the nature and extent of fraud vulnerability.

Each functional area identified above should be assessed and rated in terms of its potential vulnerability to both internal and external fraud. Areas of high liquidity or of a complex nature may rate higher. Some of the factors or criteria used to make

judgements about vulnerability include materiality; fraud history for the activity or function; degree of operation complexity; forward budgets; etc.

Identifying the particular forms of fraud threat

This includes theft; misappropriation of funds; fraudulent administration of contracts; etc. Fraud threats alone are too raw to be used for fraud control purpose. However it is asserted here that, fraud threats are useful in proactively planning for fraud prevention and control.

Assessing the probability of occurrence of identified threats

This simply determines the extent to which existing internal control practices of the company are sufficient to counter the fraud threats that have been identified. In UIF, the likely fraud theft is falsification of source records for improper advantage. The probability of occurrence of this threat is very high, given the fact that the process of making payments is too long. As mentioned in the previous chapter, it starts from the application forms to cheque printing. Each functional area is susceptible to fraud.

Having completed fraud risk assessment, the organization must consider modifications to its operational practices, procedures, systems or controls. It should be identified whether there is any action required, if so, what action should be taken.

2.10 CORPORATE GOVERNANCE

Corporate Governance is the system by which organisations are directed and controlled. Sound corporate governance is essential in every organization. Internal control also bears a close relationship to the concept of corporate governance (SAICA: 2003/04). Although this corporate governance can never entirely eliminate the possibility of fraud, the adoption of its principles will have a major impact on any organization. The principles of corporate governance include strong leadership and direction provided by individuals with a high level of integrity, and the implementation of a sound control environment such as a culture of sound ethics, accountability for results and

transparency. The King Report on Corporate Governance for South Africa prescribes the adoption of Code of Ethics. Landman, CEO of the Ethics Institute of SA, defines a code of ethics as "a document in which an organization publicly declares what it regards as morally or ethically acceptable behaviour, from board level down to every employee. It sets out the ethical values, standards, principles or guidelines that members of the organization should respect in their dealings with internal and external stakeholders."

2.10.1 Reasons for developing a Code of Ethics

According to Landman, there are a number of important reasons for developing a code of ethics.

A code sets in motion a process that raises ethical consciousness among internal stakeholders. It clarifies what is ethically acceptable or unacceptable behaviour, thus making expectations more concrete. If acted on, it can enhance an organization's reputation and may help to keep legal action at bay.

It is recommended that a code that strikes the balance between values and rules between high ideals and practical application should be developed.

Landman gives seven rules for developing and implementing ethics.

3 **Write it.** It must be written in a format and style that is readable and understandable. The document must signify the importance of ethics to internal and external stakeholders.

4 **Tailor it.** It should be tailored to an organizations' specific line of business, giving information pertinent to the organization. An organization should consider the specific problems it faces repeatedly and include them in the code.

5 **Communicate it.** This is the implementation part. It should be communicated to all internal and external stakeholders of the organization. It shows external stakeholders that the organization takes its ethical commitments seriously and that it can be held responsible and accountable. Communication should be done regularly.

6 **Promote it.** Promote it using different methods like laminated cards, business cards, brochures, official documents, framing and displaying, posting on the website, etc.

- **Revise it.** A code should be reviewed or revised every few years because of changing worldwide conditions.
- **Live it.** This will depend on the way it was communicated, promoted and revised.
- **Enforce and reinforce it.** For shorter value codes, reinforcement should be the policy of choice. Longer rule codes certainly need enforcement, specifying rewards and punishments.

2.11 FORENSIC CONTROLS

Forensic controls are procedures implemented as a backup to the normal systems of internal and accounting controls. They are designed to prevent losses rather than identify them after they have been incurred. Examples of forensic controls are surprise inspections or asset counts (Deloitte & Touche' training manual on fraud: 2003).

2.12 CRIME DATABASE

In order to track criminal behaviour throughout an organization, it is necessary to create a database of all actual criminal acts perpetrated against a company. They will assist the risk manager in identifying patterns that might indicate control or procedural weaknesses, syndicate or collusion.

FINDINGS OF THE FIRST PUBLIC SECTOR FRAUD SURVEY

These are SAIGA (2003/04) findings when conducting survey on Public Sector Fraud. The highest fraud awareness factor were seen to be the first step in combating fraud, and resulted in lower fraud occurrence. Weak or lack of proper internal controls were seen as the most influential factor in creating a fraudulent environment. Whistle blowers play an important role in assisting organizations with the discovery of fraud. There was a marked difference between the ways in which the various governments view the contribution of low salaries towards fraud. National governments rated this as

the factor contributing most towards a fraudulent environment, and local governments rated this factor's contribution relatively low.

CHAPTER THREE

RESEARCH DESIGN

3.1 INTRODUCTION

The method used in this research is summative evaluation. The summative evaluation is used to determine the extent to which programmes meet their specified aims and objectives. The aims and objectives of the programmes here is to reduce the rate of fraud to the minimum, or to prevent it from occurring. In this study, different methods of collecting data will be discussed and the advantages and disadvantages of both methods and designs used. An analysis of data will be discussed. In chapter one, population size and sample size were given. The detailed discussion of these will be found in the following paragraphs, in this chapter. A descriptive statistics will be used to analyse data.

3.2 RESEARCH DESIGN

Both qualitative and quantitative inquiry will be used in this study. "These two approaches are similar in that they add to the body of knowledge and truth"(Marcoux. 2002: 50). Integrity and appropriateness are concerns in qualitative and quantitative research. Quantitative research is characterized by the questions such as how many, what, who and how much, observing entities to measure or quantify. The goal of this research design is to validate an explanation or cause. The aim in this study is to quantify the fraud cases in the Unemployment Insurance Fund. This is the quantitative part of the study. The qualitative part being the effect existing of fraud prevention measures in UI.

3.2.1 Population and Sampling size

In this study a sample of 100 was selected and interviewed. The respondents consist mainly of the employees of the department of Labour, with particular attention given to the Unemployment Insurance Fund staff. The target population is predominantly black

This was attributed to the fact that North West Labour employees are predominantly black and fall under Batswanas, Xhosas and Sothos. Still in the characteristics of our population and sample, the educational level of our population and sample ranges from matric to degree, where twenty five percent consists of post-matric qualifications, i.e., diploma and degree.

3.2.2 Measuring Instruments (questionnaires)

The measuring instruments in this study were the structured questionnaires. Advantages of using questionnaires are that they save time as they are distributed to all respondents at once and allow the respondent to be free in answering questions, as there is anonymity in answering. The questionnaires consist of section A and B. Section A of the questionnaires requires the position a respondent holds, number of years in the department and the section the respondent is currently working in. The rationale for requesting the position a person holds is to compare the views of management and that of the junior staff. It is assumed that administration clerks' and Supervisors' jobs are more operational, as a result they are more aware of what is happening around than management. In addition to that they understand the computer system better because they use it as their daily tool. The "other/specify" part is reserved for those who are not working in the department but can contribute to the research report. Example being the Home Affairs Official/s who will answer questions relating to the Identity fraud.

The number of years a person worked in the department has a certain influence as well. The longer the period in the department the more knowledge one may have about the daily operations and the weaknesses in the system.

As for the section or works station. In Unemployment Insurance Fund, there are five sections that contribute to the payment of claims. These are the core functions of UI. Different functions in each section will be discussed in detail.

- **Application Point**

This is where everything begins. Applications clerks issue claim forms to the applicants, assist them in completing the forms, interviewing them. Interviews include

the reason for leaving employment, dependants, etc. The reason for interview is to get as much and valid information as possible. Claim forms are then compiled and sent to processing office for payment processing.

- **Registry section**

This section receives all application from application points. They are then sorted according to their needs, have them files opened and distributed Claims sections. Registry keep records of all claims, be it pending, paid or refused.

- **Claims Section**

This is where the assessment of a claim takes place. Claims are being approved, refused and kept on pending, basing on the circumstances. All approved and refused claims are then taken to Data section for capturing and the pended ones are taken to Registry for filing.

- **Data section**

This section specializes in capturing. Any information that needs to go into the computer is captured in this section. For those claims that were approved are being paid on the system and those that were refused are being refused in the system. For those that are ready for payment are then taken to Extension section for payment advice vouchers to be prepared. These payment advice vouchers are then taken to Data Section for payment capturing.

- **Accounts section**

This is where cheques are printed and dispatched to different application points. All payment and bank reconciliation are taking place here.

Section B of the questionnaires consists of questions with sub-questions. Questions in section B require information pertaining to fraud in general. The impact of fraud in the UI Fund, trends in fraudulent activities, whether management is doing enough to combat fraud or not. There is a question about Identity fraud because among the cases of fraud, there are those that involve duplicate/forged Identity Document. The main aim of the sub-questions is to get response that will encourage management to be serious at all times about the issue of crime. One may find that there has been minimum attention to this issue, which will be detrimental to the department and government as a whole. In

chapter one a mention was made that in addition to the contributions from members, government is subsidizing this fund with some billions of Rands.

Internal Controls

Question Two requires information pertaining to internal controls. The importance of internal controls in combating or preventing fraud cannot be overemphasized. If there is no such system in place, or if the system is not adequate, then the organization is at the high risk of fraud. The first question needs to know whether there are any controls in place. If there are any, then the questions proceed by asking whether these controls are effective or not. If they are effective, are they really being evaluated timeously. By being effective they should be able to detect fraud in time, or prevent it from occurring or the incidence of fraud should be reduced to a minimum. Are these controls preventative or detective? To be effective they should be preventative. If they are detective they will involve extra work of investigating fraud and prosecuting. This is really time-consuming and costly. There should be a crime database in the department where all actual criminal acts perpetrated against the department are recorded. This database will assist risk manager in identifying patterns that might indicate control or procedural weaknesses, syndicate or collusion.

Departmental Ethics

It is imperative for every organization, be it government departments or private companies to have the ethical policy. This is the Code of Conduct that give employees direction with regard to the spirit in which they have to perform their duties, what is expected of them in terms of their personal conduct in public and in private life, and their relationship the legislature, political and executive office-bearers as well as other employees and the public. The policy should be signed by every employee of the organization. This is what the third question is al about. In this question, the researcher needs to know whether these policies are reviewed periodically, whether this policy, if any, has been communicated to all staff. If there are concerns of any unethical behaviour in the Department, employees should be encouraged to discuss it.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 INTRODUCTION

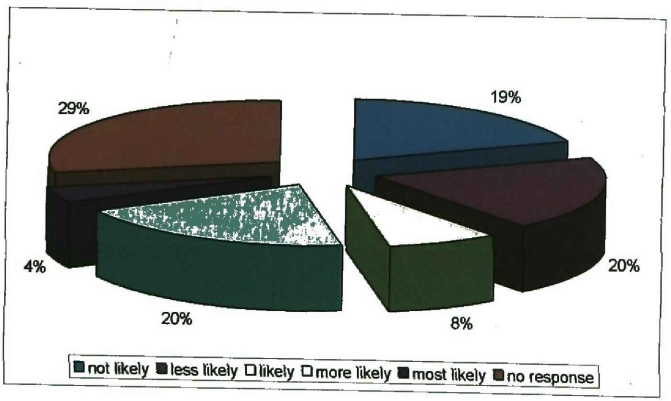
Questionnaires were distributed to different Labour Centres and Provincial Office Officials. The unit of analysis was mainly UI employees because they have much knowledge about the fund. Out of hundred distributed questionnaires, only eighty seven (87) responses were returned, meaning that response rate is 87%. The chapter presents the results and analysis of the respective responses to the questionnaires from the different sections of the department.

4.2 LIKELYHOOD OF OCCURRENCE OF FRAUD IN THE RESPECTIVE SECTIONS OF UIF

4.2.1 DATA SECTION

Data section in UI is responsible for capturing in the computer, all the information from different sections. This information is stored in the computer for future reference. Respondents were to rank the above subject matter from scale 1 to 5 where 1-2 is not likely and 3-5 is most likely. Number of respondents (n), is 87. Responses are shown graphically in Figure 1.1 below. Thirty nine percent of the respondents are of the opinion that this section is less likely to have fraud, while 32% believe that this section is likely to be affected by fraudulent activities with 29% as indifferent.

Figure1.1 The likelihood of fraud at Data section

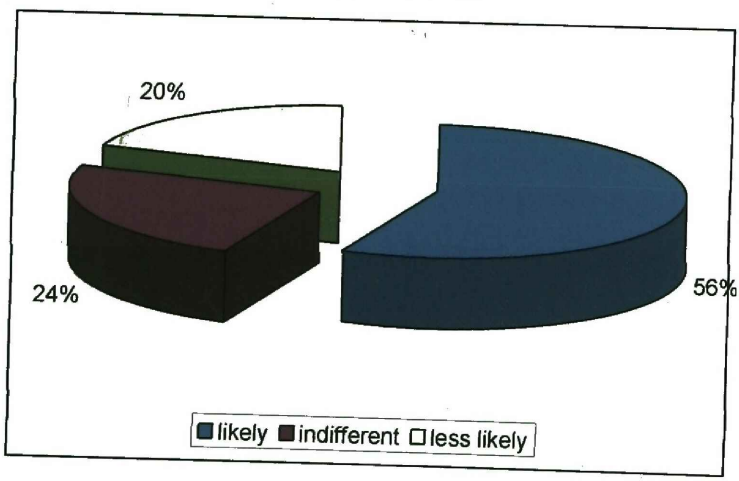


According to Arens and Loebbecke (2000: 532), there is a potential for material misstatements in the Electronic Data Processing section. However, majority of the respondents (39%) believe that there is minimum likelihood of occurrence of fraud at Data section. The 32% who are of the opinion that this section is susceptible to fraud stated that unauthorized access to data and loss of data are the contributing factors towards the material misstatements. Unauthorized access may lead to unauthorized transactions being initiated through the computer, and confidential information may be obtained in an unauthorized manner. Proper separation of duties is most therefore crucial in this section, as specified in the internal controls.

4.2.2 EXTENSION SECTION

The duties performed in this section is to extend periods of payment in the UF103 form, and send them to Data section for capturing of payment, hence Extension. According to the majority of the respondents (56%) as shown in Figure 1.2, fraud is likely to occur in this section. The respondents who think fraud is less likely to occur in this section constitute 20%. Indifferent respondents constitute 24% of the total respondents

Figure 1.2: likelihood of fraud at extensions section

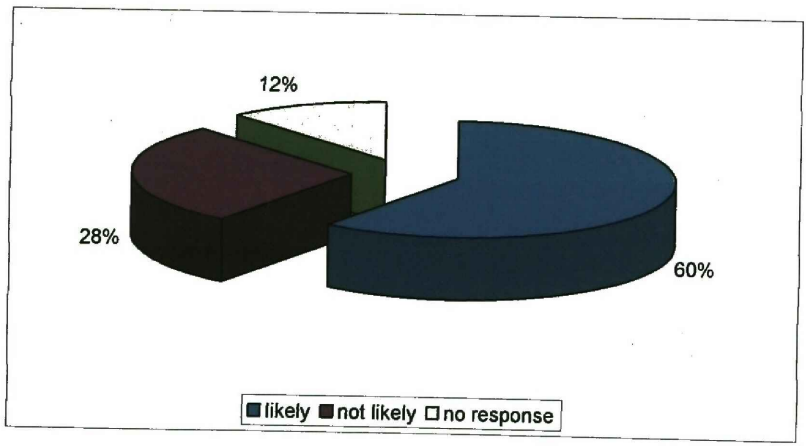


The 56% of the respondents who were of the view that this section is susceptible to corruption explained that officials may over-extend the periods of payment for the claimant or for those who did not report on their dates, and it is possible for their payments to be processed. As mentioned in the previous chapters, the workflow in processing center gives opportunity to inside fraud. They explained the workflow at extension section that, after capturing UF103s at Data, they are taken back to extensions, and then later takes the same to accounts for reconciling after cheques have been printed. They further stated that it is possible for officials from extensions to collude with accounts clerks for fraudulent activities.

4.2.3 CLAIMS SECTION

Claims section is charged with the duties of assessing claims, approving and rejecting them. No claim will be captured without being assessed by the Assistant Claims Officers. About 60% of the respondents are of the opinion that fraud is likely to occur in this section as shown in Figure 1.3 below. Some officials among the respondents feel strongly that this section is vulnerable to fraud.

Figure 1.3: Vulnerability of claims section to fraud

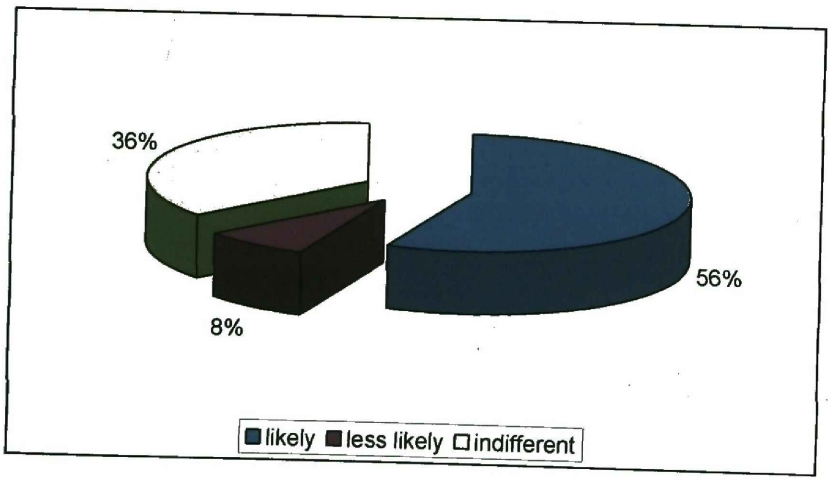


The respondents are of the view that the accuracy, reliability of information, completeness, etc, depend on the Assistant Claims Officers and that if records are not thoroughly verified in this section, more damage will be caused to the fund. About 28% of the respondents stated that fraud is less likely to occur in this section however without any strong motivation, while 12% were indifferent about the likelihood of occurrence of fraud in this section.

4.2.4 REGISTRY SECTION

Registry is where claims from all North West Labour Centres are received, recorded and distributed to different sections of UI. All claim records are kept in this section. Majority of the respondents (56%) see this section as very vulnerable to fraud. Approximately 8% of the respondents are of the opinion that fraud is less likely to occur in this section with 36% as indifferent. The result is as indicated in Figure 1.4 below.

Figure 1.4: Vulnerability of registry section to fraud

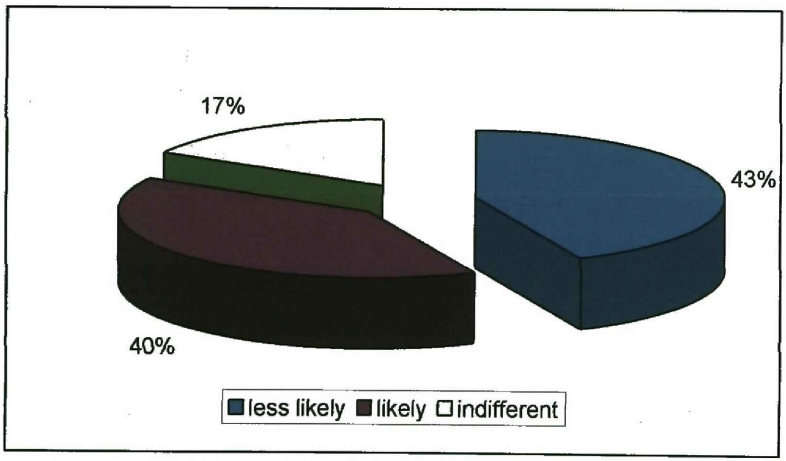


Majority of the respondents (56%) explained that if proper internal controls were put in place, this section should be the restricted area as all the claims records are kept here. Only those working in Registry should have access to the records. Since there are no proper internal controls in place, this section is more vulnerable to fraud because everybody goes as he/she pleases in this section.

4.2.5 APPLICATION POINT

In each Labour Centre, there is an Application Point where claimants are assisted to lodge their Unemployment Insurance claims together with other services provided by Department of Labour. Forty three percent of the respondents believe that fraud is less likely to occur in this section. Only 17% of the respondents were indifferent. Figure 1.5 below gives the overall results.

Figure1.5: Vulnerability Application point to fraud



The 40% who are of the view that this section is vulnerable to fraud explained that fraud could occur because of negligent staff who may allow an applicant to receive benefits on behalf of another applicant.

4.2.6 ACCOUNTS SECTION

The UI Accounts section is charged with the responsibilities of keeping blank and printed cheques, cash and other financial related documents. Cheques are printed at this section, as well as payment for UI contributions. Reconciliation of pay sheet and UI103 forms from Extensions is done in this section. Table 4.1 shows that 56% of the respondents are of the view that this section is most vulnerable to fraud, while 15% held the view that that it is less likely to be affected by fraud.

Table 4.1: likelihood of fraud at Accounts section

Respondents	Frequency	Percent
Vulnerability to fraud	49	56%
Less vulnerability to fraud	13	15%
No response	25	29%
Total	87	100

The 56% of the respondents who feel that this section is fraud prone stated that if the following controls were not implemented correctly, as discussed in chapter two, the incident of fraud in the section would be too high.

Segregation of duties on the:

- Custody,
- production
- signing of cheques,
- bank reconciliation and
- payment processing.

Due to the shortage of staff, officials who are responsible for cheque custody reconcile the pay sheet and UF103, and bank reconciliation. They consider these as the loopholes that may open doors to fraud. They feel strongly that although no fraud cases were reported in Provincial Office, there is no guarantee that there won't be any cases in future and suggested that preventative measures should always be in place.

4.2.7 OTHER SECTIONS

In the questionnaires, respondents were asked to add the section other than the ones mentioned above, which they believe is susceptible to fraud. Inspection and Enforcement Services (IES) section was found to be one of the most vulnerable section by 33% of the respondents. The responsibilities for this section are to enforce the Labour Laws and to perform inspections to employers. Among others, they collect the Unemployment Insurance Fund contributions and restitution monies from employers.

Some of the respondents expressed or explained that sometimes some officials who collect these monies use it for their own personal gain. They further mentioned that there are already seven cases of fraud reported in different Labour Centres. where officials where dismissed for amounts ranging from R50.00 to R1000.00.

4.2.8 SUMMARY

The results of the analysis indicate that the most vulnerable sections to fraud in UIF Department in deceasing order are: claims section (60%), Accounts section (56%), Registry section (56%), Application point (40%) Extension section (32%), IES (33%) and Data section (32%)

4.3 EVALUATION OF THE INTERNAL CONTROLS

This question deals with the effectiveness of the internal controls. Respondents were required to give motivation to their responses.

4.3.1 THE EFFECTIVENESS OF EXISTING FRAUD PREVENTION MEASURES.

The aim of this question is to test the effectiveness of internal controls in UI. Out of 87 responses received, only 32.2% responded that the internal controls in UI are effective while 48.3% said the controls are not effective. Slightly over nineteen percent were indifferent to this question as they were not sure about the internal controls in UI.

Table 4.2: Effectiveness of existing fraud prevention measures

Item	Frequency	Percentage
Effective	28	32.2
Not effective	42	48.3
Indifferent	17	19.5
	---	---
	87	100
	---	---

Note. **n=87**

4.3.2 CHANGE IN THE LEVEL OF FRAUD SINCE 2000

This sub-question aims to find out whether there has been any reduction or increase in the level of fraud since the year 2000. This is the year that saw the development and implementation of Unemployment Insurance fraud prevention measures. No trend data was available to the researcher since proper records were not kept over the years back.

Table 4.3: Changes in the level of fraud since 2000.

RESPONSES

Item	Frequency	Percentage
Reduction	17	19.5
No reduction	49	56.3
Indifferent	21	24.2
	---	---
	87	100
	---	---

Note.n=87

Approximately 19.5% of the respondents are of the view that there has been reduction in the level of fraud. Only a few of them gave their comments to support their statements. Below are some of the reasons for those who agreed to this statement:

- Absence of fraud case in their offices
- Most payments are paid directly to the bank

Almost 24.2% were indifferent. Over 56% stated that there has been no reduction in the level of fraud since the year 2000. A mention was made of a syndicate fraud where inside and outside people collude to commit fraud. According to the regional manager of Rustenburg, there is a kind of fraud in Rustenburg Labour Centre where a Labour employee could not give the applicant his money and only let him sign the card. This was said to have happened at the bank where cash payment was taking place.

4.4 RANKING OF THE CAUSES OF FRAUD

The possible causes of fraud were ranked in this study by the respondents. Table 4.4 depicts the ranking of these causes of fraud.

Table 4.4: Ranking of the causes of fraud

ITEM	RANK	PERCENTAGE
Ineffective controls	1st	24%
Ineffective supervision	2nd	23%
Higher income variation	3rd	21%
Low employee salary	4th	19%
Difficult economic conditions	5th	13%
Total		100%

4.4.1 INEFFECTIVE/LACK OF CONTROLS

Internal controls are regarded as the most crucial in combating fraud. This was shown by approximately 24% of the respondents who ranked lack of controls as 1st among all the possible causes of fraud. When he mentions the root causes of fraud, Pomeranz (1996:3) says the indifference to internal control contribute to a large extent to fraud. According to Pomeranz (1996:3), the 1987 survey on the root causes of fraud discovered the lack of those basic, well-defined control mechanisms which text books have been extolling for years. The most obvious control which was absent or deficient was that of separating the functions of a particular process. In his presentations in the Corporate Governance Awareness Workshop Roy Shough (2004:10), mentioned that internal controls go beyond preventing or detecting error or loss, towards ensuring business and management objectives achieved.

4.4.2 INEFFECTIVE SUPERVISION

Earlier in the previous questions, some respondents cited lack of strict supervision as the cause of high level of fraud in the Unemployment Insurance Fund. It is not surprisingly in Table 4.2 to see that approximately 23% ranked this cause at 2nd among the causes of fraud. This means that, quite a number of the staff feel that it is one of the main causes of fraud

4.4.3 HIGHER INCOME VARIATION BETWEEN LOWER LEVEL EMPLOYEES AND MANAGERS

Table 4.4 above shows that this was ranked 3rd as the cause of fraud in Unemployment Insurance Fund by 21% of the respondents. Respondents further said that higher income variation results in dissatisfaction of staff. Some said low-income earners want to find themselves living the same lifestyle as higher income earners, as a result, they end up committing fraud to get extra money.

Earlier in this chapter it was mentioned that people live lives that are not commensurate to their salaries due to the competition among employees who do not realize that there is a difference in the salaries of managers and lower ranked employees.

4.4.4 LOW EMPLOYEE SALARY

All the possible causes as envisaged by the respondents were ranked by them as shown in the Table 4.4 below. Low employees' salary was ranked 4th by the respondents as a cause of fraud in Unemployment Insurance Fund.

As mentioned previously that most of the respondents are application clerks who fall under the lower earning class, i.e., Salary Level 1-3 and 4-6. The respondents stated that most people want to live lives that are not commensurate with their salaries, as a result of this they find the easiest way to find money and forget the consequences thereof. As mentioned in chapter two, Grabonsky and Dudfield (2001:2) state that behavioural anomalies are among the red flags of fraud. Low employee salaries result in employee dissatisfaction, as a result they turn into potential fraudsters (Pomeranz 1996: 3). SAIGA (2003), found in their survey on Public Sector Fraud that there is a marked difference between the ways in which the various governments view the contribution of low salaries towards fraud. National governments rated this as the factor contributing most towards a fraudulent environment, while local governments rate this factor 's contribution relatively low.

4.4.5 DIFFICULT ECONOMIC CONDITIONS

Table 4.4 shows that it was ranked 5th among the factors considered as the main causes of fraud by the respondents. Marlotte (1993) states that majority of CEOs, CFOs and other executives expected fraud to grow in 1993 due to harsh economic times and the prediction turned out to be correct. A 1993 economic survey conducted by Ernst & Young in association with Michael Levi (1993) in the UK tagged recession as the prime cause of fraud. Recessions may trap individuals who have made extravagant commitments based on hope.

4.5 RATING OF TYPES OF FRAUD

The rating of the types of fraud, which occurs within the Unemployment Insurance Fund from the views of the respondents, is as indicated in Table4.3 below.

Table 4.5: Rating of the types of fraud in UI

ITEM	RANK
Cheque fraud	1st
Cash fraud	2nd
Identity fraud	3rd
Forgery	4th
System manipulation	5th
Total	

For confidentiality, the staff did not give the number of times the respective types of fraud has occurred. However the Fraud Unit that is responsible for crime statistics in UI, indicated the above ranking as per records. The respondents briefed the researcher on how these types of fraud occur within UI.

4.5.1 CHEQUE FRAUD

The Fraud Unit of the UI ranked cheque fraud as most common in UI. It takes the first position in (Table 4.5.) According to Integritas Forensic Investigation, cheque fraud includes stealing of cheques and this type of fraud is likely to be common in internal

fraud where employees have access to blank and printed cheques. This may take place by stealing printed cheques and cashing them at the bank. Theft of a cheque starts the fraud of the cheque. There is no doubt that this is the most common type of fraud in UI. The reconciliation of the bank statement immediately after receipt thereof, and the safekeeping of blank cheques are the most preventative measure of cheque theft.

4.5.2 CASH FRAUD

The UI Claims Officer distinguished Cash and cheque payment that the payment for former takes place directly at the bank while cheques are issued at the Labour Centres. Although in the previous questions some respondents said that payment at the bank has brought about the changes in number of cases of fraud, it was ranked 2nd The information received from the Claims Officer was that most employers pay contributions by cash and this opens doors for fraud as most people are being tempted when they come across money. Example is the given case in chapter two where an employee failed to give the employer receipt. Other problems are encountered at Inspection & Enforcement Services because they collect (arrear) contributions from employers. There are almost five dismissal cases of which these officials took amounts ranging from R50 to R1000 for their personal use (UI fraud statistics).

4.5.3 IDENTITY FRAUD

According to the Fraud Unit in UI, Identity fraud is the third most common type of fraud. According to the Risk Management Officer in UI, there are almost twenty cases of this type of fraud that were discovered in the province and the most common method of identity fraud in UI being the common identity number where two people were sharing the same Identity numbers. The Risk Management Officer explained that it was unfortunate because this type of fraud was normally discovered when a claimant lodges an UI claim. It will be discovered that there is an existing claim, with the same numbers of identity that took place long time ago, in a remote area. When asking Department of Home Affairs about this problem, the response received was that it was never known how this problem happened, and there were many cases of this nature. When checking the rightful owner of the identity document, it would be found that the

current owner is the rightful owner. The unfortunate part is that the first claimant enjoyed the benefits that did not belong to him.

4.5.4 FORGERY

In Table 4.5, forgery is ranked 4th as the types of fraud occurring in UI. The UI manual states that forgery takes place when information is being unlawfully amended in favour of the person who amends. Forgery can be in cheques, application forms, identity, etc. In their briefing, the respondents mentioned that forgery in UI takes place in different forms. The contributors' blue cards (UI 74s) are vulnerable to this type of fraud. The earnings are being inflated so that the claimant can receive higher benefits. UF 7s cards are used for as a proof that the claimant has reported at the UI offices at the given dates. The applicant sign the card as a proof that he /she reported. There are instances where the application clerks did sign the cards on behalf of the claimant to avoid penalty for the latter. The findings by SAIGA (1993) on Public Sector Fraud Survey reveal that, dishonest acts such as changing information, procurement fraud and misrepresentations rank high.

4.5.5 SYSTEM MANIPULATION

The Risk management Officer in the UI Fraud Unit said that some intelligent employees could fiddle with the computers with the aim of changing the built-in controls to defraud the fund. This is called system manipulation. The respondents placed forgery in the 5th position (Table 4.5). Basing on responses, one may conclude that this type of fraud is not a problem in Unemployment Insurance Fund. North West.

4.6 WAYS IN WHICH FRAUD CAN BE REDUCED IN UNEMPLOYMENT INSURANCE FUND

About 24.1% of respondents mentioned attractive salary and fringe benefits as another way to prevent fraud. These respondents fall in the range of salary level one to six. The following is the summary of response to this question.

TABLE: 4.6 VIEWS OF RESPONDENTS ABOUT WAYS TO REDUCE

Ways to prevent fraud	frequency	percentage
Attractive salary and benefits	21	24.1
Constant supervision	15	17.2
Not taking bribes from clients	5	5.8
Audit of payroll information	1	1.1
Good internal control	20	23
Intensive investigations	11	12.6
Awareness campaigns	10	11.5
No response	4	4.7

N=87

Some respondents view constant supervision as the remedy to fraud prevention. Giving further explanation, they felt that, had there been any constant strict supervision. more than fifty percent of fraud would not have occurred.

Only one percent of the respondents is of the opinion that auditing payroll information would be the solution to the problem of fraud. The reason given that, fraud would be detected immediately if this measure had been practiced. The number of cheques returned or not claimed, and the number of all claimed cheques would add up to the total number of cheques taken to the pay stations. The other concern raised was that cheques are not counted before they are taken to the pay station.

Approximately 11.5% of the respondents are of the view that all stakeholders should be made aware of the procedures and rules pertaining to UIF. Awareness campaigns will take place in different ways, example, radio talk shows, newspaper articles. etc. They further said that all finalized cases of fraud should be published in the internal newsletter.

Attractive salary benefits were regarded as the most important factor to reduce fraud by majority (24.1%) of the respondents. They suggested that the review of salary packages should be effected.

4.7 CONCLUSION

The likelihood of occurrences of fraud in the respective sections were analysed. Some sections were found to be more vulnerable than others. The causes and types of fraud in UIF were also analysed and the results presented. The effectiveness of the existing internal controls were also analysed. Finally the change in the level of fraud in UIF since 2000 as well as ways to reduce fraud occurrence in UIF were also analysed.

CHAPTER FIVE

RECOMMENDATIONS AND CONCLUSIONS

5.1 INTRODUCTION

The chapter was about the recommendations and conclusions drawn from the study. Based on the results of the analysis and findings, the following are recommended on the basis of the respective study objectives.

5.2 RECOMMENDATIONS

5.2.1 The likelihood of fraud to different sections of UI

With regard to the likelihood of occurrence of fraud in the respective sections, the study finds all the sections to vulnerable to fraud but Claims, Accounts and Registry sections were regarded by respondents as the most vulnerable. Therefore the following recommendations for the respective sections have been provided in Table 5.1

Table 5.1 Recommendations on the vulnerability to fraud

Number	Section	Recommendations
1	Claims	• Internal controls should be adhered to. • Thorough verification of authenticity of all documents should be done • One claim file should be assessed by more than one person.
2	Accounts	• Intensive supervision should be done. • Duties should be segregated properly, e.g., recording of unclaimed cheques should be done by a person other than that the one reconciling the pay sheet. • Unclaimed, returned cheques should be

		recorded and cancelled immediately on receipt. • All blank cheques should be kept in a safe place and only authorized person should have access to them. • Bank reconciliation should be done at least weekly.
3	Registry section	• Only Registry staff should have access to the records filed. • All documents should be recorded before they are dispatched to different sections.
4	Extension	• All extended UF 103s should be checked by the supervisor before they are taken to Data section for capturing. • Signatures should be verified before any further payment is made.
5	Application point	• Strict supervision • Application clerks should be aware of the code of conduct of the department. • Soliciting for gifts or taking bribes should be discouraged. • All documents should be checked before an applicant leaves the office.
6	IES	• Inspectors should not be allowed to take money from employers, instead, employers should be encouraged to pay straight at the bank.

7	Data	• Password security should be strictly monitored • Division of work should clearly be defined.

5.2.2 Evaluation of the effectiveness of internal controls

Concerning effectiveness of the existing internal controls, the study found that they are not effective from the staff point of view. For the internal controls to be effective, they should be:

- Reviewed with the involvement of representatives of all stakeholders.
- All stakeholders should be made aware of the Internal Controls.
- Training of sectional managers on the implementation of internal controls
- Monitoring of the controls
- Corrective action should be taken against the offenders. If necessary, punitive (legal) should be taken.
- Regular review and reporting on the internal controls is necessary.

5.2.3 Causes of fraud in Unemployment Insurance Fund

On the causes of fraud, the study found the main causes of fraud with the UIF as (decreasing order):

- Ineffective supervision and controls,
- Higher income variation, low employee salaries, and
- Difficult economic conditions.

It is recommended that:

- There is a need for review of remuneration packages
- Review of conditions and terms of employment
- Incentives for those who performed above the standard
- Employees should be given courses on annual basis on personal financial management so that they should be able to manage their finances during difficult economic times.

5.2.4 Types of fraud occurring in Unemployment Insurance Fund

The respondents ranked different types of fraud. The main aim of ranking was to determine the types of fraud that are occurring more often than others so that they should be given more attention. The study found the following causes of fraud (in order of priority) occurring in UI:

- Cheque and cash fraud
- Identity fraud
- Forgery
- System manipulation

The following are recommended:

- Cheques should be stored in a safe place where access is restricted to persons who have authorized access.
- All signatures should be verified before the payment is handed to the claimant
- There should be strict supervision at the application and pay points.
- All intercepted cheques should be investigated before another cheque can be issued
- Verification of the authenticity of identity documents should be done with Department of Home Affairs.
- No temporary identity documents should be accepted.
- Verification of information (salary, period of service, etc.) with employers is important.
- No tip-ex should be allowed in all documents.

5.2.5 Ways to reduce fraud in UI

There are different ways that may reduce fraud in Unemployment Insurance Fund. Among others the following were recommended:

- All stakeholders should well be informed of the processes and of what is required of them.
  - Information sessions with employers should be held at least once a year.

- There should be radio talk shows where community is informed of any developments in UI
- Newspaper articles should be used to reach those who can read

- Implementation of good internal control
- Employees should be discouraged to take bribes or solicit payment in return for service rendered.

5.3 CONCLUSION / SUMMARY

Much has been said about fraud and the means to prevent it in this study. In analyzing and interpreting the results one can see that much need to done to prevent or reduce fraud in UI. Fraud Prevention measures were evaluated, potential risk areas were identified, and some causes of fraud were investigated. In interviewing the Industrial Relation Officer of the Department of Labour, it was learned that some fraud cases were identified when busy conducting investigations on the other case. i.e., one case give rise to another. In their evaluation of Unemployment Insurance Fund in America, GAO developed some control measures that will be used to reduce fraud. Benefit Accuracy Measurement is used to randomly select claims each week to determine the accuracy on unemployment benefits paid. If South African UIF adopts this strategy, more improvements will be realized. The Benefit Payment Control seeks to identify overpayments by using the different detection methods to ensure the correctness of unemployment insurance benefits paid. Some workable operational to prevent fraud is that of David Cafferty of Matson, Driscoll, Damico Ltd that were presented in chapter two.

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Section A: Biographical Data

Instruction to respondents: Mark X where applicable

As an employee at the Department of Labour:

1. **What position do you currently occupy**?

Admin/Application Clerk	
Supervisor	
Assistant manager	
Manager	
Other (specify)	

Number of years in the Department

2. **Work Station**

Data section	
Extension section	
Registry section	
Claims section	
Application point	
Other (specify)	

3. **Level of Education**

Indicate your educational level

Degree/diploma=5; matric=4; std eight=3; < std eight=2; other (specify)=1

Other----------

4. **Gender**

Mark X where applicable

Male	
Female	

5. **Level of income**

Salary level 1-3	
Salary level 4-6	
Salary level 7-9	
Salary level 10-12	
Salary level 13+	

6. Are you satisfied with your present salary? Answer **Yes** or **No**



7. Indicate your level of satisfaction of your salary on this scale. 1= dissatisfied; 5=average satisfaction 10=most satisfied

1	2	3	4	5	6	7	8	9	10

8. **Age**



SECTION B

Instructions to respondents:

Please rate the following statements according to the answer that you find most applicable to it. Every statement can be rated according to the following scale:

Rank the following areas from 1-5 according to their susceptibility to fraud.
1= not likely, 2= less likely, 3= likely, 4=more likely, 5= most likely
The following areas are more susceptible to fraud.

1. How likely is fraud to occur in the following areas?

SCALE	1	2	3	4	5
Data					
Extensions					
Claims					
Registry					
Application point					
Accounts					
Other					

2. Internal Controls

STATEMENT	Yes	No
2.1 Do you think the existing fraud prevention measures are effective?		
2.2 Is there any change in the level of fraud since 2000?		

Motivate your answer in 2.1 and 2.2 above

2.1 _____

_____

_____

2.2----------

---

3. Causes of fraud

Mark X where applicable

The following are some of the causes of fraud in UIF. Rank them from 1st to 5th positions. The cause that occupies 1st position is the most cause, while the fifth position represents the least cause

SCALE	RANK	PERCENTAGE
Low employee salaries		
Difficult economic conditions in the country		
Ineffective supervision		
Higher variation between managers in income and that of lower level employees		
Ineffective/lack of controls		
Other (specify)		

4. These types of fraud take place more often. Rank them from 1st to 5th position. The 1st position represents the type of fraud that occurs more frequently while the 5th position represents the type that occurs least frequently

SCALE	RANK	PERCEN TAGE
Identity fraud		
Cheque fraud		
Cash fraud		
Forgery		
System manipulation		
Other (specify)		

4. Give different ways that, in your opinion, will help to reduce fraud in Unemployment Insurance Fund.

DEFINITION OF TERMS

DoL	: Department of Labour
UI/UIF	: Unemployment Insurance Fund
UF74	: Blue Card
ID	: Green bar-coded ID document
UF103	: Form used to extend period of payment
Work and draw	: Receiving UI benefits while working
Applicant/Claimant	: A person who claims for UI benefits
Claims Officer	: Head of UI in the province
Assistant Claims Officer	: An Officer assessing UI claims
Labour Centres	: Offices of DoL around the province
Processing Centre	: Office where payments are processed
Pay-sheet	: Report used to reconcile UF103's after capturing
Restitution money	: Arrear wages collect from employers on behalf of the Employees
GAO	: General Accounting Office
SAIGA	: South African Institute of Government Auditors