

DEVELOPMENT BANK OF SOUTHERN AFRICA
“DBSA”



Fraud Prevention Plan
Inclusive of Policy and Control
Strategies

2011

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1. INTRODUCTION

1.1 Purpose

The Development Bank of Southern Africa has adopted a Code of Ethics articulating the values and acceptable ethical standards to which all persons associated with the Bank are required to adhere. This notwithstanding, the Bank acknowledges that in today's business environment, fraud is prevalent and all business organizations are susceptible to the risk of fraud. In this regard, the purpose of the Fraud Prevention Plan ("**the plan**") is to set out and reinforce the Bank's policy of zero tolerance towards fraud and corruption as well as management's commitment to combating all forms of fraud inherent in the Bank's operations.

- 1.2 The Plan outlines the DBSA framework and strategy for the prevention, deterrence, detection, reporting, investigation and handling of fraud and corporate crime. The Plan establishes a process for oversight of fraud risk by the Board Audit Committee and spells out responsibilities and ownership with respect to assisting the Bank to minimize its fraud risk exposure.

1.3 Background

This Fraud Prevention Plan has been developed as a result of the expressed commitment of Government to fight fraud and corruption. It is also an important contribution to the National Anti-Corruption Strategy of the country and supplements both the Public Service Anti-Corruption Strategy and the Local Government Anti-Corruption Strategy.

An effective fraud prevention process can help increase the confidence of investors, regulators and the general public in the financial integrity of an organization in addition to attracting and retaining human and financial resources.

The King III Report on Corporate Governance recommends that an organization assesses risks on an on-going basis and design effective internal controls to manage risks throughout the organization. Fraud is part of organizational operational risk.

The Public Finance Management Act, No 1 of 1999 and Treasury Regulations, March 2005¹, enjoin the Board to adopt a risk management strategy that must include a formal Fraud Prevention Plan. The Bank is also required to submit

¹ Section 27.2.1 of the Treasury Regulations

annually to National Treasury, a Corporate Plan together with the Fraud Prevention Plan².

The Prevention and Combating of Corrupt Activities Act, No 12 of 2004 ("PCCA") has strengthened measures against corruption and has created specific offences relating to corruption.

The Protected Disclosure Act, No 26 of 2000 makes provisions for procedures in terms of which employees may disclose information regarding unlawful or irregular conduct by their employers or other employees. The Act also accords protection to employees for disclosures made in good faith, under defined circumstances and encourages organizations to adopt internal whistle blowing mechanisms.

1.4 Definition of fraud

Fraud is defined as "the unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another". The term "fraud" is also used in a wider sense by the general public.

In this regard, the term is used in this document in its widest possible meaning and is intended to include all aspects of economic crime and acts of dishonesty. In other words, fraud can be described as any conduct or behaviour of which a dishonest representation and/or appropriation forms an element.

2. POLICY PRINCIPLES

2.1 Scope of the policy

This policy applies to all employees, stakeholders, contractors, vendors / suppliers doing business with the Bank.

2.2 Policy

It is the policy of the DBSA that fraud, corruption, maladministration or any other dishonest activities of a similar nature will not be tolerated. Such activities will be investigated and actions instituted against those found responsible. Such actions may include the laying of criminal charges, civil and administrative actions and the institution of recoveries where applicable.

² Section 29.1.1 (e) of the Treasury Regulations

Prevention, detection, response and investigative strategies will be designed and implemented. These will include any existing controls (system controls and manual internal controls) and those currently prescribed in existing policies, procedures and other relevant prescripts to the activities of the Bank.

It is the responsibility of all employees to report all incidents of fraud and corruption that may come to his / her attention to his / her manager. Alternatively, such reports can be made by way of submitting a report through the prescribed whistle blowing mechanism as adopted and promoted by the DBSA from time to time.

All reports received will be treated with the requisite confidentiality and will not be disclosed or discussed with parties other than those charged with investigation into such reports.

All Managers are responsible for the detection, prevention and investigation of fraud and corruption, within their areas of responsibility.

3 FRAUD CONTROL STRATEGIES

The approach in controlling fraud and corruption is focused into 3 areas, namely:

- Structural Strategies;
- Operational Strategies; and
- Maintenance Strategies.

3.1 Structural strategies

Structural Strategies represent the actions to be undertaken in order to address fraud and corruption at the level of organizational governance..

3.1.1 Good Corporate Governance

It is critical to promote an organizational culture of ethical behaviour and integrity to prevent fraud and corporate crime by influencing employees' conduct and behavioural standards. Recognising the nexus between the organizational culture and employee behaviour, Management strives to ensure that organizational culture and corporate governance promote high ethical standards.

The following corporate governance initiatives are in place at the DBSA:

- The Audit Committee reporting to the Board has oversight responsibility over the Bank's systems of internal control;

- An independent Internal Audit function conducts reviews and tests the effectiveness of internal controls providing assurance through periodic reports to the Audit Committee;
- The Bank's operational risk function facilitates risk identification workshops to identify risks and advises line management on the relevant controls to be implemented. This exercise also covers fraud risks;
- Ad hoc forensic audits/investigations are an integral part of the work of Internal Audit function;
- Written delegations of authority and documented financial control system.

3.1.2 Responsibility for fraud risk management

The Chief Executive (CE) bears the ultimate responsibility for fraud and corruption risk management within the Bank. This includes the coordination of risk assessments, overseeing the investigation of suspected fraud and corruption, and facilitation for the reporting of such instances. The CE has delegated the oversight of this function to the Chief Risk Officer (CRO). The managing of fraud remains a managerial responsibility.

3.1.3 An ethical culture

As part of inculcating an ethical culture the Bank has formulated and adopted a Code of Ethics to regulate ethical behaviour. The Code has been communicated to all employees and forms an integral part of employee induction programme. The Code is reviewed annually and has been subjected to an independent quality assurance review by the Ethics Institute of South Africa.

The Code *inter alia* regulates the following:

- Corporate values;
- Compliance with laws and regulations;
- Conflict of Interest;
- Acceptance and offering of business gifts, courtesies and donations;
- Use of Bank resources;
- Protection of whistle blowers.

3.1.4 Assessment of fraud risk

The Bank, under the guidance of the CRO will conduct annual fraud risk assessments to identify potential fraud risk exposures to the Bank. This process will ensure that actions to address the identified fraud risk exposures will be implemented to mitigate these exposures.

The above will be formulated into a "Fraud Risk Assessment" which will provide an indication of how fraud risks are manifested and, a "Fraud Risk Register" which will prioritise the fraud risks and indicate actions to mitigate these risks.

3.1.5 Employee awareness

The main purpose of fraud and corruption awareness workshops / training is to assist in the prevention, detection and reporting of fraud and corruption by raising the level of awareness as to how fraud and corruption is manifested in the workplace. In this regard, all employees will receive training on the following:

- Fraud Prevention Plan;
- Code of Ethics;
- Whistle blowing policy;
- How to respond to fraud and corruption; and
- Manifestations of fraud and corruption in the workplace.

Corporate Secretariat and the Forensic services will be responsible for employee awareness.

3.2 Operational strategies

3.2.1 Internal controls

Internal controls are the first line of defence against fraud and corruption. While internal controls may not fully protect the Bank against fraud and corruption, they are essential elements in the overall Fraud Prevention Plan.

All areas of operations require internal controls, for example:

- Physical controls (securing of assets);
- Authorisation controls (approval of expenditure);
- Supervisory controls (supervising day-to-day issues);

- Analysis of data;
- Monthly and annual financial statements;
- Reconciliation of bank statements, monthly; and

Internal Audit will be responsible for implementing an internal audit program which will incorporate steps to evaluate adherence to internal controls.

3.2.2 Prevention strategies

A number of combined initiatives result in an overall preventative environment in respect of fraud and corruption. These include the following:

3.2.2.1 *Pre-employment screening*

Pre-employment screening is being carried out for all appointments, and evidence of such screening is maintained by the Human Capital Division. Consideration is given to the following pre-employment screening:

- Verification of identity.
- Police criminal history.
- Reference checks with the two most recent employers – this normally requires telephone contact.
- Verification of formal qualifications claimed.

3.2.2.2 *Recruitment procedures*

Recruitment is conducted in accordance with the requirements of the Bank's Recruitment and Selection policy.

3.2.2.3 *Fraud and corruption prevention plan*

The actions set out in this plan are all focused at mitigating the risk of fraud and corruption in the Bank.

3.2.2.4 *Disclosure of interests*

All the Directors and staff members of the Bank are required to disclose their specific personal assets and business interests at least on an annual basis. This register is kept with the Company Secretary.

3.2.3 Detection strategies

Detection of fraud and corruption may occur through:

- Vigilance on the part of staff members, including management;
- The Internal Audit function;
- Ad hoc management reviews;
- Anonymous reports; and
- The application of detection techniques.
- Segregation of duties is a powerful control to prevent fraud from going undetected

The Forensic services at the Bank is responsible for developing detection strategies, and is working closely with management for this purpose.

The Bank will continue embarking on a number of initiatives to detect fraud and corruption in the workplace.

3.2.3.1 External audit

The Bank recognises that the external audit function is an important control in the detection of fraud. The Chief Financial Officer will continue to hold discussions with all engaged external auditors to ensure that due consideration is given, by the auditors, to ISA 240 *"The Auditors' Responsibility to Consider Fraud in the Audit of a Financial Statement"*.

3.2.4 Response strategies

3.2.4.1 Reporting fraud and corruption – a Whistle blowing policy

One of the key obstacles to fighting fraud and corruption is the fear by employees of being intimidated to identify or "blow the whistle" on fraudulent, corrupt or unethical practices witnessed in the work place. Those who often do "blow the whistle" end up being victimised and intimidated. For this reason, the Bank has adopted a Whistle Blowing Policy setting out the detailed procedure which must be followed in order to report any incidents of fraud and / or corruption. This policy is designed to comply with the provisions of the Protected Disclosures Act.

Any suspicion of fraud and corruption will be treated seriously and will be reviewed, analysed, and if warranted, investigated. If an employee becomes

aware of a suspected fraud, corruption or any irregularity or unethical behaviour, such employee has the duty to report in terms of a Whistle Blowing Policy.

3.2.4.2 Investigating fraud and corruption

All allegations of fraud and corruption should be investigated in terms of the relevant human resources disciplinary procedures.

In investigating all suspected acts of fraud and corruption, the Bank must have regard for due process and must respect the legal rights of all involved.

The outcomes of the disciplinary proceedings (especially dismissals) should be communicated to the rest of the Bank so as to act as deterrence for potential would-be-transgressors and communicate a zero tolerance approach to fraud and corruption.

3.3 Maintenance strategies

3.3.1 Review of the effectiveness of the Fraud Prevention Plan

The Bank will conduct a review of the Fraud Prevention Plan annually to determine the effectiveness thereof.

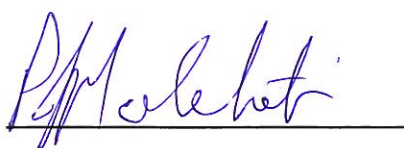
3.3.2 Review and updating the Fraud Prevention Plan

This Plan should be maintained and reviewed annually to ensure that the Bank's focus of detection and prevention remains relevant as the internal and external operating environment continually changes the DBSA fraud risk profile.

The Chairperson of the Audit Committee shall have oversight and provide guidance on the review of the Plan.

4. APPROVAL

This plan was approved by the Board of Directors on the 17 March 2011.



CHAIRMAN OF THE BOARD

30/06/2011

DATE