

An investigation into fraud and corruption risk management policies and procedures at institutions of higher learning

A half-thesis submitted in partial fulfilment of the requirements of the degree of

MASTERS OF BUSINESS ADMINISTRATION

of

RHODES UNIVERSITY (RHODES INVESTEC BUSINESS SCHOOL)

by

Stephen Makhoane (606M6179)

August 2011

ABSTRACT

Fraud and corruption cost South Africa billions of rand yearly. Institutions of higher learning are no less vulnerable to fraud and corruption than other organisations, but are also subject to risks that are unique to academia. The Public Finance Management Act.No.1 of 1999 requires Public entities including the councils (university or college controlling body) of public institutions of higher learning to adopt enterprise risk management, which includes a fraud and corruption risk management policy and procedures. The function of the fraud and corruption policy is to provide an objective strategy to prevent, detect and investigate any possible irregularity in order to prevent further loss in line with Corporate Governance requirements. The anti-fraud and corruption strategy measures include setting the appropriate tone by management of the institution, being proactive (fraud risk assessments), and being reactive (reporting process, investigation and taking appropriate action). The actions include disciplinary action and criminal or civil proceedings in order to recover assets lost. The procedures address the implementation of the policy.

This research focused on identifying the relevant issues that could be included in the formulation of fraud and corruption risk management policies and procedures for institutions of higher learning. The research was conducted using a qualitative methodology consisting of a document analysis and interviews. It was found that, out of eleven institutions of higher learning investigated only one institution meets the criteria set out in the framework developed in the research as an assessment tool. The other institutions involved in the research did not have fraud and corruption risk management policies or procedures and

therefore did not comply with the Public Finance Management Act.

Key words: Institutions of higher learning; fraud and corruption; fraud and corruption policies and procedures; enterprise risk management; corporate governance

ACKNOWLEDGMENTS

Research is an onerous task that requires a lot of time, dedication and courage. I could not have completed this work without the guidance and support from other people. It is for this reason that I would like to take this opportunity to thank Professor Lilla Stack, for her guidance and patience. I have learnt a great deal from you. Many thanks to Dr Noel Pearse, my research methodology lecturer, for imparting and sharing your wealth of knowledge. You never ran out of advices.

To Mandlenkosi Ncgeba, PetroSA Librarian for always being ready to assist with reading material, fueling debates and ensuring that the library was a true source of knowledge and enjoyable place to be. Thank you, mhlekazi wam. To Nomvelase Skade, our quiet PetroSA Librarian who was willing to assist. Thank you for your proof reading, sourcing of the journals, books, and providing copies. Thank you very much for your support.

I also would like to thank all the staff members who agreed to be interviewed for this research. Thank you for the valuable experience you shared with me. Your data assisted substantially for the completion of this research. I am sincerely grateful. Thanks to Len Kruiskamp for providing valuable insight pertaining to risk management, for providing reading material and advice. My greatest thanks also go to the University at which the research was conducted, for allowing me to conduct this research.

TABLE OF CONTENTS

ABSTRACT	i
ACKNOWLEDGMENT	iii
TABLE OF CONTENTS	iv
LIST OF FIGURES AND TABLES	vii

1.	CHAPTER 1: INTRODUCTION TO THE RESEARCH	1
1.1	The context of the research	1
1.2	Research Goals	4
1.3	Methods, procedures and techniques	5
1.4	Overview of chapters	6
2	CHAPTER 2: FRAUD AND CORRUPTION RISK MANAGEMENT	8
2.1	Introduction	8
2.2	Corporate governance defined	11
2.3	Enterprise Risk Management	13
2.4	Enterprise Risk Management framework defined	16
2.5	The ORCA Approach	17
2.6	How do organisations benefit from ERM?	20
2.7	Defining fraud and corruption	22
2.8	The distinction between fraud and corruption	24
2.9	The main legislative framework that is used to address fraud and corruption in South Africa	25
2.9.1	What are the reasons for people to commit fraud?	26
2.9.2	How is fraud and corruption measured?	28
2.9.3	What is the impact of fraud on organisations?	30
2.9.4	How do organisations manage fraud and corruption?	30

2.9.5	Fraud and corruption risk management policy	31
2.9.6	Fraud and corruption risk management procedures	35
2.9.7	Concluding summary	41
3	CHAPTER 3: FRAUD AND CORRUPTION RISK MANAGEMENT IN INSTITUTIONS OF HIGHER LEARNING	46
3.1	Introduction	46
3.2	Governance structures in institutions of higher learning	50
3.3	The responsibilities of the Audit Committee in relation to risk management in institutions of higher learning	52
3.4	The definition of enterprise risk management in an institution of higher learning	53
3.5	How is enterprise risk management approached in an institution of higher learning	54
3.6	The definition of fraud , corruption and misconduct from an institution of higher learning's perspective	54
3.7	Where can fraud and corruption be anticipated in institutions of higher learning and what are the prevention strategies?	56
3.8	Concluding summary	60
4	CHAPTER 4: RESEARCH METHODOLOGY	64
4.1	Introduction	64
4.2	The purpose of the research	65
4.3	The research procedure	65
4.4	Procedural design	68
4.5	Collection of data	71

4.6	Validity and reliability	75
4.7	Research ethical issues	76
4.8	Concluding summary	77
5	CHAPTER 5: THE FINDINGS	79
5.1	Introduction	79
5.2	The responses and findings	80
5.3	Data analysis through discovered theme	81
5.4	The findings and the document analysis-Risk Control Manager (Phase 1)	85
5.5	The findings of the interviews with senior staff members of the university (Phase 2)	86
5.6	The findings from the documents requested and sourced from institutions' websites (Phase 3 &4)	94
5.7	The findings from the documents that were received	97
5.8	Concluding summary	99
6	CHAPTER 6: CONCLUSION	108
6.1	Introduction	108
6.2	Research introduction summary	109
6.3	Literature review on fraud and corruption risk management summary	110
6.4	Fraud and corruption risk management in institutions of higher learning summary	112
6.5	Research methodology summary	114
6.6	The findings summary	115
6.7	Concluding summary and recommendations	116
6.8	Recommendations	119
	References	128

LIST OF FIGURES AND TABLES

FIGURES

Figure 2.1	Enterprise risk management framework	15
Figure 2.2	The ORCA relationship	18
Figure 2.3	The risk management process	19
Figure 2.4	The relationship between risk universe and fraud risk	21
Figure 2.5	Fraud Triangle	27
Figure 2.6	Policy Management	32
Figure 2.7	Fraud and corruption management program	39
Figure 2.8	Fraud prevention and detection	40
Figure 3.1	The University governance structure	51
Figure 3.2	The outline anticipatory strategy	59
Figure 3.3	Proposed anti-fraud and corruption risk program for institutions of higher learning	63
Figure 5.1	Qualitative research approach	83
Figure 5.2	Priority areas for fraud and corruption in institutions of higher learning	104

TABLES

Table 2.1	Key components of the anti-fraud & corruption programme	44
Table 4.1	Data collection process	71
Table 4.2	Data Analysis and Data Summary	74
Table 5.1	Phase 1: Documentary Data Analysis	83
Table 5.2	Phase 2: Analysis of interview data from transcripts (Interviewee 1)	86
Table 5.3	Phase 2: Analysis of interview data from transcripts (Interviewee 2)	89
Table 5.4	Phase 2: Analysis of interview data from transcripts (Interviewee 3)	92
Table 5.5	Institutions websites visited, the dates and the findings	96
Table 5.6	The framework for fraud and corruption risk management policy and procedure for institutions of higher learning assessment.	100
Table 6.1	References	120
Table 6.2	Fraud risk assessment template	123

CHAPTER 1

INTRODUCTION TO THE RESEARCH

1.1 THE CONTEXT OF THE RESEARCH

White collar crime is said to be costing South African economy roughly R150-billion a year (Sunday Times: 2009). Roelofse (2007) reports that in 2004, the KwaZulu-Natal Province Internal Audit's Forensic Investigations Services found that fraud within provincial departments cost the taxpayer R40 million per year. This view is shared by the Institute of Security Studies (2004:1): "The prevalence of corruption – the abuse of entrusted power for private benefit – continues to wag the tongues of the South African political establishment and the public alike". Transparency International's Corruption Perception Index (2008) rates South Africa at between 4.5 and 5.1 out of 10. It is clear that this is not a good rating for a country that is developing and needing to attract foreign investment to grow the economy.

The Chartered Institute of Management Accountants (2001) defines fraud as an act of dishonestly obtaining an advantage, avoiding an obligation or causing a loss to another party. The term 'fraud' commonly includes activities such as theft, corruption, conspiracy, embezzlement, deception, bribery and extortion. According to the publication: "A Guide to Forensic Accounting and Investigation" (Golden, Skalak & Clayton: 2006), the possible causes of fraud and corruption are financial pressure, opportunity, and rationalisation and attitude.

Constant vigilance against fraudulent and corrupt activities mitigates the impact of fraud and corruption on organisational revenue. Organisations develop strategies and measures to ensure that fraud and misconduct do not bring about the incidents

similar to highly publicised corporate scandals of Enron, WorldCom, Xerox, Tyco, Adelphia (Associated Certified Fraud Examiners: 2004).

According to Golden et al (2006), fraud and corruption can be deterred by establishing good corporate governance. Corporate governance means the organisational culture that guides behaviour that is anti-fraud and anti-corruption. The document also emphasises the importance of designing accounting and financial controls in the deterrence of fraud and corruption. In addition, retrospective procedures that assist in detecting fraud and corruption before they become widespread are important. The final component of the deterrence cycle is the establishment of investigation and remediation processes. This last phase of the process includes regulations, policies and laws that deal with fraud and corruption (Golden et al: 2006).

KPMG (2006) advocates that an effective, business driven fraud and misconduct risk management approach is one that focuses on three objectives, namely prevention, detection and response.

Public entities are required to comply with the provisions of the Public Finance Management Act, 1999, regulations under the Act, the King II Guidelines on Corporate Governance (Institute of Directors in Southern Africa: 2002) and the Companies Act, 2008. The King III Code of Governance Principles for South Africa became effective in March 2010 (Institute of Directors of Southern Africa: 2009).

The Public Finance Management Act requires public entities to have risk management strategies that include a fraud prevention plan to direct internal audit effort and priorities. It is also a requirement that the risk management strategy be communicated to all employees (Public Finance Management Act: 1999).

Similarly, the Institute of Directors of Southern Africa (2002) encourages the board to consider the need for a confidential reporting process (“whistle-blowing”) covering fraud and corruption. Corporate governance can be partly viewed as a company’s strategic response to the need to assume prudent risks, and mitigate in exchange for measurable benefits. Clearly written fraud and corruption risk management policies and procedures are key components for combating unlawful conduct. They provide a framework for measures to ensure prevention, detection and investigation of fraud and corruption (Sanlam: 2008).

A fraud and corruption policy should have a statement forbidding the illegal conduct of fraud and corruption. According to the Association of Certified Fraud Examiners (2003), a strong written policy should have definitions of the actions that constitute fraud and corruption, the responsibilities of the board, management, staff, internal audit and investigating staff regarding the management of fraud and corruption risks. A good policy has a statement that forbids cover-up and retaliation against “whistle-blowers” and witnesses. Sound policy and procedures should encourage management to set “the appropriate tone” stating that fraud and corruption would not be tolerated, and should be proactive and reactive. The procedures translate the policy into actions. These actions include: communication and training, fraud and corruption risk assessment, fraud control monitoring, and a fraud response plan.

It is submitted that institutions of higher learning have specific fraud and corruption risks that are not experienced by business enterprises and also have risks that are common to all organizations. Preventive measures that include fraud and corruption risk management policies and procedures should be in existence. The policies should include a code of ethics that

informs the staff and students of the conduct that is expected from them. The policies and procedures should also include fraud and corruption risk assessment. For example, in institutions of higher learning, key areas where fraud and corruption may occur (fraud & corruption types) are; human resource, finance and procurement systems, admission and registration of students, examinations and certification of results. Staff and students should be made aware of and trained on fraud and corruption risk types that may occur. The policy and procedures should also address the preventive controls and counter measures for such fraud and corruption activities.

The purpose of this research was therefore to investigate fraud and corruption risk management policies and procedures at higher learning institutions and to make recommendations for improved fraud and corruption risk management for these institutions.

1.2 RESEARCH GOALS

The goals of the research were to:

- establish a framework against which the fraud and risk management policies and procedures of institutions of higher learning could be measured;
- analyse the fraud and corruption risk management policies and procedures of a number of selected institutions of higher learning;
- in the case of one selected institution of higher learning, determine whether the policies and procedures are appropriately implemented, including the setting of the appropriate tone and whether the policies and procedures are communicated to staff, who also receive appropriate training; and

- identify the deficiencies in the policies and procedures of the selected institution of higher learning and their implementation and recommend improvements to the policies and procedures in order to deal with fraud and corruption risks.

1.3 METHODS, PROCEDURES AND TECHNIQUES

The research was conducted in an interpretivist paradigm (Babbie & Mouton: 2007) as the researcher was evaluating the current management of fraud and corruption in the institutions and recommending best practice.

The first step in the research process was to analyse relevant legislation, regulations, guidelines and other sources of best practice to establish a framework against which the fraud and risk management policies and procedures of institutions of higher learning could be measured.

One small residential university was selected for the purpose of the research. Data was collected from the university in the form of relevant legislation, policies, procedures and any other related documents used to prevent fraud, corruption and irregular activities. The data was analysed against the framework of best practice established and proposed in the early stages of the research, using qualitative analysis.

Initial discussions were held with the Risk Control Manager of the selected institution. Three members of staff at management level were purposively selected at the institution's head office for the purpose of conducting unstructured interviews. The participants were encouraged to express their views freely during the interviews. The statements and views of participants were recorded, verified, analysed and interpreted.

The interviews were designed to establish whether the university had a written enterprise risk management policy, and fraud and corruption risk management policy and procedures. Interview questions also included the following: How could fraud or corruption manifest itself in their areas of work and what actions constitute fraud and corruption in the organisation. What risks were their areas of management exposed to? They were asked to give their views on why students and employees commit fraud. "Open ended" questions were asked to encourage the participants to voice their thoughts and feelings freely (Cranefield Institute of Management: 2006). This approach assisted the researcher to collect quality data with reasonable ease.

According to Babbie and Mouton (2007:523), "interview survey respondents can never be considered anonymous, since an interviewer collects the information from an identifiable respondent". Interviewees did not raise concerns regarding being identified by their positions in reporting the research, as the discussions did not deal with sensitive personal issues, but related to policies and procedures and not actual reported cases of fraud or corruption.

The researcher undertook to inform the management of the University of the results of the research.

1.4 OVERVIEW OF CHAPTERS

In chapter 2, the literature review relating to fraud and corruption risk management in general was discussed. The chapter provided the definitions of the terms and relationships between corporate governance, enterprise risk management, fraud, and corruption. Chapter 3 presented a literature review with specific focus on fraud and corruption risk management in institutions of higher

learning. In Chapter 4, the research methodology was outlined. This qualitative research process included the purpose of the research and the procedure followed during data gathering. Chapter 5 dealt with the qualitative research findings. It was established that institutions of higher learning do not have written fraud and corruption risk management policies and procedures that comply with the Public Finance Management Act. Chapter 6 addressed the conclusion and recommendations. Based on the findings, the researcher recommended a framework for best practice to be used by institutions of higher learning.

CHAPTER 2

FRAUD AND CORRUPTION RISK MANAGEMENT

2.1 INTRODUCTION

Fraud and corruption are generally seen as the biggest threats to South Africa's new democracy. Analysis of media reports, which show extensive coverage of stories on fraud and corruption, appear to confirm and validate this view. The following are some examples of newspaper reports, to provide a sense of coverage of these issues.

From national government through to provincial, local and municipal authorities a culture of corruption and entitlement is widespread and endemic. It is further stated that the auditor-general has identified about 3 000 public servants involved in corrupt practices and no action has been taken against these officials. Corrupt and fraudulent activities are a sign of a broken society. (The Star, 2009:47)

The Standing Committee on Public Accounts (SCOPA) is

shocked by R44m paid to an official. The government officials in Limpopo Province are said to have admitted to corrupt dealings (City Press, 2009:18)

In another article, City Press (2009:25) states that

The toughest task will be to reform the state tender system, which is serially corrupted. The state is a huge spender in the economy and very quickly civil servants cottoned onto this.

According to an article in the Business Day (2009: 11), all public institutions, be it

government departments, constitutional bodies or state-owned enterprises are directed, controlled and held to account on the basis of applicable legislation, notably the Public Finance Management Act. No.1 of 1999.

State-owned enterprises are adopting enterprise risk management as a platform for broad accountabilities and assurance in dealing with overall aspects of corporate governance and risk management (Business Day: 2009).

Some of the risks to be managed in terms of an enterprise risk management process are fraud and corruption. Fraud and corruption destroy the reputation, profitability and legitimacy of enterprises. Business Ethics Quarterly (2000) states that resource drainage resulting from fraud increases the costs of conducting business and also weakens the business competitiveness. These practices constitute some of the potential causes of a lower return on investments for the shareholders and drive away investors.

This view is supported by the General Accounting Office (2000:7) in its argument that corruption undermines “development by deterring investment and growth and exacerbates poverty”.

Constant vigilance against fraudulent and corrupt activities mitigates the impact of fraud and corruption on organisational revenues. Organisations develop strategies and measures to ensure that fraud and misconduct do not bring about the incidents similar to the highly publicised corporate scandals of Enron, WorldCom, Xerox, Tyco, Adelphia (Associated Certified Fraud Examiners: 2004).

The philosophy underlying fraud and corruption management is a mind shift away from reactive fraud investigation to proactive risk assessment, prevention and detection, and deterrence of fraud

risk. This philosophy is supported by a program that involves fraud risk governance, fraud risk assessment, fraud prevention and detection, and investigation and corrective action (Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners: 2007)

Good corporate governance requires a comprehensive fraud prevention strategy, policy and procedures as independent mechanisms to deal with any potential or suspected fraudulent and corrupt activities. Fraud and corruption are managed through enterprise risk management.

In this chapter, corporate governance, enterprise risk management and, fraud and corruption risk management are discussed in general in order to provide a background relating to where fraud and corruption policies and procedures fit into the entire governance framework. However, the main emphasis of the discussion is fraud and corruption risk management policies and procedures. This discussion takes place towards the end of this chapter.

This chapter starts by discussing corporate governance, followed by enterprise risk management, and the discussion then narrows down to an anti-fraud and corruption program. The fraud and corruption program is divided into three main parts, namely 'Tone at the top', 'Proactive' and 'Reactive' (Internal Auditors: 2007). Policies and procedures form the basis for the management of the organisation and state that their entity subscribes to a culture of zero tolerance to fraud and corruption. Sound ethical behaviour is embodied in the values of the organisation.

Policies and procedures provide a framework for combating fraud and corruption and outline the manner in which this should be implemented in organisations.

2.2 CORPORATE GOVERNANCE DEFINED

Klomp and de Haan (2008) argue that although there are differences in the definitions of governance, there is, however, a broad consensus that good governance implies that a government is accountable, transparent, responsive, effective and efficient, and follows the rule of law, thereby assuring that corruption is minimised. According to Golden, Skalak & Clayton (2006: 15) Corporate governance is

the entire culture that sets and monitors behavioural expectations intended to deter the perpetrators of fraud.

The main influences and benchmarks on corporate governance in South Africa are the King Reports on Corporate Governance (Miles and Jones: 2009) and the Companies Act 71 of 2008. The King I Report on Corporate Governance (Institute of Directors of Southern Africa: 1994) provides guidelines on issues of a Code of Corporate Practice and Conduct. King II advocates that companies move away from the “single bottom line” reporting to “triple bottom line” reporting that embraces the economic, environmental and social aspects of an entity’s activities (Institute of Directors of Southern Africa: 2002). According to the Institute of Directors of Southern Africa (2009), risk management is the cornerstone of corporate governance. The board of the company has to be satisfied that risk is managed properly.

According to Chapman (2006), corporate governance is a catalyst for, and contributes to the need for enterprise risk management. Corporate governance forms an important part of enterprise risk management as it provides a top-down monitoring and management mechanism for risk management.

Miles and Jones (2009) argue that corporate governance in South Africa embraces and takes into account the interests of all the stakeholders of a business. These authors further claim that corporate governance in South Africa is well-developed and the country's standard in this regard is comparable to that of well developed countries.

King II emphasises the need for companies to conduct themselves responsibly with regard to their stakeholders (Institute of Directors of Southern Africa: 2002). This means that companies must take steps to ensure that stakeholders are informed of business activities. The "triple bottom line" reporting refers to reporting on the organisation's financial performance, as well as its social and environmental responsibilities (Miles & Jones: 2009).

Miles & Jones (2009) state that King III applies to all entities, regardless of the size, both private and public, and is mandatory for companies listed on the Johannesburg Securities Exchange. With regard to other entities, the code encourages and follows the "apply or explain" regime. The "apply or explain" regime means that, if the company does not comply with recommended practices, then the board is obliged to explain the reasons for this.

The Companies Act 71 of 2008 supports the approach followed by King I and King II. This means that the company is both a social and economic organisation. Business is further encouraged to focus not only on economic values flowing from their activities, but must also take into account their social and environmental performance (Miles and Jones: 2009).

Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to the economic development while improving the quality of life of

their families as well as of the local community and society at large (Miles & Jones, 2009: 72).

Is there a relationship between organisational culture and Enterprise Risk Management? PricewaterhouseCoopers (2009) believe that organisations must be aware of their culture as this has a bearing on the behaviour of the employees towards fraud and corruption.

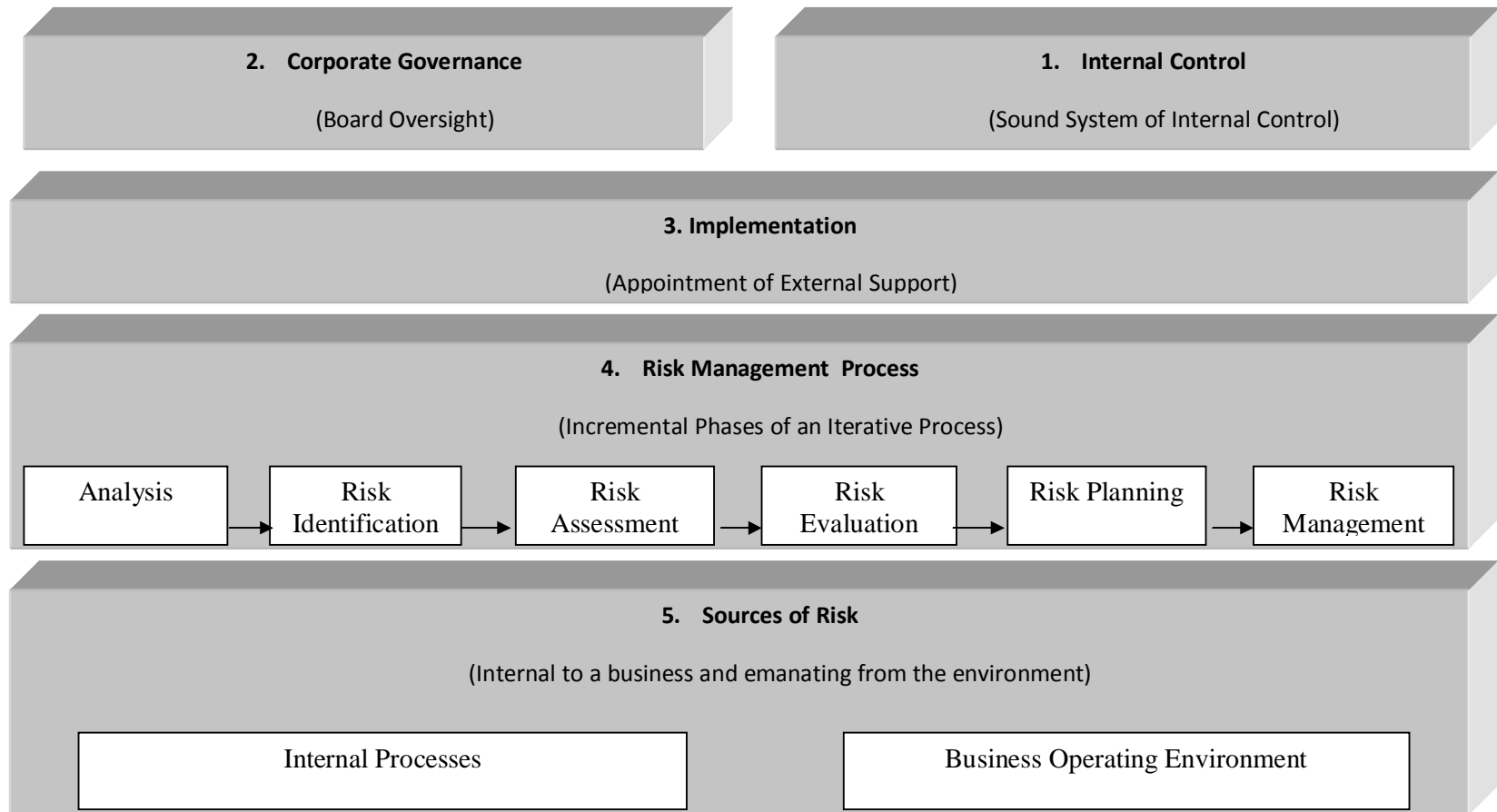
2.3 ENTERPRISE RISK MANAGEMENT

According to Utter (2005:107), the birth of enterprise risk management is based on the “internal control process and the monitoring and management of market and credit risks”. The banking industry laid the foundation for enterprise risk management with the release of the 1988 Basel Capital Accord by setting the minimum capital requirements for banks. Prior to this, many companies are said to have been managing risk in an “old way” that is, they managed risk in “silos”.

Loghry and Veach (2009) define enterprise risk management as a coordinated approach that an enterprise takes to assess and respond to all risks affecting the company. Leech (2002) defines enterprise risk management as a concept that postulates that a business entity needs to manage all kinds of risks holistically. The Chief Executive Officer of the company is responsible for the vision and goals of the organisation, the Chief Risk Officer must know the objectives and functions of each department, and in addition must know the risks associated with the goals of the organisation. In fact, the Chief Risk Officer assists the Chief Executive Officer by adjusting the organisational vision to be in line with the risks.

The other functions of an organisation that are important to the functionality of enterprise risk management are internal audit, legal services, company secretariat, compliance, finance, executive management and the board (Utter: 2005).

Figure 2.1: Enterprise risk management framework



Source:Chapman(2006)

2.4 ENTERPRISE RISK MANAGEMENT FRAMEWORK DEFINED

Figure 2.1 above demonstrates that corporate governance forms an important part of enterprise risk management. This is because it provides a top-down monitoring and effective management of risks associated with the organisation (Chapman: 2006). The board of directors has an oversight responsibility to manage risk associated with the enterprise on behalf of the shareholders. The board does so by ensuring that policies and systems relating to enterprise risk management are put in place.

The internal controls explain the risks to be controlled and the precise manner in which it has to be done. Equally, the controls act as facilitators for the achievement of the organisational goals, rather than impediments. Controls ensure that operations of the business are run efficiently. In this manner, risk management also becomes part of internal controls.

The implementation process of risk management is dependent on the management process of the organisation. This means that risk management refers to the legitimate actions taken by management to run the business in the interest of the stakeholders.

Chapman (2006) defines the risk management process as the breaking down of processes into components comprising analysis, risk identification, risk assessment, risk evaluation, risk planning and risk management. The sources of risks are either internal or external. Internal risk sources include the risks associated with the actions that the business takes in its operations. However, the external sources are linked to

the external influences that affect an environment in which the business operates. These influences include, and could be political, economic, social and technological (PEST). In short this external environment may affect both the industry as a whole and the business.

2.5 THE ORCA APPROACH

According to Jones (2004) many organisations adopt the ORCA approach to ensure consistent application of risk management by all employees in the execution of strategy, achievement of business objectives, and the day-to-day operations

ORCA represents:

O- OBJECTIVES

Goals and results that the organisations aim to achieve

R- RISKS

Risk is any event with the potential to prevent the achievement of the organisational objective(s).

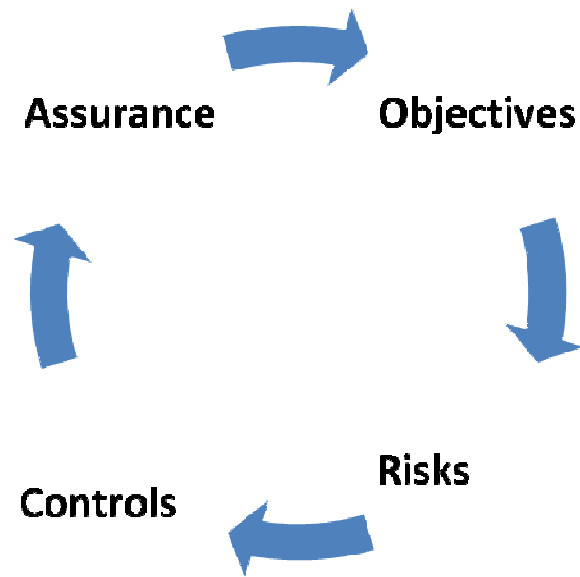
C- CONTROL

Management's response to risks

A- ALIGNMENT

Assurance or alignment of the organisational objectives, risks and controls across the enterprise are determined by its appetite for and tolerance of risks.

Figure 2.2: The ORCA relationship

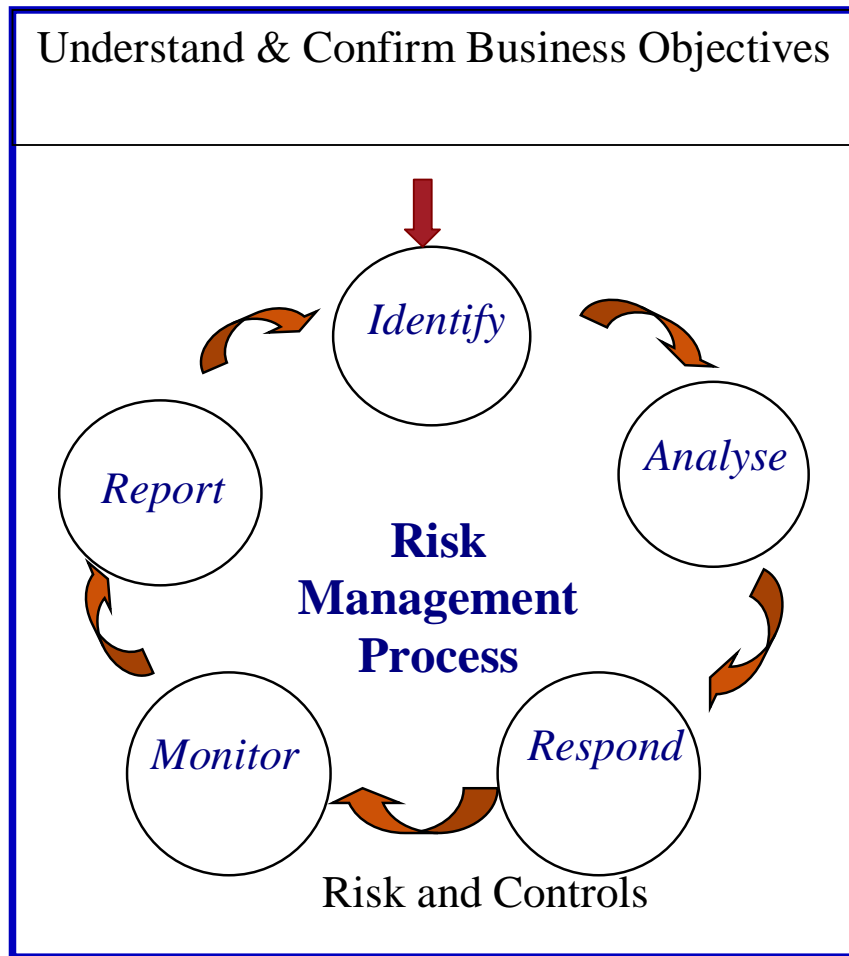


Source: Jones (2004)

The Enterprise Risk Management process comprises the following steps (PetroSA: 2007):

- **IDENTIFY** key risks that the enterprise is exposed to;
- **ANALYSE** the potential impact and likelihood of risks;
- **RESPOND** to risks by considering existing controls as well as selecting, prioritising and implementing appropriate actions;
- **MONITOR** the internal and external environment for potential changes to risks and ensure that risk responses continue be effective; and
- **REPORT** on risks and the status of risk responses adopted.

Figure 2.3: The risk management process



Source: PetroSA (2007)

According to the PetroSA (2007) risk management process (outlined in the diagram above), there are important steps that must be followed as part of the enterprise risk management process. The three steps, namely, identify, analyse and respond, represent the risk assessment process.

2.6 HOW DO ORGANISATIONS BENEFIT FROM ENTERPRISE RISK MANAGEMENT?

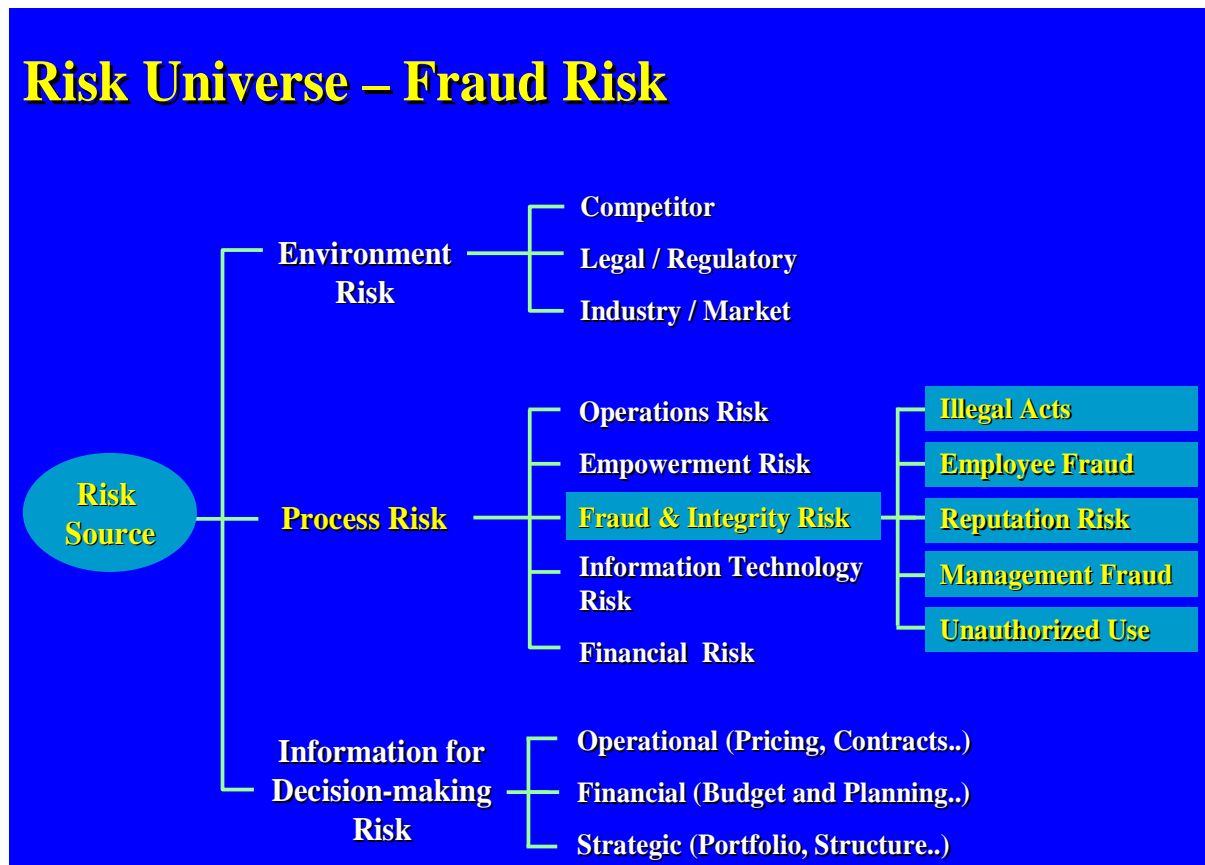
According to Utter (2005), enterprise risk management acts as a central repository for risk related organisational information. This means that enterprise risk management is the source for risk related information. However, the enterprise risk management department does not micro-manage risks for the whole organisation, but macro-manages the risks for the organisation. The information includes risk reports, risk policies, risk matrices, and people in the departments and divisions responsible to micro-manage the risks.

The enterprise risk management department facilitates the risk assessment workshops for various departments in the organisation. This process helps to determine the main risks that the organisation is exposed to, and therefore assists to focus employees' and management's attention on assessing, monitoring and managing the relevant risks.

The risk matrices are the results of risk assessments. This is normally the plotting of the risks in terms of their severity and likelihood. Once the risks are plotted on heat maps or risk matrices, they are addressed in terms of the response plan (Utter: 2005).

Enterprise Risk Management has a relationship with organisational development and strategic management. Risk matrices contribute to the creation of a platform for the strategic implementation of the enterprise risk management plan in either the short- or long- term.

Figure 2.4: The relationship between the risk universe and fraud risk



Source: Deloitte Touche Tohmatsu (2003)

The risk universe is generally defined as all the risks that can affect the organisation (Trintech: 2010). Fraud and corruption are considered to be some of these risks. Deloitte Touche Tohmatsu (2003) state that fraud and corruption within the organisation can translate into negative perceptions and impose reputational risk on the entity.

Chapman (2006) states that business risks can emanate from within the business (internally). This refers to those risks associated with the actions that the business takes. Secondly, the risks can develop from the environment in which the business is operating. This refers to influences of politics, economics, social and technology (PEST), all

external factors to the organisation. For example, during the recession (external), people turn to perpetrating fraud because of financial pressure. Spiralling personal debt as a result of the credit crunch has the potential for making employees desperate and tempting them to find extra cash dishonestly (internal).

The Star (2009:47) partly blames the “intractable economic recession” for corruption. However, a greater proportion is attributable to acts of a broken society. Hughes is quoted in The Star (2009:47) as saying that “corruption is the biggest threat to SA”. This financial pressure will be discussed with other components of the fraud triangle later in this chapter.

2.7 DEFINING FRAUD AND CORRUPTION

There are many definitions of fraud and corruption. These terms are mostly used interchangeably, and one or the other used almost as synonyms. However, a clear distinction should be made between the two concepts, fraud and corruption. The concepts are not synonymous, that is, do not necessarily have the same meaning (Business Ethics Quarterly: 2000).

According to Business Ethics Quarterly (2000) fraud can be defined as an “intentional deception by concealing or misrepresenting information that harms the financial interest of another person(s) and benefits the financial interests of the perpetrator”.

The Institute of Internal Auditors, the America Institute of Certified Public Accountants and Association of Certified Fraud Examiners (2007: 6) define fraud as “any intentional act or omission designed to deceive others, resulting in the

victim suffering a loss and/or the perpetrator achieving a gain". Similarly, Deloitte Touche Tohmatsu (2003) defines fraud as an inducement action through deceit, dishonest conduct that involves acts or omissions or making false written or oral statements with the objective of obtaining either financial benefits or other benefits from a victim.

Skalak, Alasand and Sellitto (2005:2), support the notion that all

acts of fraud have four basic elements and that is false representation of a material nature, knowledge that the representation is false, or reckless disregard for the truth, the person receiving the representation reasonably and justifiably, relied on it, and financial damages resulting from all of the above.

In the same way, the South African definition in terms of the common law offence, defines fraud as "the unlawful and intentional making of misrepresentation which causes actual and or potential prejudice to another" (Department of National Treasury:no date).

In line with the other definitions, Wells (2007:1) states that for the purpose of the Corporate Fraud Handbook,

occupational fraud and abuse is the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employment organisation's resources or assets.

However, this meaning combines the definition of fraud and corruption. The meaning of corruption is dealt with in an explanation that follows.

Rossouw (1999, in Isa: 2009: 22) defines corruption as “an act of inducement by improper means to violate one’s duty towards ones’ principal resulting in harm to the interest of another party and the financial benefit for the perpetrator”. Safieddine and Atwi (2009: 87) define “corruption as the abuse of power resulting in the reaping of benefits at the expense of the rights of an individual, a group or the whole of society”.

The European Academy of Management (2010: 2) state that “many organizations use Robert Klitgaard’s corruption framework (Corruption = Monopoly + Discretion - Accountability) for policy analysis”. It is further stated that, in order to start an anti-corruption strategy, a sound framework must be established for the formulation of policies (European Academy of Management: 2010).

2.8 THE DISTINCTION BETWEEN FRAUD AND CORRUPTION

Business Ethics quarterly (2000) states that fraud and corruption are mostly associated with the abuse of public office and are related to public sector and public office bearers. However, fraud is associated with both public entities and the private sector. In a case of fraud, not only public officials are involved, but the employees or people not employed by the organisations can be perpetrators of fraud. Corruption does involve a third-party, while this is not always the case with fraud. Fraud can be perpetrated without the involvement of a third party.

2.9 THE MAIN LEGISLATIVE FRAMEWORK THAT IS USED TO ADDRESS FRAUD AND CORRUPTION IN SOUTH AFRICA

According to the Gauteng Provincial Government (no date), the main Acts that address fraud and corruption in South Africa and in particular, the public entities and constitutional institutions are the following:

- the Corruption Act No, 94 of 1992;
- the Prevention and Combating of Corrupt Activities Act, No. 12 of 2004;
- the Public Finance Management Act, No. 1 of 1999;
- the Promotion of Administrative Justice Act, No. 3 of 2000;
- Treasury Regulations;
- the Protected Disclosure Act, No. 26 of 2000; and
- the Code of conduct for the Public Service.

The Prevention and Combating of Corrupt Activities Act defines corruption as an act or omission, by any person who directly or indirectly accepts or agrees or offers to accept any gratification from any other person, whether for the benefit of himself or herself or for the benefit of another person or gives or agrees or offers to give to any other person any gratification.

2.9.1 WHAT ARE THE REASONS FOR PEOPLE TO COMMIT FRAUD?

The Association of Certified Fraud Examiners (2001) views greed or need as the primary motives for committing fraud. On the other hand, Wells (2001) argues that opportunity, pressure and rationalisation are the main reasons for committing fraud. Wells states that many researchers are of the view that fraud is mainly associated with the dissatisfaction of employees, as opposed to the fraud triangle presented by Wells and duplicated below, that indicates that there is an association between committing fraud and an opportunity as one of the motivating factors.

Dissatisfaction amongst employees breeds criminal behaviour which the criminologists refer to as “wage in kind”. This is the situation where an employee has a feeling that he or she is not satisfactorily remunerated in line with his or her worth. Criminals see the opportunities to engage in fraud, cover their tracks and justify the criminal act, accepting fraudulent reward. In justifying the action, the perpetrators of fraud offer a reasonable explanation such as: “it is harmless” or “the victim deserves it” (Chartered Institute of Management Accountants: 2001).

The fraud triangle appears in the figure below.

Figure 2.5: Fraud Triangle



Source: Wells (1997).

Her Majesty's Treasury of United Kingdom (HM Treasury) (2003) emphasises that managers must ensure that the opportunities for fraud are minimised. Managers are in a better position to do so because they know their working environment better than anyone else.

The Chartered Institute of Management Accountants (2001) believes that opportunities can be attributed to a perpetrator of fraud's links to international social networks and the technical know-how of the potential perpetrators of fraud. The Review of Human Factor Studies (2005) contends that perpetrators of fraud exploit the system, so that the weaknesses are taken advantage of.

The other motivation for committing fraud is rationalisation. Cressy (1973) cited in Wells (2005) explains rationalisation as a component and a motivation for committing a crime. In this case, a perpetrator uses this motivation to justify his misdeeds prior to committing the crime. The perpetrator relies heavily on the basis of being trusted. Once the crime has taken place, "rationalisation will often be abandoned".

The last aspect of the fraud triangle is pressure. In summing up, Wells (2005) explains that one tends to focus on the

main aspects that are referred to as non-shareable financial problems. The perpetrator might have violated prescribed obligations, have problems resulting from personal failures; he may be a trusted person feeling that he has caused problems through bad judgement and consequently feeling personally responsible. Gaining status also falls into the pressure category. The trusted violator feels that these problems can be sorted out secretly; hence he or she is under pressure and ends up committing fraud.

Similarly, the Review of Human Factor Studies (2005) regards the causes of fraud as greed for money, the desire to mint money, pressure from politicians, trying to reduce income tax, an unethical climate and the absence of corporate governance.

2.9.2 HOW IS FRAUD AND CORRUPTION MEASURED?

Berlinski (2009:75) proposes three methods that can be used for measuring fraud and corruption and these methods are:

- **Anecdote:** This method refers to the number of cases reported to the authorities. The author refers to this method as anecdote. She illustrates that careful financial audits of projects can provide compelling evidence. However, the author mentions that this method does not present a complete picture because not all are reported as required by the policies and the legislation.
- **Existence of institutional features:** Fraud and corruption can be measured by researching the existence of institutional features. This means that one would have to find out if there are incentives for fraud

and corruption in a particular environment and whether the procurement practices are transparent and have integrity.

- **Data collected through surveys:** countries usually rely on collected data through surveys, sometimes referred to as quantifiable extent. Arguably, Transparency International's Corruption Perception Index is the most reliable index. The polls are based on the perceptions of corporate executives, public officials and private citizens. The questioners ask detailed questions relating to the respondents' corruption experiences. The outcomes are aggregated to allow comparisons between countries over a year and to monitor corruption. However, Berlinski (2009) warns that care needs to be taken when conducting such surveys. For example, the culture of a country and of organisations must be taken into consideration. It might be admissible to pay bribes in one country in terms of the running of a business and this may not be possible in another country. The understanding of these countries' differing cultures is important when drafting effective fraud and corruption risk management policies.

According to Berlinski (2009), Transparency International does splendid work by providing the perception statistics or measures, which potentially generate pressure for real reforms. However, the author's concern is that the Corruption Perception Index is a perception and not necessarily reality. But the author acknowledges that not having accurate measures is not a problem that can be squarely placed in the hands of Transparency International, but "it's better than nothing" (Berlinski 2009:78).

2.9.3 WHAT IS THE IMPACT OF FRAUD ON ORGANISATIONS?

Deloitte Touche Tohmatsu (2003) in a discussion of the impact of fraud suggests that in many instances there is a direct financial loss, lost time spent to rectify the fraud and the creation of a corruption problem. Staff members have to be paid extra wages for additional time worked. The resources that the organisation could be using to achieve its objectives are diverted to the areas they were not initially intended for. These resources can either be internal or external. In most cases, the organisational reputation and image can be damaged irreparably. Valuable staff members tend to be demoralised and resort to resigning from the company.

2.9.4 HOW DO ORGANISATIONS MANAGE FRAUD AND CORRUPTION?

The saying that “prevention is better than cure” seems to play an important role in good management of fraud and corruption in organisations. According to Business Quarterly (2000), organisations have to formulate strategies that undermine all the motivations for committing fraud and corruption. More specifically, organisations have to employ strategies that undermine opportunity, pressure, and rationalisation.

The recent economic crime survey conducted by PricewaterhouseCoopers (2009:5) suggests that 68% of the sources of fraud risk are attributed to pressure, 18% are attributed to opportunity and 14% are attributed to rationalisation.

PricewaterhouseCoopers (2009) supports the view that organisations have to set the right “tone at the top”. This means that organisations have to ensure that their own governance practices set the tone for fraud risk management resulting in the board implementing policies that encourage ethical behaviour, including processes for employees, customers, vendors, and other third parties to report instances where those standards are not met. This is sometimes referred to as management commitment.

The governance structure must encompass a procedure that creates an environment encouraging employees to report any suspected fraudulent activities confidentially and also ensures that offenders are dealt with seriously.

Fraud and corruption risk management requires three main components. Companies need to set the right tone at the top, and be both proactive and reactive in combating fraud and corruption. These three components have to be covered in the policy and procedures, and are discussed later in the chapter.

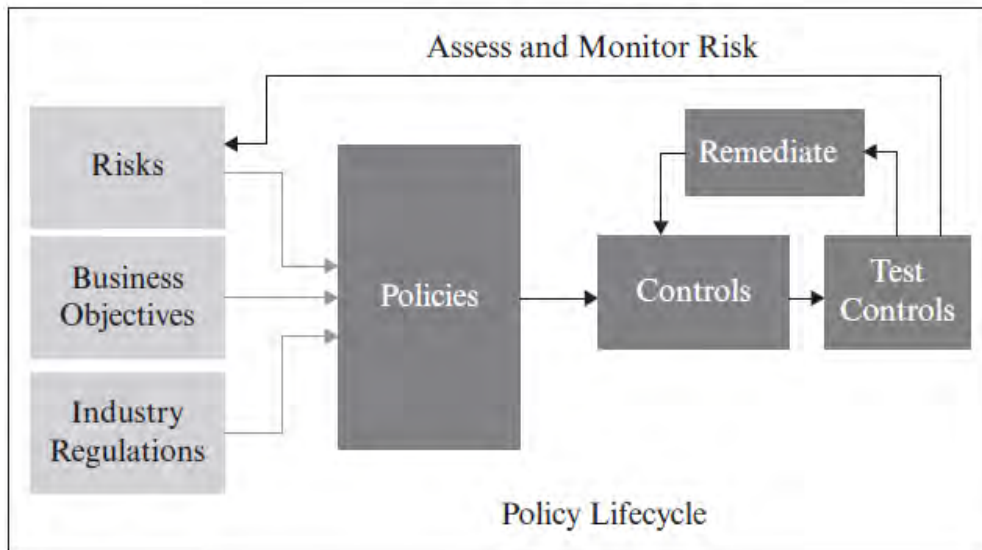
2.9.5 FRAUD AND CORRUPTION RISK MANAGEMENT POLICY

According to Handal and Blount (2009), a fraud and corruption risk management policy is defined as a statement that embodies the goals and behavioural norms that the organisation wants to instil in its staff and business partners. The enterprise enforces its policies by identifying the underlying controls associated with its policies. Controls are technologies, procedures, or a combination of the two that are aimed at ensuring proper operations of internal business processes.

Policies must be clear and written in simple language and should include a statement that the organisation is committed to zero tolerance aimed at eliminating fraud and corrupt activities (PetroSA: 2010). Policies are not immutable, but may change to keep in line with the new regulations, and as the business goals and objectives of the enterprise change or as the risk tolerance level varies.

Figure 2.6 illustrates a generic management of the policy life cycle.

Figure 2.6: Policy management



Source: Handal and Blount (2009)

Having discussed the generic management of a policy, it is necessary to discuss a fraud and corruption policy. A fraud and corruption policy should have a statement forbidding the illegal conduct of fraud and corruption.

Clearly written fraud and corruption risk management policies are key components for combating unlawful conduct. They provide a framework for measures to ensure

prevention, detection and investigation of fraud and corruption (Sanlam: 2008). According to the Association of Certified Fraud Examiners (2003), a strong written policy should have definitions of the activities that constitute fraud and corruption, the responsibilities of the board, management, staff, internal audit and investigating staff regarding the management of fraud and corruption risks.

A good policy has a statement that forbids cover-up and retaliation against “whistle-blowers” and witnesses. A sound policy should encourage management to set “the appropriate tone” stating that fraud and corruption will not be tolerated, be proactive and reactive. A poorly constructed fraud and corruption risk management policy is the foundation for lawlessness and poor organisational values. A fraud policy should include fraud risk assessment “methodology, including identification, assessment, and prioritization” (Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners, 2007:73).

The Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners (2007:48) state that a framework for a fraud control policy should cover the following aspects:

EXECUTIVE SUMMARY

Definition of fraud

Statement of attitude to fraud

Code of conduct (relationship to)

Relationship with entity’s other plans

Roles and accountabilities

SUMMARY OF FRAUD CONTROL STRATEGIES

- Appointment of fraud control officer
- External assistance to the fraud control officer
- Fraud control responsibilities
- Fraud risk management (including fraud risk assessment)
- Fraud awareness
- Fraud detection
- Fraud reporting
- Investigation of fraud and other improper conduct
- Internal control review following discovery of fraud
- Fidelity guarantee and criminal conduct insurance
- Internal audit program

FRAUD RISK MANAGEMENT

- Regular program for fraud risk assessment
- Ongoing review of fraud control strategies
- Fraud risk assessment
- Implementation of proposed actions

PROCEDURES FOR REPORTING FRAUD

- Internal reporting
- Reports by members of staff
- Protection of employees reporting suspected fraud
- External anonymous reporting
- Reports to the police
- Reports to external parties
- Administrative remedies
- Recovery of the proceeds of fraudulent conduct
- Reporting requirements

EMPLOYMENT CONDITIONS

- Pre-employment screening
- Annual leave

CONFLICT OF INTEREST

The impact of conflicts of interest

Register of interests

Conflict of interest policy

PROCEDURES FOR FRAUD INVESTIGATION

Internal investigations

External investigative resources

Documentation of the results of the investigation

INTERNAL AUDIT STRATEGY

Internal audit capability

Internal audit fraud control function

REVIEW OF FRAUD CONTROL ARRANGEMENTS

(Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners, 2007:48-49).

2.9.6 FRAUD AND CORRUPTION RISK MANAGEMENT PROCEDURES

A fraud and corruption risk management procedures document translates the policy into an implementation process normally referred to as the “how”, while the policy is referred to as the “what”. The procedures are restricted to the policy and developed in a manner that displays that the drafter has the customer in mind. Put differently, they are understandable and easy to follow. The procedures are defined as standard, detailed steps that prescribe how to perform specific tasks (United States Department of Defense: 2005).

The three fraud and corruption policy components are broken down into subcategories. As a starting point, the procedures have to include the notion that the management of the organisation has to “set the appropriate tone, be proactive and reactive” (Lister, 2007: 62).

According to Lister (2007), management has the responsibility to draft fraud and corruption risk management procedures that define the process to follow when conducting employee background checks prior to employment or at any time thereafter, when it is necessary. Calvasina, Calvasina and Calvasina (2007) suggest that if the organisation decides to outsource the background check process, organisations need to ensure that the very vendor’s privacy policies and procedures cater for the checking of its own employees.

Lister (2007) states that in setting the tone, the management has to ensure that the organisation’s values are spread throughout the business activities and also define the consistent application of the disciplinary actions when dealing with the potential offenders against the code of ethics as well as the fraud and corruption risk management policy.

Fraud and corruption awareness and training in the organisation is essential. Communication of training refers to road-shows and training of the organisation’s new and existing staff members. New employees are offered training by anti-fraud and corruption specialists during the induction process. Communication or awareness is done through fraud articles defining fraud and reporting procedures in the organisation’s newsletter. It is also advisable to include these in employment contracts - the statement that the

company does not tolerate fraud and corruption in its business activities.

Having set the tone at the top, the procedures have to address the proactive phase of fraud and corruption risk management. This is the second and equally important phase. This phase deals with fraud and corruption risk assessment and fraud control. It must be borne in mind that the philosophy is to move away from the traditional methods of being reactive to being proactive (Lister: 2007).

The fraud and corruption risk assessment phase involves identification of schemes, fraud or corruption types, depending on the industry and geographical locations. The normal risk management process takes place, namely, the identification, assessment, control, monitor and mitigating the impact of “unforeseen events on resources or profits”, (Loghry *et al*, 2009:31).

Risk assessment is a qualitative measure of probability for losses or negativity in relation to occurrences within a certain time frame. In the case of fraud and corruption, assessment is the methodology that identifies the frequency and the likelihood of certain fraudulent or corrupt activities taking place or their severity on the organisation in a specific industry (Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners: 2007). These occurrences are prioritised based on scores, and plotted on a risk matrix as well as on the risk register. The register stipulates the causes of a specific fraudulent/corrupt activities and how they can happen. It is important to note that this process has to be conducted in a workshop, facilitated by a fraud risk

specialist on regular basis and in the presence of line management as the risks owners (Lister: 2007).

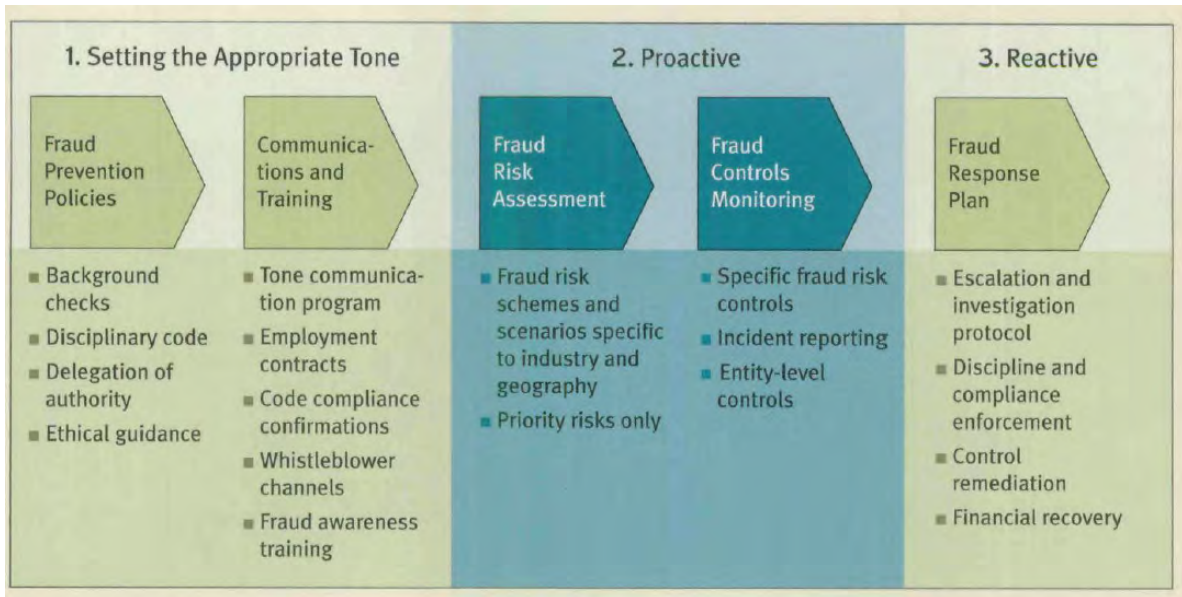
The risk assessment process is followed by a component called fraud controls. These are specific controls associated with the fraud or corruption that the organisation is exposed to. Lister (2007:63) states that the “Committee of Sponsoring Organisations (COSO)’s Enterprise Risk Management – Integrated Framework and other frameworks can be used as a basis for considering fraud in the context of the control environment, control activities, information, communication, and ongoing monitoring”.

The last key component of fraud and corruption risk management is reactive. This phase involves the response plan which is known as the traditional or old way used in the past to fight fraud. Arguably, this approach is not in line with the saying that “prevention is better than cure” but the other way round, reactive. Although reactive, this phase is still important as the last line of defence. If everything else fails and the controls have been overridden and violated, the investigation process is introduced to enforce compliance and to discipline the violator of the fraud and corruption risk management policy and procedures.

The fraud and corruption response plan is a step that addresses the remedial controls, feeds back into the fraud and corruption control stage in the proactive component. It is also possible that financial recovery is considered through the pursuance of a criminal or civil suit at this final stage.

Figure 2.7 below demonstrates the key elements for fighting fraud and corruption through procedures.

Figure 2.7: Fraud and corruption management program



Source: Lister (2007)

The Institute of Internal Auditors (2009: 20) states that the Committee Of Sponsoring Organisations has identified five components in its “Internal Control-Integrated Framework”. These elements include a control environment, risk assessment, control activities, information and communication, and monitoring.

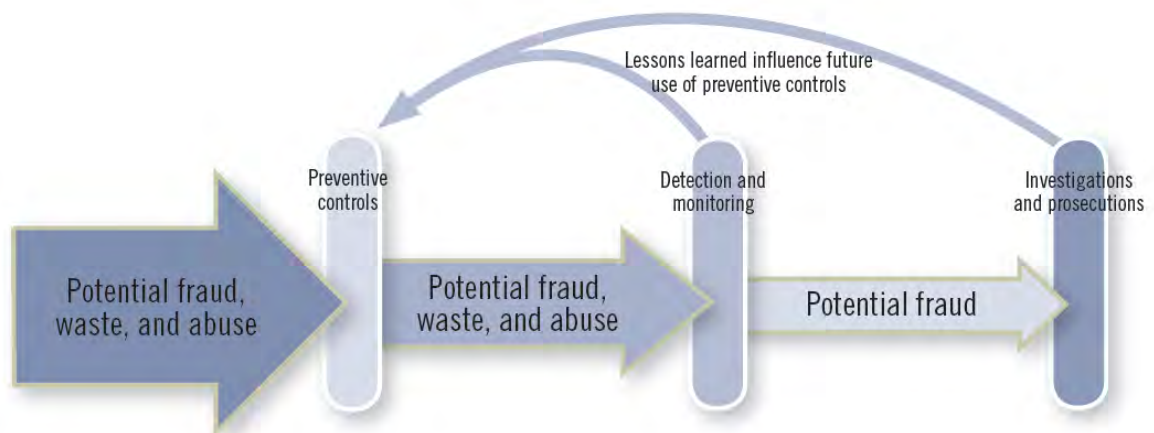
The control environment is defined as all elements of a strong environment that assist in the prevention of fraud (Institute of Internal Auditors: 2009). These elements include a fraud policy, whistleblower hotline, recruitment guidelines and oversight by audit committee, board or other oversight body.

The Institute of Internal Auditors (2009) views risk assessment as a process that establishes a fraud risk assessment that considers fraud risk factors and fraud schemes. This approach is similar to the one presented by Lister (2007). According to the Institute of Internal Auditors

(2009) the control activities are defined as the policies and procedures for the business processes. These activities include the authority limits and separation of duties.

The Institute of Internal Auditors (2009) describe information and communication as all methods that include fraud awareness training, and affirmation confirming that the employees of the organisation have read, understand and are in compliance with the policies. The last element of this framework is monitoring. Monitoring is defined as providing a periodic evaluation of anti-fraud controls and includes the implementation of technology to assist in the detection activities (Institute of Internal Auditors: 2009).

Figure 2.8: Fraud prevention and detection



Source: Institute of Internal Auditors (2009)

Public entities are required to observe the provisions of the Public Finance Management Act. No.1 of 1999, regulations under the Public Finance Management Act, the King II Guidelines on Corporate Governance (Institute of Directors in Southern Africa: 2002) and the Companies Act 61 of 1973.

The King III Code of Governance Principles for South Africa was released in September 2009 and came into effect in March 2010 (Institute of Directors of Southern Africa: 2009).

The Public Finance Management Act requires public entities to have risk management strategies that include a fraud prevention plan to direct the internal audit effort and priorities. It is also a requirement that the risk management strategy be communicated to all employees. Similarly, the Institute of Directors of Southern Africa (2002) encourages the board to consider the need for a confidential reporting process (“whistle-blowing”) covering fraud and corruption. Corporate governance can be partly viewed as a company’s strategic response to the need to assume prudent risks, and mitigate in exchange for measurable benefits. Clearly written fraud and corruption risk management policies and procedures are key components for combating unlawful conduct. They provide a framework for measures to ensure prevention, detection and investigation of fraud and corruption (Sanlam: 2008).

2.9.7 CONCLUDING SUMMARY

This chapter defines corporate governance, enterprise risk management and fraud and corruption in the South African and global context. The relationship between corporate governance, enterprise risk management, and fraud and corruption and their impact on the organisations and their management within enterprises, be they public or private, are discussed.

There is limited literature dealing specifically with a fraud and corruption policy for public or private entities. A statement of Berlinski (2009:74) can be noted:

Corruption is not a particularly popular topic for academic research. It is by no means ignored - it is a thriving sub-specialty in institutional economics - but a quick search on Google Scholar under the terms “corruption” and “interest rates” will suggest something about the academic world’s research priorities. There are 492,000 entries for the former, 5,210,000 for the latter.

Much of the guiding literature on policies is associated more with public or country policies on fraud and corruption. Many of the points discussed are from public policies, which one could classify as macro policies, while the public entities or private entities’ policies could be regarded as micro-policies. The fact remains, fraud and corruption are covered and reported on at least every day in the South African media. This is evident in the introduction to this chapter, where numerous newspaper and media reports were cited, and the point is emphasised by an article in The Star newspaper which states that “barely a day goes by without another appalling story of tenders being awarded by pals to pals” (The Star, 2009:47).

The literature demonstrates that fraud and corruption policies and procedures play a major role in preventing, detecting and responding to fraud and corruption activities in the organisation. They create a foundation for employees and other stakeholders to know what is considered as fraudulent and corrupt conduct and how the organisation deals with offenders against the prescribed fraud and corruption risk policy and procedures.

It can be observed that there are similarities between Lister (2007) anti-fraud and the Institute of Internal Auditors (2009) fraud prevention and detection diagrams. Lister (2007: 62)’s

main three elements of anti fraud program include “Setting the appropriate tone”, “Proactive”, and “Reactive”. The Institute of Internal Auditors (2009: 19)’s main elements include “Preventive controls”, “Detection and monitoring”, and “Investigations and prosecutions”.

It is further observed that the Institute of Internal Auditors, the American Institute of Certified Public Accountants and the Association of Certified Fraud Examiners (2007) policy framework includes both the Lister (2007) anti-fraud and Institute of Internal Auditors (2009) fraud prevention and detection diagrams.

However, it can also be observed that the fraud and corruption management procedures do not flow from the policy, but include only a reactive part of the anti-fraud program. The fraud and corruption management procedures have not changed or improved to include both reactive and proactive elements. The University of California, Santa Cruz (1994) argues that procedures should be tied to policies and be separate from the policy.

The University of California, Santa Cruz (1994: 3) is of the view that policies reflect the rules, while the procedures reflect implementation of the policies and the procedures “evolve over time as new tools emerge, new processes are designed, and the risks associated with an area changes in response to the internal and external environment”. It is submitted that the procedure document should be benchmarked according to the criteria below.

Table 2.1: Key components of the anti-fraud & corruption programme

KEY COMPONENTS OF THE ANTI-FRAUD AND CORRUPTION PROGRAMME	YES	NO
1. BACKGROUND		
Type of entity; Is it private or public entity?		
Zero tolerance statement		
Is the statement on how employees should view fraud and corruption risk to the entity included?		
2. PURPOSE AND SCOPE		
What is purpose of these procedures?		
Does the document define and outline both the proactive and reactive measures		
3. COMMUNICATIONS AND TRAINING		
Is fraud awareness conducted?		
Is training conducted?		
Code of compliance confirmation		
Employment contracts		
4. FRAUD AND CORRUPTION RISK MANAGEMENT		
How is fraud and corruption risk assessment conducted in the organisation?		
Assessment template		
Fraud risk Matrix		
Review of the Control Environment		
Monitoring: What are the techniques used?		
5. RESPONSIVE FRAUD AND CORRUPTION RISK MANAGEMENT		
Reporting methods available?		
Investigation of incidents?		
Reporting content?		
Notification of investigation?		
Investigations methodology?		
6. FRAUD RESPONSE COMMITTEE		
Fraud Response Committee established to ensure transparency?		
7. CONFIDENTIALITY		
Is the Investigation treated confidentially?		
8. ADMINISTRATION		
How often is the procedure reviewed and who reviews?		

(Own summary)

In chapter 3, critical issues that would be relevant for inclusion in a fraud and corruption risk management policy and procedures of an institution of higher learning are discussed.

CHAPTER 3

FRAUD AND CORRUPTION RISK MANAGEMENT IN INSTITUTIONS OF HIGHER LEARNING

3.1 INTRODUCTION

In chapter 2, corporate governance, enterprise risk management, and a fraud and corruption risk management program are discussed from a corporate perspective. In this chapter, critical issues that would be relevant for inclusion in a fraud and corruption risk management policy and procedures of an institution of higher learning are discussed. In discussing fraud and corruption risk management in institutions of higher learning, the following concepts are dealt with; fraud types associated with an institution of higher learning, the consequences of fraud and corruption, contributing factors and the recommended controls to mitigate the fraud and corruption risks.

Failure to prevent and mitigate the fraud and corruption risks may expose the institution to reputational damage, loss of revenue, reduce the capacity of the institution to perform the primary institutional activities, or even expose the institution to undue litigation as a result of failure to perform its obligations (University of Deakin: 2007).

The Association of Certified Fraud Examiners (2005) state that even though the majority of people presuppose that academic institutions are not exposed to the risk of fraud and corruption, history has shown otherwise. Institutions of higher learning are not protected from the ethics that they teach about; institutions of higher learning can also be exposed to such ethical risks.

The Association of Certified Fraud Examiners (2005) states further that many administrators are asked to step down quietly to avoid the effect of bad media publicity on the “public relations and fundraising”. Higher education has frequently sought to negotiate back-room deals as opposed to rooting out the problem” (Association of Certified Fraud Examiners: 2005:1).

The following recent cases (Association of Certified Fraud Examiners: 2005) are noteworthy:

In 2003, the former president of University of Tennessee, John W. S Shumaker was asked to resign after the university discovered that he had misused the university owned credit card and also misled the internal auditors.

In 2004, Joseph Dickson, the vice-chancellor of finance and administration was reported to have wrongly received more than \$90, 000 for consulting and expenses in violation of University of North Carolina policies.

In 2004, a former president and former student-aid director of Morris Brown College, in Atlanta were charged for fraudulently obtaining \$5,000 in federal funds while at the college.

Academic fraud and corruption, accreditations and quality assurance are some of the challenges faced by institutions of higher learning due to globalisation. This will be discussed in this chapter.

In South Africa, there was a highly-publicised investigation relating to irregular, corrupt/ fraudulent incidents that took place at the University of Zululand. These incidences led to

the “Public Protector’s enquiry into certain irregularities pertaining to the issuing of degrees and courses at the University of Zululand” (Public Protector of the Republic of South Africa, 1997: 1).

The Public Protector’s investigation that began in 1996 resulted in certain certificates, diplomas, and degrees being withdrawn and disciplinary actions being taken and criminal charges being pursued against the wrongdoers (Public Protector of the Republic of South Africa: 1997). These steps were taken due to the findings that Mr A M Ngubane, who was the Chief Faculty Officer in the Student Affairs Section, had altered examination results of certain students in exchange for money.

The guidelines and principles to be followed to govern a institution of higher learning are discussed in order to demonstrate the importance of good governance in institutions of higher learning. These legislative provisions and guidelines include the Higher Education Act, No 101 of 1997, the Public Finance Management Act No.1 of 1999, and the Centre for Higher Education Transformation Governance Series produced for the Department of Education, 2007.

According to section 51(a)(i) of the Public Finance Management Act, an accounting authority (the board or other controlling body) for a public entity must ensure that the public entity has and maintains effective, efficient and transparent financial systems, risk management and internal controls. The Public Finance Management Act also requires the councils (university or college controlling body) of public institutions of higher learning to adopt enterprise risk management as a platform to address accountability and

assurance relating to corporate governance and risk management.

Section 66(c)(2) of the Higher Education Act, No 101 of 1997 states that no person may pretend that a qualification has been awarded to him or her while such qualification has not been awarded and further that person is liable to a sentence which may be imposed for fraud.

The Institute of Directors in Southern Africa (2009) states in King III (2009) that audit committees should ensure that whistleblower arrangements exist for employees, customers and suppliers to report any suspected fraudulent or corrupt activities in confidence. This reporting mechanism may include the activities relating to non-compliance with the laws and regulations that may have effect on organisation's integrated reporting.

The governance structure of institutions of higher learning is discussed in order to describe the responsibility of the institution regarding enterprise risk management and the need for drafting an effective fraud and corruption risk management policy and procedures, in the context of institutions of higher learning in South Africa.

Dessoff (2009) states that school administrators are not aware of fraud because they are not looking for it and therefore they are not going to find fraud. Dessoff goes on to say that principals believe that finding fraud is not their job as they have been hired to be educators and the majority of teachers do not have a financial or accounting or auditing background.

3.2 GOVERNANCE STRUCTURES IN INSTITUTIONS OF HIGHER LEARNING

The Higher Education Act requires that every public institution of higher learning establish the following structures:

- a council
- a senate
- a principal
- a vice-principal
- a student's representative council
- an institutional forum; and
- such other structures and offices as may be determined by the institutional statute.

Why should the governance structure be relevant? The board of a company, and in the case of a university, the council, has to ensure that risk is managed properly.

Corbett (2004) states that a long period of *laissez-faire* corporate governance led to corporate scandals of Enron and WorldCom. These scandals were associated with fraudulent financial reporting. These scandals also led to action to require greater transparency in financial reporting, "truth-in-reporting" (Corbett, 2004: 52).

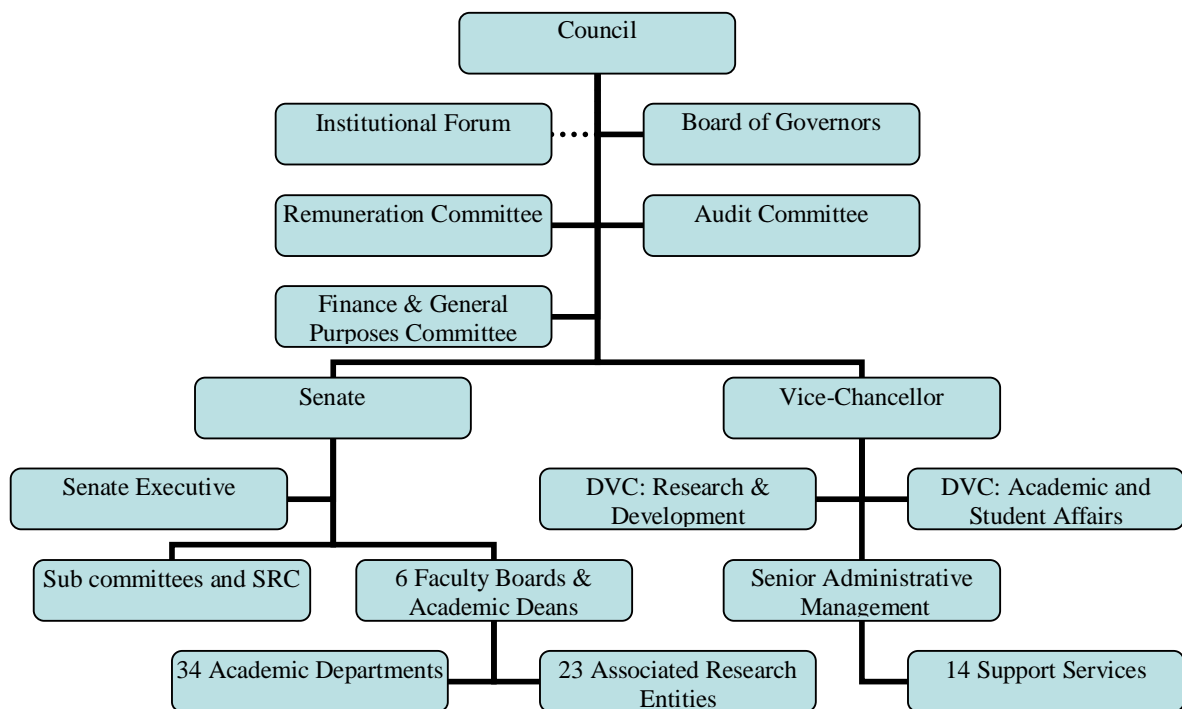
According to Chapman (2006), corporate governance is a catalyst for, and contributes to the need for enterprise risk management. Corporate governance forms an important part of enterprise risk management as it provides a top-down monitoring and management mechanism for risk management.

According to the Institute of Directors of Southern Africa (2009), risk management is the cornerstone of corporate governance.

Figure 3 below sets out the organogram of the university selected for the research.

Figure 3.1: University governance structure.

UNIVERSITY GOVERNANCE ORGANOGRAM 2010



Source: The University (2010)

The above university governance structure demonstrates a hierarchical framework with a top-down approach. The hierarchical university structure has the potential to exclude other stakeholders resulting in limited buy-in to instructions and policies such as fraud and corruption policies and procedures, when they are introduced. The University of

Louisiana at Monroe (2007:1) adopted a shared governance structure and defined it as:

a process of discussion and recommendation by those in the university community (i.e., faculty, staff, administrators, alumni, and students) who will be affected by a decision to influence decisions on matters of policy and procedure, and/or an opportunity to present alternatives on such matters.

A shared governance structure is recommended in order to facilitate fraud and corruption awareness campaigns and the reporting of suspected fraud and corruption management procedures.

3.3 THE RESPONSIBILITIES OF THE AUDIT COMMITTEE IN RELATION TO RISK MANAGEMENT IN INSTITUTIONS OF HIGHER LEARNING

The Centre for Higher Education Transformation Governance Series (2007: 37) states that “the objective in establishing the audit committee is to improve standards of corporate governance”. The audit committee has as part of its task to assist the council, the task of ensuring that,

areas of risk, both direct and indirect, are identified. These areas of risk arise from the activities of the institution and effective counter-measures should be recommended.

It is stated further (Governance Series: 2007) that the main responsibility of the audit committee is to ensure, in relation to annual financial statements, that the revenue from contracts, grants, and donations are subjected to strict conditions. This means that revenue from contracts, grants,

and donations should be used only for the purpose for which they were provided. Separate records relating to the expenditure of these funds must be maintained to ensure the integrity of the financial statements of the institutions.

The Internal Auditor (2010: 66) supports the existence of enterprise risk management by stating that

universities are facing increased pressure from stakeholders regarding issues such as investments and spending, privacy, conflicts of interest, IT availability and security, fraud, research compliance, and transparency.

It should also be noted that fraud and corruption management is addressed as part of enterprise risk management.

3.4 THE DEFINITION OF ENTERPRISE RISK MANAGEMENT IN AN INSTITUTE OF HIGHER EDUCATION

The Institute of Internal Auditors (2010:1) define enterprise risk management is as a holistic “strategic process used by the university governing structure, management, administration, and faculty” The university enterprise risk management is designed to assist in identifying the risks that may affect the institution. These risks have to be managed within the institute’s risk appetite. Further, enterprise risk management is designed to provide assurance that the institution will be able to achieve its objectives. Corbett (2004: 51) describes “risk management as the identification, analysis and treatment of an economic entity’s exposure to loss”.

The definitions provided by the Institute of Internal Auditors (2010) and the definition preferred by Corbett (2004) are not the same. The difference appears to lie in the wording and the fact that Corbett (2004) does not mention that Enterprise Risk Management is an integrated process of managing the risk in an organisation, and not in silos. .

3.5 HOW IS ENTERPRISE RISK MANAGEMENT APPROACHED IN AN INSTITUTION OF HIGHER LEARNING

The University of Cambridge (2002) states that risk management in a university is the responsibility of the council. The council is also responsible for the maintenance of the internal controls that support the achievement of the policy objectives. It is also the role of the council to monitor the management of the basic risks in the institution of higher learning.

3.6. THE DEFINITION OF FRAUD, CORRUPTION AND MISCONDUCT FROM AN INSTITUTION OF HIGHER LEARNING'S PERSPECTIVE

Fraud is generally defined as acting dishonestly to obtain a gain through deception. In the same way, the South African definition in terms of the common law offence, defines fraud as “the unlawful and intentional making of misrepresentation which causes actual and/ or potential prejudice to another” (Department of National Treasury: no date).

Hallak and Poisson (2007: 112) defined academic fraud as

the use of public office for private gain in the academic field, especially regarding accreditation of courses and institutions, examinations for access and for transfers

between institutions, certificates and diplomas, university colleges research and publications.

Actions that may constitute academic fraud and corruption may include the manipulation of records, falsification of research results, examination cheating, plagiarism, theft of intellectual property, theft or leakage of examination papers, manipulation of financial transactions, theft of equipment, misuse of university resources, and misuse of a university credit card (Hallak and Poisson: 2007).

Academic misconduct may include an act of misuse of research funds or grants (Lytton: 1996).

Tanaka (2001) defines corruption as abuse of office for unofficial ends. However, Kaufann and Gray (1998), cited in Tanaka (2001), raise a question relating to whether corruption is 'oil or sand'. Kaufann and Gray (1998), cited in Tanaka (2001: 1), suggest that,

in the short term corruption may speed up the bureaucratic process, therefore functioning as 'oil' in the system, while in the longer term corruption functions as 'sand', since it raises unnecessary transaction costs and leads to inefficient economic outcomes.

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (2004: 3) defines corruption as "the behaviour of a person entrusted with public or private responsibilities who neglect their duties to achieve unjustified benefits".

Hallak and Poisson (2007) are of the view that in most cases, quality assurance supports accreditation, and

accredited institutions of higher learning are generally fraud free.

3.7. WHERE CAN FRAUD AND CORRUPTION BE ANTICIPATED IN INSTITUTIONS OF HIGHER LEARNING AND WHAT ARE THE PREVENTION STRATEGIES?

According to Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (2004: 1), education institutions are advised to consider the following areas in their organisations as priorities:

- corruption in the personnel sector;
- corruption in the financial and procurement systems;
- corruption in access to education institutions; and
- corruption in terms of quality and quantity of education, and certification of examination results.
- Anti-corruption training should be conducted throughout the entire institution of higher learning.

The possible weaknesses in the above mentioned priority areas are identified and counter-measures are recommended in order to mitigate the fraud and corruption risks.

A summary of the possible weak points and recommended counter measures in relation to the above mentioned priorities are as follows:

- Corruption in the personnel sector

The possible weak points include a weak legislation or policy that fails to address fraud and corruption adequately, lack of supervision and lack of incentive to work efficiently.

The recommended counter measures include the drafting of legislation or a fraud and corruption policy, a code of conduct, the creation of incentives and transparency in appointments and promotions, and a performance management system.

- Corruption in the financial and procurement systems

The possible weak points include the lack of separation of duties, weak procurement policies and procedures, the lack of an independent financial watchdog and the unavailability or inadequate documentation relating to reporting requirements. The other weakness could be the lack of necessary expertise to plan and evaluate the tendering systems.

The recommended counter measures include the introduction of financial controls, separation of duties, adequate procurement policies and procedures and training of staff in planning and evaluation of tendering systems.

- Corruption in access to education institutions

The possible weak points include an inadequate selection process, weak enrolment processes, and inadequate verification of certificates.

The recommended counter measures include strengthening of information and documentation requirements, and also strengthening of admission procedures to improve transparency.

- Corruption in terms of quality and quantity of education, and certification of examination results

The possible weak points include the lack of transparency in the certification of results achieved, a lack of control measures regarding the data input into the computer mainframe, a lack of uniform examination procedures and regulations or policies, a lack of adequate documented examination requirements, conditions and assessment criteria.

The recommended counter measures include strict supervision of data input of results into the computer mainframe, documented procedures as control measures, the establishment of examination committees that oversee the procedures in order to ensure the integrity and standard of examinations.

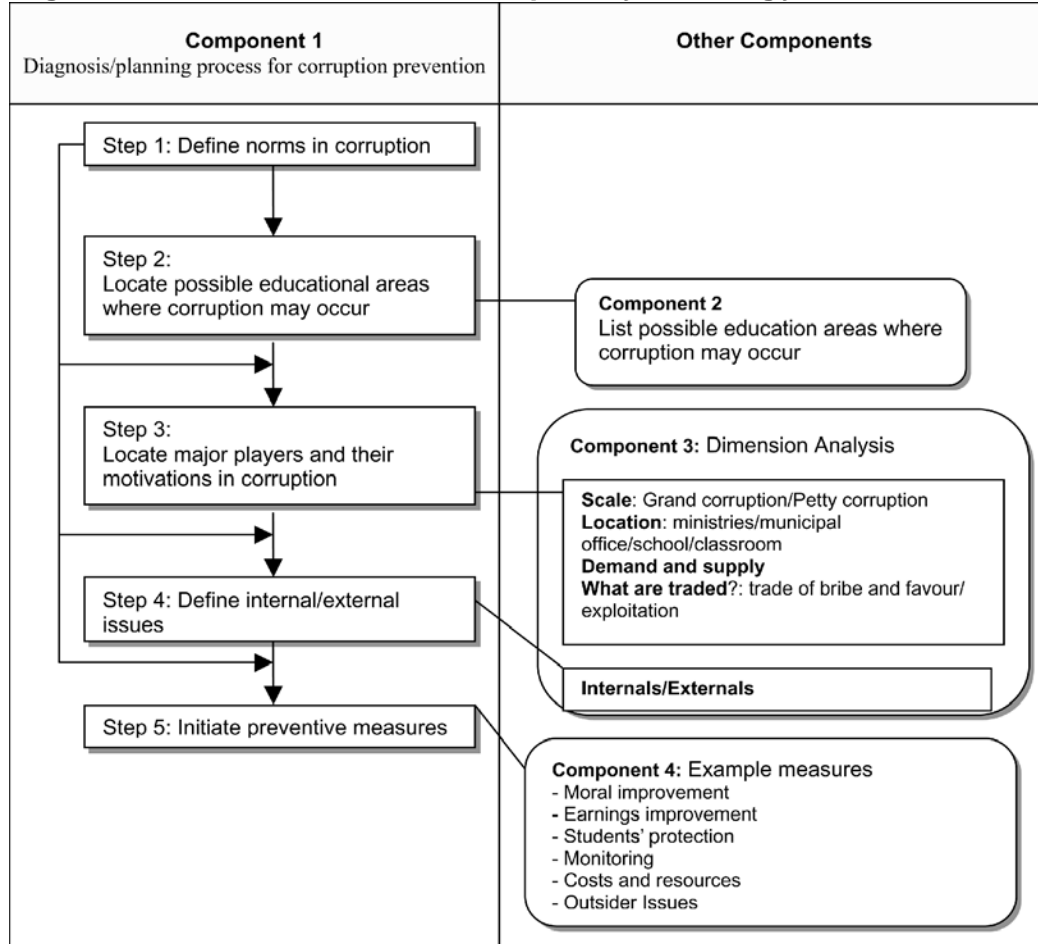
- Anti-fraud and corruption training should be conducted throughout the entire institution of higher learning

Administrators, staff and students should be made aware of and trained on the anti-fraud and corruption policies and procedures of a institution of higher learning. The training should include an awareness of the type of fraud and corruption that are specific to institutions of higher learning.

(Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (2004)).

Tanaka (2001) has a similar model to the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (2004) and is illustrated in Figure 3,2 below.

Figure 3.2: The outline anticipatory strategy



Source: Tanaka (2001)

According to Tanaka (2001), the anticipatory strategy can be briefly explained as follows.

- Step 1: Define the norms in corruption: This relates to providing the definition of fraud and corruption in the context of an institution of higher learning. This explanation should include the legislation and guidelines dealing with fraud and corruption.
- Step 2: Locating the possible educational areas where corruption may occur: This relates to administration (admission process, graduate examinations, teacher recruitment), lecturers' corruption in the lecture-room

(exploitation, favours, bribes for better marks, sexual harassment or sexual remarks),

- Step 3: Locating major players and motivations for fraud or corruption: This relates to corruptible personnel and their motivation to commit fraud or corruption (lecturers' monopolistic power over students).
- Step 4: Define internal/external issues: This relates to corruption where students are affected or indirectly harmed by corruption (procurement of textbooks, notes, meals, and quality of lecturer recruited).
- Step 5: Initiate preventive measures: This relates to measures taken to mitigate the risk of fraud and corruption as the risks would have been identified. The measures may include initiatives to develop morale, organisational environment improvements (earnings improvement of lecturers, improving students' protection through promoting anti-corruption behaviour and setting up anti-corruption committees).

It should be noted that Tanaka (2001) acknowledges the fact that anticipatory strategy is not a total anti-corruption strategy, but it may exist as a plan within the main project.

3.8 CONCLUDING SUMMARY

This chapter defines the governance of institutions of higher learning and discusses enterprise risk management and fraud and corruption risk management in institutions of higher learning. It has been generally observed that the majority of institutions of higher learning do not have fraud and corruption management policies.

The websites of a number of universities were visited with the purpose of establishing the existence of fraud and corruption risk management policies. The University of North West was found to have a policy on conflict of interest, and academic dishonesty. These policies are not extensive and cannot be said to be effective in managing the risk of fraud and corruption. The University of Pretoria has a statement against plagiarism and no fraud and corruption risk management policy could be located on their website. The University of South Africa (UNISA) has a fraud prevention policy on their website. However, the policy deals mainly with reactive aspects of the anti-fraud program.

The steps explained in terms of the anticipatory strategy of Tanaka (2001) demonstrate the issues to be taken into consideration when drafting fraud and corruption management policies and procedures for institutions of higher learning. However, the Tanaka (2001) model does not cover the response part of the anti fraud and corruption strategy. It does not explain how suspected fraudulent or corrupt activities may be reported or the whistleblower process.

Gorbet and Punch (2000: 27) state that,

Sociological and managerial literature defines whistleblower as an individual within an organisation who reveals negative information about the organisation, its practices or its people.

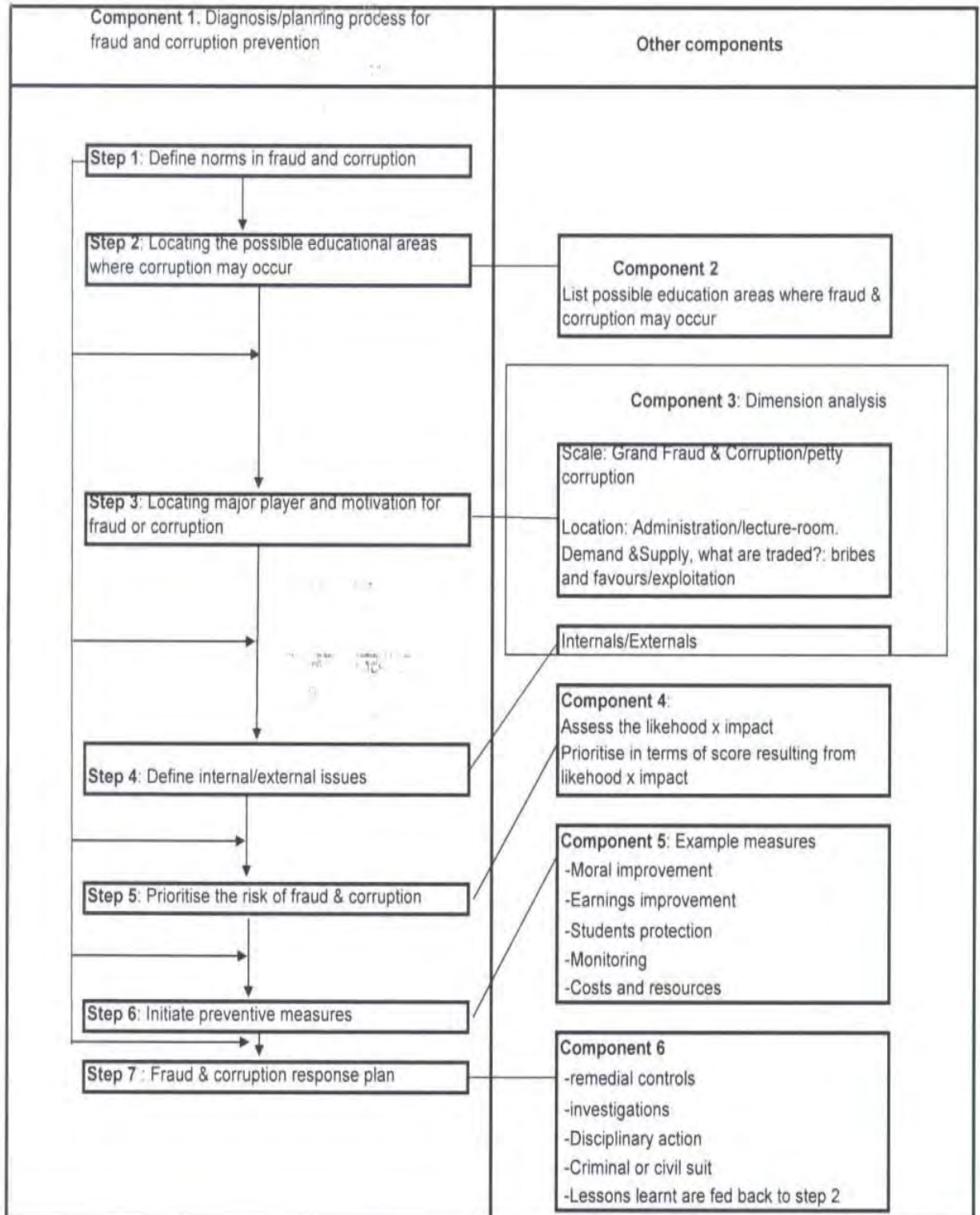
It is necessary to include and inform the administrators, staff and students of their duty to inform their superiors or law enforcement agency when they that suspect any wrong

doing/ fraudulent or corrupt activity is taking place. This aspect is not covered in either of the models of Tanaka (2001) or Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (2004). Most of the cases reported and investigated are as a result of the whistleblowing mechanism. In South Africa, this mechanism is covered under the Protected Disclosure Act, No. 26 of 2000.

Figure 3.3 demonstrates a model that can be used as a basis when drafting a fraud and corruption policy and procedure. Two steps have been added to Tanaka's (2001) model and they are step 5 and 7. Step 5 deals with the prioritising of fraud and corruption risks and has been introduced to highlight the method used to rank the risks. This is normally referred to as a risk matrix. Step 7 deals with the response or reactive part of the program. This step deals with investigation, disciplinary action, and/or criminal or civil prosecution. Perpetrators must be made aware that the institution will punish them when they commit offences.

Institutions of higher learning should have comprehensive fraud and corruption risk policies that protect the institution from the risks of damage to reputation, risks that can reduce the capacity to perform the fundamental university activities and the risks that may expose the university to litigation (University of Deakin: 2007).

Figure 3.3: Proposed anti-fraud and corruption risk program for institutions of higher learning



Source: Own model (2010) based on Tanaka (2001)

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

In chapter 3, the critical issues that would be relevant for inclusion in a fraud and corruption risk management policy and the related procedures for a institution of higher learning are discussed. In this chapter, the research methodology consisting of the research purpose, the research procedure, the procedural design, the analysis of data, and validity and reliability are discussed.

The research design adopted a qualitative research methodology. Hayhow and Stewart (2006: 476) describe “qualitative research as largely concerned with studying the things in a natural setting rather than in manipulating a particular element and then looking at changes that occur as a result”. Hayhow and Stewart further state that “qualitative researchers will study phenomena as they appear, interpreting or making sense of what is happening in terms of the meanings people apply to them”.

The research has been conducted in an interpretivist paradigm (Babbie and Mouton: 2007) as it seeks to understand a particular situation. The research is also of an explorative nature in that it seeks to establish a framework for an effective risk management policy and procedures in a university environment by identifying the critical issues to be considered in the formulation of an anti-fraud and anti-corruption policy and procedures.

4.2 THE PURPOSE OF THE RESEARCH

The purpose of the research is to identify the critical issues that would be relevant for inclusion in an anti-fraud and anti-corruption policy and procedures for institutions of higher learning.

4.3 RESEARCH PROCEDURE

The first step in the research process was to analyse relevant legislation, regulations, guidelines and other sources of best practice to establish a risk management framework for the formulation of fraud and risk management policies and procedures at institutions of higher learning.

A small residential South African university was selected as the site for the research. Three key personnel at management level were selected purposively in three departments at the university to be interviewed about fraud risk management at the institution. These key personnel were specifically selected because of their experience in teaching and learning, and institutional management. The participants were encouraged to express their views freely during the interviews. The statements and views of participants were hand recorded, transposed, analysed and interpreted.

The following matters were addressed during the open-ended interviews. Certain matters were suggested by the interviewer, based on the best practice established in the literature review, while other matters were suggested by the interviewees.

- The interviewees were asked about the existence of an enterprise risk management policy at the university.
- The interviewees explained the organisation's enterprise risk management approach and the main risks that the university faces.
- Potential risks relating to certification and qualifications were discussed.
- They were asked whether the university has experienced incidents of fraud, including certificate fraud.
- They were also asked about the prevalence of procurement fraud at the university.
- They were asked about the existence of staff or student fraud cases that had been referred to South African Police Services for action.
- The interviewees were asked about the existence of a plagiarism policy at the university.
- Fraud that is related to exchange students was also discussed.
- The interviewees were asked whether there had been instances of the misappropriation of research grants at the university.
- The risk of the university's failure to receive accreditation (reputational risk) was discussed.

- The potential effect of a decrease in university income that could have an impact on the university achieving its goals was also discussed: the so-called domino effect.
- Risks relating to the university's target market were discussed.
- The interviewees also responded to questions relating to the risks associated with students in a classroom that could lead to "drop outs" and the risks associated with research projects for senior degrees at Master's and Doctoral level.
- The interviewees were also asked whether the university has experienced incidents of management perpetrating fraud or corruption. This also aimed to establish whether the top management at the university has set the "tone at the top" regarding fraud and corruption.
- The interview questions also included the following: whether the employees are aware of the organisation's code of ethics dealing with ethical dilemmas, or a fraud policy and procedures and what actions constitute fraud and corruption at their organisation. They were asked to give their views on why students commit plagiarism and the risks related to this.

The researcher did not ask the respondents whether they were prepared to report any irregularities and misconduct and, if so, how incidents of suspected fraud would be reported - the whistle-blowing process. It would also have been important for the researcher to establish whether measures are taken to protect reporters of incidents, and what the institution's policy is relating to the cover-up of the

names of perpetrators of fraud or corruption. These questions could not be asked as the interviewees acknowledged that the university does not have a risk management policy and therefore also does not have a fraud and corruption risk management policy and procedures.

The researcher was provided with a one page document indicating that whistle-blowing incidents can be directed to the university's Vice-Chancellor.

Data was also collected from eleven other institutions of higher learning in a form of their policies, procedures and any other related documents used to prevent fraud, corruption and irregular activities. The data was analysed against the framework of best practice established in the literature review of the research, using qualitative analysis procedures.

4.4 PROCEDURAL DESIGN

Interviewees at management level at a small South African residential university were asked about their understanding of irregularities, fraud and corruption. They were questioned on whether the potential sources of all fraud and corruption risks are defined by the organisation in any way other than by way of a policy. Generally the questions comprised of "open ended" questions. Where necessary, further comments were elicited to explain responses to questions.

"Open ended" questions were asked to encourage the participants to voice their thoughts and feelings freely (Cranefield Institute of Management: 2006). This approach has the potential to assist the researcher to collect quality data with reasonable ease. This view is supported by

Goodwin and Horowitz (2002) cited in Johnson and Waterfield (2004: 122) that “the emphasis for this type of research is on capturing in detail and/or depth something significant in the social world”. Ambert, Adler and Detzner (1995: 881) agree with the views of Johnson and Waterfield and advise that “naturalistic qualitative methods are commonly known to include open-ended questionnaires, in-depth interviews”.

According to Babbie and Mouton (2007:523), “interview survey respondents can never be considered anonymous, since an interviewer collects the information from an identifiable respondent”. The researcher was referred to the interviewees by a university staff member and therefore the identities of the participants were known to the researcher and the staff member concerned. In addressing the ethical concerns relating to the research, the following steps were taken:

- The purpose and nature of the research was explained to the interviewees to assure them that the data from their interviews would not compromise their positions;
- the transposed interviews were made available to the interviewees to enable them to validate the data; and
- the respondents then agreed that the researcher could reveal them by either their names or occupational titles.

The interviews conducted were recorded manually, transposed and submitted to the interviewees to amend where necessary and confirm the contents thereof. This approach is supported by Johnson and Waterfield (2004) who state that respondents’ validation takes place when

participants review the collected data and confirm or challenge their validity.

It was judged that the issues discussed in the interview were not sensitive as the discussions did not aim assign blame to any person, but focused on the points established in the literature review that should be included in the formulation of policies and procedures for fraud risk management in institutions of higher learning. The interviewees were therefore not considered to be at risk of harm as result of their suggestions, and it was the understanding of the participants and the researcher that the research, when concluded will be of value to the university.

All the interviewees amended and then confirmed the contents of the transcribed interviews and this has confirmed the dependability of data and the credibility of findings in relation to the questions.

The researcher has undertaken to inform the university management of the outcome of the research, both as participants and beneficiaries of the findings of the research.

Eleven letters were forwarded to the following institutions, enquiring whether they have fraud and corruption risk management policies and procedures:

- University of Pretoria
- University of Witwatersrand
- University of Zululand
- Vaal University of Technology
- Cape Peninsula University of Technology
- Tshwane University of Technology

- University of Johannesburg
- Nelson Mandela Metropolitan University
- Central University of Technology
- University of Stellenbosch
- Rhodes University.

Further, the researcher visited eight websites of the above institutions for the purpose of establishing if these institutions have fraud and corruption risk management policies or procedures.

4.5 COLLECTION OF DATA

Table 4.1: Data collection process

Phase 1: Discussions and document analysis	Stakeholder	Date of Interview/ Document analysis
Discussion and agreement with staff of the university regarding the research: Enterprise Risk Management Process (Mind map)	The university Department of Finance and Risk Management	19/10/2010
Discussion with the university Enterprise Risk Manager on the Centre for Higher Education Transformation: Governance Series, 2007, risk related legislation, guidelines and best practices.	The university's Department of Risk Management	20/10/2010
Phase 2: Interviews		
1. The university Registrar	The university Registrar's office	02/11/2010
2. Director of the university Centre for Higher Education Teaching and Learning	The university Centre for Higher Education Teaching and Learning	04/11/2010
3. Director of the university Institutional Planning Department	The university Institutional Planning Department	05/11/2010

Phase 3: sending out requests for documents		
1. Institutions of higher learning	Institutions of higher learning	17/11/2010
Phase 4: Confirming information in search for documents		
1. Accessing institutions of higher learning websites in search for fraud and corruption policies and procedures	Institutions of higher learning	18/12/2010

Source: Own model (2010) based on Wright (2005)

The researcher used four fundamental sources for the qualitative data collection process, namely: discussions and document analysis, interviews, letters requesting documents, and website searches for documents. Johnson and Waterfield (2004) point out that the sampling strategy in qualitative research does not seek to achieve statistical representation, but mostly reflects the diversity within the study population. Johnson and Waterfield (2004:124) further state that “the sampling study is determined by the research question”, the specific purpose and the context of the research. Purposive sampling was used in this case.

Phase 1: initial discussions were held with the university enterprise risk control manager in the finance department, (refer to Table 4.1). The aim of the meeting was to discuss the status of enterprise risk management at the university and fraud and corruption risk management policies and procedures. Risk management related legislation, guidelines and best practices were also discussed.

Phase 2 (refer to Table 4.1) deals with the interviews that were conducted by the researcher with selected key management personnel. This was done because of their key

roles, responsibilities and experience in teaching and management at the university.

The researcher was provided with an updated Institutional Planning and Review Framework document. This document also deals with the institutional mission which has a bearing on the research.

Phase 3 (refer to Table 4.1) comprised the sending out of requests for documents to institutions of higher learning via email. Letters requesting fraud and corruption policies and procedures were sent to the institutions. The aim was to determine whether these higher educational institutions have such policies and procedures, and if they do, whether their policies and procedures include all the components referred to in table 3.2: proposed institution of higher learning's anti-fraud and corruption risk program framework.

Phase 4 (refer to Table 4.1) deals with the accessing of the websites of institutions of higher learning in search of fraud and corruption policies and procedures. The aim of this exercise was to confirm whether the institutions that failed to respond to the researcher's request have fraud and corruption management or related documents freely accessible on their websites. The websites of eight (8) institutions were visited on 18/12/2010.

Table 4.2: Data Analysis and Data Summary

Data Analysis			
	Research Level 1	Research Level 2	Research Level 3
	Data Collection	Data Analysis	The findings, discussion and conclusion
Phase 1	Discussions and document analysis		
	1. Discussion with key employees of the university regarding the Enterprise Risk Management Process (Mind map)	Establishing the status of enterprise risk management at the university, and the contribution the research would make to the institution	Discussion on the need to conduct research and critical comments
	2. Discussion with the university Manager, Enterprise Risk Management on Centre for Higher Education Transformation: Governance Series, 2007, risk related legislation, guidelines and best practices.	Perusing the documents relating to governance of institutions of higher learning, enterprise risk management and all related legislation, guidelines and practices. Determining and crafting a policy and procedure framework	Discussion on governance and the academic institutions' approach and critical comments
Phase 2	Interviews		
	1. The university Registrar	Establishing the governance of and potential major risks for a higher educational institution and particularly the university selected for the research	Critical comments on findings and recommendations
	2. The university, Teaching and Learning Director	Determining the potential fraud/ corruption risk areas in the teaching and learning environment	Critical comments on findings and recommendations
	3. The university, Institutional Planning and Review Director	Determining the potential fraud/ corruption risk areas that could stand in the way of achievement of institutional mission (aims & objectives)	Critical comments on findings and recommendations

Phase 3	Sending out letters to universities requesting fraud & corruption management documents	Determining the existence of fraud and corruption policies and procedures. Establishing if these policies include table 3.2 components in the framework	Critical comments on findings and recommendations
Phase 4	Visiting/Accessing Institutions' websites in search of documents	Establishing and confirming the existence of fraud and corruption policies and procedures.	Critical comments on findings and recommendations

Source: Own Model (2010) based on Wright (2005)

Anfara, Brown and Mangione (2002) point out that the process of data analysis is eclectic and there is no 'right way'. Creswell (2002) cited in Anfara, et al. (2002) supports this by stating that the analysis of qualitative data is not dependent on one single method, but it is a process in which a researcher tries to make sense of the information. Table 4.2 demonstrates the three levels of research as collection of data, analysis of data and the findings, discussion and the conclusion.

The data was collected in four phases utilising multiple sources (data triangulation), namely discussions and document analysis, interviews, sending out letters requesting fraud and corruption management documents, and visiting/accessing institutions' websites in search of documents. The data was analysed at level two of the research and, the findings, discussion and the conclusions drawn at the level three of the research (refer to Table 4.2).

4.6 VALIDITY AND RELIABILITY

Ambert, et al., (1995) argue that reliability and validity are very important in a qualitative research because the qualitative researcher often relies on primary sources. The data was collected from multiple sources in the form of

interviews with key personnel, the analysis of available documentation and letters sent to the other institutions of higher learning regarding the documentation available on fraud and corruption policies and procedures. This approach is also supported by Brewer and Hunter (1989) cited in Ambert, et al., (1995:885) who state that “multiple informants and multiple methods of data gathering or triangulation within a same study are themselves recursive checks against the validity of the researchers’ interpretations”.

The collected and transposed interview data was forwarded by the researcher to the respondents for amendments and content confirmation. This approach is further recommended by Stack (2007) as an additional strategy to ensure validity. In the introduction to this chapter the statement by Johnson and Waterfield (2004) was cited, that respondents’ validation takes place when participants review the collected data and confirm or challenge their validity.

4.7 RESEARCH ETHICAL ISSUES

Babbie and Mouton (2007: 520) define “ethics as conforming to the standards of conduct of a given profession or group”. Similarly, Shank and VILLELLA (2004) are of the view that researchers must do their best to ensure that the readers understand their actions, positions and efforts. In this case, the researcher has observed all the ethical principles that guide this research and ensured that the participants are not harmed as a result of their participation.

The researcher informed the interviewees that he was conducting research for a Master of Business Administration degree. The researcher further explained that the study is in the field of enterprise risk management, and the focus was

on the formulation of fraud and corruption risk policies and procedures for institutions of higher learning. Potts (1990) supports this by stating that the researcher must describe the purpose of the research to respondents in order not to create the perception that the researcher is not genuine.

The participants were informed when the interviews were scheduled and at the beginning of the interview of the nature of discussion in which they would be involved. The aim of sharing this information in advance was to give the participants an opportunity to either accept or reject the interview requests. The participants confirmed the typed interviews and did not raise concerns regarding the use of their employment titles and information.

4.8 CONCLUDING SUMMARY

In this chapter the research methodology applied in the research was described. The data collection process was described, which took place in four phases and was structured into three levels of the research. The research purpose, the research procedure, the procedural design, the analysis of data, the research ethical issues, and the validity and reliability were described in the chapter. The chapter explained that data gathering was in a form of document analysis, discussions with the university enterprise risk management manager and the interviews with key university management personnel.

Further, the chapter explained that documentary data was also sourced from other institutions of higher learning directly by written request and through accessing their relevant websites. The data collection, analysis, and comments were categorised under the three levels of the

research. Murphy et al. (1998), cited in Johnson and Waterfield (2004: 127), point out that in methodology, “data analysis is a creative process that depends on the insights, background and informed value judgement of the researcher”. The chapter set out the data analysis procedure in a matrix that shows a summary of methodology utilised in the research.

In chapter 5, the research will deal with the research level three comprising the findings and discussions.

CHAPTER 5

THE FINDINGS

5.1. INTRODUCTION

In chapter 4, the research methodology was discussed, including the research purpose, the research procedure, the procedural design, the method of analysing the data, the ethical issues and the procedures adopted to ensure validity and reliability. In this chapter, research level three comprising the findings, are discussed.

In the introductory chapter (chapter 1), the main aim of the research was stated as identifying the critical issues that would be relevant for inclusion in a fraud and corruption policy and procedures document for a institution of higher learning and developing best practice in this regard. Chapters 2 and 3 reviewed the literature relevant to fraud and corruption policies and procedures. Chapter 2 established a general framework in relation to best practice, while chapter 3 focussed on reviewing the literature relevant to fraud and corruption and recommended a framework for a policy and procedures for institutions of higher learning. The aim of this research is not to address all the challenges faced by institutions of higher learning, but to highlight the crucial issues to be included in the formulation of the fraud and corruption management policy and procedures and to recommend best practice.

Chapter 4 dealt with the research methodology, mainly describing the method of data collection and analysis. Most of the data referred to in chapter 4 is in a form of documents (legislation, guidelines, documents relating to university

governance, institutional planning, university quality assurance and enterprise risk management and the documents sourced from selected institutions of higher learning), but also included a limited number of interviews.

Data analysis and the research findings are interrelated. Durgee (1986:36) points out that to analyse qualitative research findings is to know “how to interrelate, interpret, and understand the results”. The present chapter deals with the findings deduced from the data analysis. Interview extracts are provided and, as stated in chapter 4 of this research, the interview data was forwarded to the interviewees for validation to enhance the validity of the findings. Ambert, Adler and Detzner (1995:884) express the view that the findings of qualitative research may be presented using the interviewees’ “words quoted verbatim”. Where necessary, the researcher will, in certain findings, present the words of interviewees as quoted.

5.2. THE RESPONSES AND FINDINGS

The research findings were generated from each of the phases of the research. The research phases are described in Table 4.1 (Data collection process) and Table 4.2 (Data Analysis and Data Summary). Rowan and Huston (1997: 1445) support this approach by stating that “the presentation of the findings should follow the same general sequence approach as established in the methods section”. Rowan and Huston state further that it is important for the researcher to ensure that the research findings address the research question. In this research, the data gathering process was structured in such a manner as to answer the research question. The research phases are briefly the following:

Phase 1: Discussions and document analysis. The researcher had two meetings with the risk control manager at the university regarding enterprise risk management at the university. Further, issues regarding the governance of institutions of higher learning were discussed. The researcher was provided with documents relating to governance and a risk management “mind map”.

Phase 2: Interviews. Face to face interviews were held with senior staff members at the University to establish areas of potential risk and to identify which issues should be included when formulating a fraud and corruption policy and procedures for institutions of higher learning.

Phase 3: Sending out requests for fraud and corruption documents to institutions of higher learning. The researcher sent the requests to eleven institutions, seeking to establish whether the institutions have fraud and corruption policies and procedures, and if so, whether the institutions were prepared to share such information with the researcher.

Phase 4: Confirming information by searching on institutions’ websites. The websites of seven institutions were visited by the researcher to confirm if the institutions have fraud and corruption policies and procedures.

5.3. DATA ANALYSIS THROUGH DISCOVERED THEMES

Alexiadou (2001:55) describes the purpose of data analysis as the procedures taken into account in line with the “theoretical considerations and research principles”. The researcher adopted this framework because it is likely to “suit the research with relatively a small sample” (Alexiadou: 2001: 56).

Woods (1981) cited in (Alexiadou: 2001: 57) states that the selection of extracts that illustrate the analysis is “based on four criteria, namely; validity, typicality, relevance and clarity”. The researcher selected the framework to analyse the documents and the individual interview transcripts. It should also be borne in mind that, although the interviewees were drawn from the same institution, they fulfill different academic and administrative functions. As indicated in chapter 4 of this research, the senior staff members who were interviewed were the University Registrar, the Director of the University Centre for Higher Education Teaching and Learning and the Director of the University Institutional Planning Department.

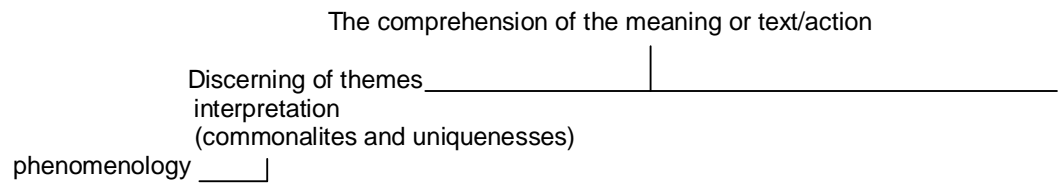
This situation presents the researcher with a potential problem for the analysis and this view is also supported by Alexiadou (2001: 56) who stated that

The diversity of the sample and the different interview focus for different groups of research participants according to their role, present a challenge to analysing data under common categories.

The researcher was of the view that it was essential to establish themes for documentary analysis as well as for each interviewee’s response. Further, the researcher considered it to be advisable to group similar findings from themes of different analytical memoranda. It can also be noted that the themes relate to the aim of the research, which is to establish the issues to be considered when formulating fraud and corruption policies and procedures and recommending best practice.

Figure 5.1 below shows the qualitative research approach the researcher adopted. The researcher places particular emphasis on the “comprehension of the meaning or text/action, discerning of themes, (commonalities and uniqueness)” (Tesh: 90, cited in Miles & Huberman: 1994:7)

Figure 5.1: Qualitative research approach



Source: Miles and Huberman (1994: 7)

Van Manen (1990: 88) cited in Alexiadou (2001: 58) describes a theme as “way to get at meaning and describe it, as a means to give shape and form to meaning, and is always a reduction from it”.

Table 5.1: Phase 1: Documentary Data Analysis

Documentary analysis of Enterprise Risk Management Process (Mind map) & Centre for Higher Education Transformation: Governance Series, 2007		
Themes	Sub-themes	Sources
Enterprise Risk Management	Elements: 1. Corporate Governance (policies for risk management & responsibilities) 2. Internal controls 3. Implementation 4. Risk management process 5. Sources of risk	Documents

Risk Management Governance reporting structure	1. Risk Management Control Manager reports to Risk Management Committee, Senior & Middle Management, and Audit Committee. Level of Risk Management Control Manager: Middle management	"Mind Map" document
Whistle-blowing	1. Anonymous reporting process of fraud, corruption and irregularities 2. Protection of people reporting corruption and fraud to authorities.	Protected Disclosure Act 26 of 2000. Enterprise Risk Management-Ref 101 document
Fraud and Corruption risk management policy	1. An established policy dealing with acts of fraud, corruption and irregularities	
Audit Committee	1. A committee tasked with the responsibilities of managing fraud/corruption at the University	Centre for Higher Education Transformation: Governance Series, 2007
University Council	1. A University body responsible for governing and setting the mission and purpose of the institution.	Centre for Higher Education Transformation: Governance Series, 2007

Source: Own model (2011) based on Wright (2005)

5.4 THE FINDINGS AND THE DOCUMENT ANALYSIS - Risk Control Manager (Phase 1)

The discussion with the Enterprise Risk Control Manager of the University regarding the enterprise risk management process (the "mind map") was held on 19 and 20 October 2010. The documents that included the Centre for Higher Education Transformation: Governance Series, 2007, risk related legislation, guidelines and best practices, were also discussed.

It was found that the University does not have an enterprise risk management policy, and consequently does not have a written fraud and corruption risk management policy – "Fraud and Corruption Risk Management Policy and procedure . . . non-existent" (Enterprise Risk Management mind map: 2009). Further, it was found that the risk control manager is at the middle management level in the University, making it difficult for this manager to discuss risk management at an executive level – "risk management governance" (Enterprise Risk Management mind map: 2009). Furthermore, whistle-blowing could only be addressed to the "Vice-Chancellor".

The absence of a risk management policy and procedures places the University at risk of not identifying and assessing the risks. There are no risk registers either at the strategic or lower level of the University. This situation at the University suggests that the institution does not comply with section 51(a)(i) of the Public Finance Management Act and also suggests that the University Audit Committee does not fulfil its responsibility in accordance with Centre for Higher Education Transformation: Centre for Higher Education Transformation Governance Series(2007: 37) that states that

the University Audit Committee is “responsible for areas of risk and establishment of effective counter-measures”.

5.5. THE FINDINGS OF THE INTERVIEWS WITH SENIOR STAFF MEMBERS OF THE UNIVERSITY (Phase 2)

The interviews with three senior staff members of the University took place over the period 2 November to 5 November 2010. As indicated in chapter 4, it was considered to be appropriate to interview these staff members due to their key roles in the institution. Further, the researcher draws from Table 3.2: Proposed institution of higher learning anti-fraud and corruption risk program. Step 2 relates to locating the possible education areas where corruption can occur. For the purposes of reporting the findings, the Registrar will be referred to as Interviewee 1, the Director for Higher Education Teaching and Learning as Interviewee 2, and the Director for Institutional Planning and Review as Interviewee 3.

Table 5.2: Phase 2: Analysis of interview data from transcripts (Interviewee 1)

The University Registrar		
Themes	Sub-themes	Sources
University Enterprise Risk Management policies	1. Elements: Policies for risk management that deal with Corporate Governance, Internal controls Implementation Risk management process	Interview

	Sources of risk (risk areas-fraud & corruption)	
Main risks for the University	<ol style="list-style-type: none"> 1. Student data 2. Fraud relating to certificates 3. Verification of certificates 4. Original certificate is demanded during registration of students 5. There is a possibility of submission of fraudulent certificate in order for students to secure a bursary 	Interview
Fraud committed by University staff	<ol style="list-style-type: none"> 1. Is there a risk of procurement fraud? 2. Procurement fraud. Are there controls? 	Interview
Fraud associated with either staff or students (reputational risk)	<ol style="list-style-type: none"> 1. Examinations 2. Tampering with students' marks 3. Are there any controls to prevent the incidents? 	Interview
Fraud and Corruption risk management policy	<ol style="list-style-type: none"> 1. An established policy dealing with acts of fraud, corruption and irregularities 	
Audit Committee	<ol style="list-style-type: none"> 1. A committee tasked with the responsibilities of managing fraud/corruption at the University 	Interview
Plagiarism Policy	<ol style="list-style-type: none"> 1. The failure to acknowledge the writing 	Interview

	and concepts of others, and using the ideas as if they are yours. 2. Does the University have a plagiarism policy?	
Research fraud	1. Misappropriation of research grants	Interview

Source: Own model (2011) based on Wright (2005)

Summarised interview with the Interviewee 1

The registration of students and governance (policies and procedures) are the responsibilities of the interviewee 1. Interviewee 1 serves as the secretary and keeps all the relevant documents of the Council.

Interviewee 1 was asked if there had been incidents of certificate fraud at the University and his answer was that “there are not many”. He further stated that recently there was a person claiming to have received a doctorate degree from the University. He stated that the person concerned could not be found in the records of their University. When asked about procurement fraud, interviewee 1 was of the view that the University processes were transparent and were being monitored by the Financial and General Purpose Committee in order to ensure that the procurement processes were followed. Interviewee 1 was also of the view that the University was not exposed to examination fraud. “There are no alterations to the results without the head of the department being informed and granting permission”.

According to Interviewee 1, plagiarism is mostly prevalent at undergraduate level and the University believes more in an

educative process than disciplinary action. He conceded that there had been a Master’s degree student who was excluded from the program due to plagiarism.

Interviewee 1 was of the view that student data and certificate fraud are the main risks at the University. However, Interviewee 1 believed that there are controls and mitigating factors to reduce the potential impact of these risks. For example, there is a back-up student data located in the University area. As for certificate fraud during registration at the University, the interviewee explained that Managed Integrity Evaluation (MIE) verifies the certificates for the University to ensure that a potential student does not gain admission through a fraudulent certificate.

Interviewee 1 was asked if the University “has experienced any fraud relating to exchange students”. The response was that the “University International Office deals with the verification of the qualification in collaboration with the international office or government of the student concerned”. According to the interviewee 1, there had also not been any reported incidents of research grant misappropriation at the University as the agreement was usually between a researcher and the funding organisation.

Interviewee 1 did not refer to any existing University fraud and corruption policy and procedures.

Table 5.3: Phase 2: Analysis of interview data from transcripts (Interviewee 2)

The University Director of Teaching and Learning		
Themes	Sub-themes	Sources
Plagiarism Risk	1. Is plagiarism prevalent in	Interview

	<p>the University?</p> <p>2. What category of students/ what level of students get involved in plagiarism?</p>	
Risks associated with students in a classroom	<p>1. Possibility of assessment risk. The risk increases with diversification</p> <p>2. University admission requirements not being complied with.</p> <p>3. The risk of standard dropping due poor quality of student intake.</p>	Interview
Existence of Fraud and Corruption risk management policy at the University	<p>1. An established policy dealing with acts of fraud, corruption and irregularities</p>	Interview
Plagiarism Policy	<p>1. The failure to acknowledge the writing and concepts of others, and using the ideas as if they are yours.</p> <p>2. Does the University have a plagiarism policy?</p>	Interview
Risk Management policies for the University	<p>1. Policies for risk management that deal with Corporate Governance, Internal controls, Implementation, Risk management process,</p>	Interview

	Sources of risk (risk areas - fraud & corruption)	
--	---	--

Source: Own model (2011) based on Wright (2005)

Summarised interview with the interviewee 2

The researcher was of the view that interviewee 2 has vast experience in teaching and learning at the University level. It was also observed that the larger portion of the University population were students. Chapter 3, the literature review, also alerted the researcher to the fact that one of the risks in the classroom is the assessment of students. This relates to either examination or research or any task that has a relationship with appraisal that might create a risk of bribery or abuse.

The researcher draws from Chapter 3, a Suggested Institution of Higher Learning Anti-Fraud and Corruption Strategy, step 3: Locating major players and motivation for fraud and corruption. The components of this step include the lecture-room as a potential location where favours and exploitation may take place.

Interviewee 2 acknowledged that the University was experiencing academic fraud due to the “failure of students to acknowledge text and other people’s concepts. Also, people do not pay the copyright fee and actually expose the University to litigation and subsequent fines”.

The researcher asked Interviewee 2 about the likelihood of risks associated with the students in the classroom, and Interviewee 2 stated that there is a possibility of assessment risk when a University diversified. The risks of assessment

increased as the lecturers had to be very certain of what they were assessing.

Further, interviewee 2 was of the view that the University was exposed to reputational risk because of University requirements not being complied with. This failure to comply with the requirements resulted in student drop-outs.

Interview 2 was also of the view that there is a potential risk for staff supervision. She stated that teaching should be supervised as well to ensure productivity. It was further the assertion of Interviewee 2 that although the University's success rate was 87%, the curriculum should fit the purpose and evolve with the demands of the labour market and societal needs.

Interviewee 2 did not dispute the researcher's assertion that the University did not have a risk management policy or procedures.

Table 5.4: Phase 2: Analysis of interview data from transcripts (Interviewee 3)

The University Institutional Planning and Review Director		
Themes	Sub-themes	Sources
Risk Management policies for the University	1. Policies for risk management that deal with Corporate Governance, Internal controls, Implementation, Risk management process, Sources of risk (risk	Interview

	areas - fraud & corruption)	
Risks of Certification or qualifications at the University	<ol style="list-style-type: none"> 1. Theft of certificates 2. Forged certificates 3. Accreditation risk due to bad reputation 4. Resultant reduced enrolment of students 5. Resultant reduction in budget and failure to achieve University goals 	Interview
Existence of Fraud and Corruption risk management policy at the University	<ol style="list-style-type: none"> 1. An established policy dealing with acts of fraud, corruption and irregularities 	Interview
Potential reputational risks to the University	<ol style="list-style-type: none"> 1. Negative incidents involving students and occurring outside the University have a potential of affecting the University negatively, even if the incidents occur off-campus 	Interview

Source: Own model (2011) based on Wright (2005)

Summarised interview with Interviewee 3

The interviewee admitted that the University did not have either risk management policies or procedures. However, the interviewee attempted to mitigate the response by stating that “the University has a risk management framework and detailed procedures to identify and review the University risks annually and address them accordingly”.

In relation to certification or qualification fraud risk, Interviewee 3 admitted that the institution could be exposed to the risk of forgery. The interviewee, however, was of the view that the institution had sophisticated systems as internal controls to safeguard the certificates. Interviewee 3 was further of the view that the institution is exposed to reputational risk that can result in failure to get the accreditation from the regulator and result in under-enrolment. The under-enrolment could result in a reduced budget and lead to failure of the institution to achieve its goals and objectives.

5.6 FINDINGS FROM THE DOCUMENTS REQUESTED AND SOURCED FROM INSTITUTIONS' WEBSITES (PHASE 3&4)

Eleven letters requesting fraud and corruption risk management policy and procedure documents were sent by the researcher to institutions of higher learning. These letters were e-mailed to institutions and responded to during the period 17 to 23 November 2010.

The following four institutions, namely, Nelson Mandela Metropolitan University, Central University of Technology, University of Stellenbosch and University of Johannesburg responded to the researcher's request for documents and the appraisals of these institutions' documents in terms of the recommended framework are dealt with later in this chapter. Briefly, the institutions responded as follows;

- Nelson Mandela Metropolitan University stated that their institution did not have a fraud and corruption risk management policy and procedures document.

- The Central University of Technology responded by e-mailing three documents to the researcher. These documents were a fraud prevention plan, an anti-fraud and corruption policy, and a fraud response plan.
- Stellenbosch University sent an e-mail with a memorandum dated 16 March 2006. The memorandum dealt with amendments to the anti-fraud procedures. The document was written in Afrikaans and the researcher had it translated into English.
- The University of Johannesburg responded by implicitly stating that the University of Johannesburg did not have a fraud and corruption policy and procedures: “[I] . . . am also not aware of any such policy or procedure. Sorry that I cannot help you”.

The following institutions did not respond to the researcher’s request and the researcher accessed their websites on 18 December 2010 to find out if these institutions had the documents requested by the researcher. The findings regarding these institutions are set out in table 5.5 below:

Table 5.5: Institutions' websites visited, the dates and the findings

Institution	Dates	Findings
1. University of Pretoria	18/12/2010	This University does not have either a fraud and corruption risk management policy or procedures. This University has a prevention of plagiarism statement on their website.
2. University of the Witwatersrand	18/12/2010	This University does not have either a fraud and corruption risk management policy or procedures. The University has policies that deal with certain activities relating to human research and scientific ethical issues.
3. University of Zululand	18/12/2010	This University does not have either a fraud and corruption risk management policy or procedures. The University has the CHE document on its website that deals with auditing
4. Vaal University of Technology	18/12/2010	The University does not have either a fraud and corruption risk management policy or procedures. This University has a code of ethics for members of the National Tertiary Education Union
5. Cape Peninsula University of Technology	18/12/2010	The University does not have either a fraud and corruption risk management policy or procedures.
6. Tshwane University of Technology	18/12/2010	The University does not have either a fraud and corruption risk management policy or procedures.
7. Rhodes University	18/12/2010	The institution does not have either a fraud and corruption risk management policy or procedures.

Source: Own Model (2011)

Table 5.5 indicates that none of the seven institutions have fraud and corruption risk management policies and procedures. Although the Nelson Mandela Metropolitan

University and the University of Johannesburg responded to the researcher's request for documents, both institutions also stated that they do not have fraud and corruption risk management policies and procedures documents. Many of these institutions, however, have documents or policies dealing with acts of plagiarism.

In chapter 3 of this research it was noted that section 51(a)(i) of the Public Finance Management Act.No.1 of 1999, also requires the councils (University or college controlling body) of public institutions of higher learning to adopt enterprise risk management as a platform to address accountability and assurance relating to corporate governance and risk management. Clearly, none of the institutions comply with this requirement.

5.7 THE FINDINGS FROM THE DOCUMENTS THAT WERE RECEIVED

The researcher received fraud and corruption risk management related documents from two institutions. The documents were assessed based on the guidelines contained in the documents of the Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners referred to in Chapter 2 (paragraph 2.9.5), which were used as a baseline for policy document assessment. The procedure document includes elements such as the control environment, risk assessment, control activities, information and communication, and monitoring. Figure 2.7: *Fraud and corruption management program* includes all the necessary elements that should be included in both the fraud and corruption policy and procedure documents.

- The Central University of Technology. The researcher received three documents relating to the management of fraud and corruption risks at the institution. These documents are an Anti-fraud and Corruption Policy (2007), a Fraud Prevention Plan (2007), and a Fraud and Corruption Response Plan (No date).

It was found that all the elements referred to above had been included in the documents from the Central University of Technology. This is despite the fact that these elements were not in the same sequence.

- Stellenbosch University provided a memorandum that describes a “procedure for the reporting of possible irregularities/fraud” (Stellenbosch University: 2006: 1). This memorandum was from the Senior Director of Finance and the Chairman of the Risk Management Committee and relates to the whistle-blowing process and the investigation that follows thereafter. This relates to the reactive element of a fraud and corruption management program (Figure 2.7). Setting the appropriate tone and the proactive part of the programme were not present.

This memorandum states that the possible irregularities/fraud should be reported to the

“Ombudsman and/or Executive Director: Finance through, for example;

- a) Accountability Centre – Head.
- b) Head of Department, Research Leader, Project Leader.
- c) Individual.
- d) Anonymous”.

5.8 CONCLUDING SUMMARY

In this chapter, the presentation of the findings based on the data analysis was addressed. The data included the documents received from the university at which the research was carried out (phase 1), the interview transcripts of interviews with senior staff members of the university (phase 2), the data gathered from other institutions regarding fraud and corruption documents of their institutions and data gathered from the websites of institutions (phase 3 and 4).

The data was then analysed according to themes. The themes were derived from the documents and responses from the interviewees regarding the subject of the research and their environment.

The data findings reveal that the institutions of higher learning in South Africa that were addressed in the research did not have fraud and corruption management programmes, resulting in the failure to draw up fraud and corruption risk management policies and procedures. This is despite the fact that section 51(a)(i) of the Public Finance Management Act requires the councils (University or college controlling body) of public institutions of higher learning to adopt enterprise risk management.

Of all eleven institutions that were contacted by the researcher with a request for documents, only four responded and only two of the four had such documents, and only one met the criteria established by the researcher to assess fraud and corruption risk management policies and procedures.

The research was based on the criteria established to assess fraud and corruption policies and procedures of institutions of higher learning. The criteria were formulated, based on chapter 2, figure 2.7: *Fraud and corruption risk management program*. This generic program has three main components, namely; setting the appropriate tone, proactive and reactive responses. Further, the researcher also referred to chapter 3, table 3.2: Proposed institution of higher learning's anti-fraud and corruption risk program. The framework is illustrated below in table 5.6.

Table 5.6: The framework for the assessment of a fraud and corruption risk management policy and procedures for institutions of higher learning

COMPONENTS	YES	NO
1. BACKGROUND		
Type of institution; is it a University, technical University or college?		
Zero tolerance statement		
A general statement on the impact of fraud and corruption on the institutions of higher learning		
2. PURPOSE		
What is the purpose of this policy or procedure?		
Does the document briefly define setting the appropriate tone, proactive and reactive?		
3. DEFINITIONS		
Definitions of fraud and corruption (location of possible areas where fraud or		

corruption may occur)		
Definitions of improper conduct		
Definitions of whistleblowers		
Definitions of the Protected Disclosure Act 26 of 2000		
Definitions of institution's executive management		
4. KEYWORDS USED IN THE POLICY OR PROCEDURE		
All the key words used in the policy or procedure		
5. COMMUNICATION AND TRAINING		
Is fraud and corruption awareness conducted at the institution?		
Is training provided on anti-fraud and corruption for specialists, staff and students?		
What about code of compliance confirmation?		
Is there any clause or phrase on fraud and corruption in the employment contracts of staff?		
Is induction on fraud and corruption provided to new employees?		
6. RESPONSIBILITIES OF STAKEHOLDERS		
Are the responsibilities of stakeholders like the council, management, staff and students outlined?		

7.FRAUD AND CORRUPTION RISK MANAGEMENT		
How is fraud and corruption risk assessment conducted within the institution?		
Is there any assessment template?		
Is a fraud risk Matrix drawn up?		
Review of the Control Environment		
Monitoring: What are the techniques used?		
8.RESPONSIVE FRAUD AND CORRUPTION RISK MANAGEMENT		
Reporting methods available? Email, letter posting, telephone or face to face communication?		
Investigation of incidents?		
Reporting content?		
Notification of investigation?		
Investigations methodology?		
9. FRAUD RESPONSE COMMITTEE		
Fraud Response Committee established to ensure transparency?		
10. CONFIDENTIALITY		
Is the Investigation treated confidentially?		
11. CORRESPONDING WITH THE RELEVANT INSTITUTIONAL POLICIES, GUIDELINES AND LEGISLATION		
Is there a list (not necessarily complete) of related policies, guidelines or legislation?		

12. ADMINISTRATION		
How often is the procedure reviewed and who reviews?		
Are there clearly stipulated consequences for violating the fraud and corruption policy or procedures?		

Source: (Own summary)

In order to present a discussion in this paper, the research compares and contrasts the literature addressed in chapter 2, chapter 3 and the research data collected from the examination of documents as well as the interview data.

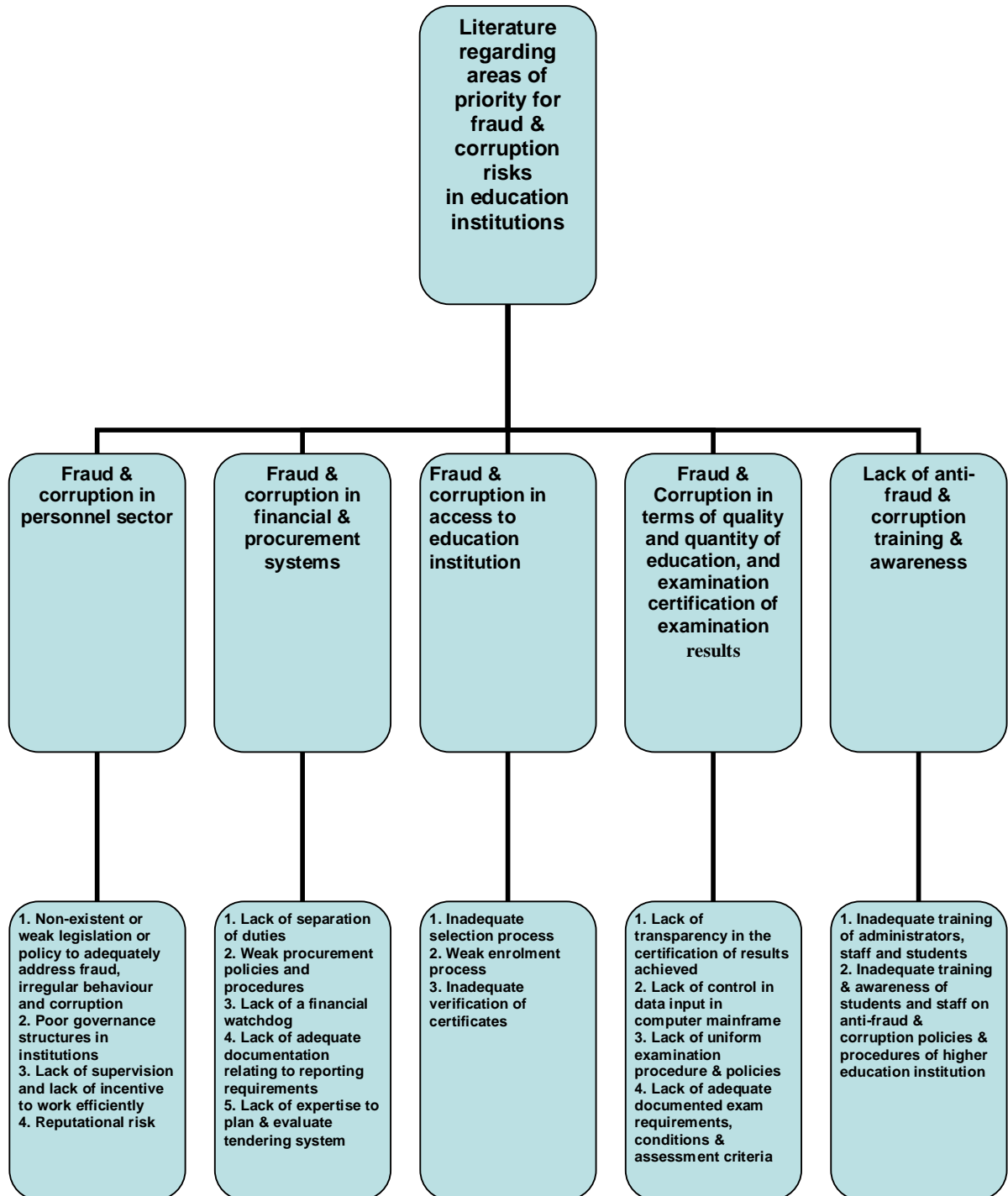
The main aim of the research was to identify the relevant issues that could be included in the formulation of fraud and corruption risk management policies and procedures in institutions of higher learning and recommend the best practice.

In line with the main aim of the research, it is further noted that, as indicated in the literature review in chapter 3, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (2004: 1) advised that institutions of higher learning should consider the following areas as a priority when dealing with fraud and corruption:

- corruption in the personnel sector;
- corruption in the financial and procurement systems;
- corruption in access to education institutions; and
- corruption in terms of quality and quantity of education, and certification of examination results.
- Anti-corruption training should be conducted throughout the entire institution of higher learning.

These key areas have been summarised in figure 5.2 below.

Figure 5.2: Priority areas for fraud and corruption in institutions of higher learning



Source: (Own summary) based on Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (2004)

In the literature reviewed in chapter 3, the possible weaknesses in the above mentioned priority areas were identified and the counter-measures were recommended in order to mitigate the fraud and corruption risks.

Tanaka (2001) also presented a similar model to the one of Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (2004). However, Tanaka admits that his model is not a total anti-corruption strategy, but may exist within a plan and is referred to as the anticipatory strategy and had the five following steps;

- defining the norms in corruption;
- locating the possible educational areas where corruption may occur;
- locating major players and motivations for fraud or corruption;
- defining internal/external issues; and
- initiating preventive measures.

The research data from the university's Risk Control Manager, the interview data and the documents of the other institutions revealed that the institutions did not have an enterprise risk management policy and consequently did not have fraud and corruption risk management policies or procedures. Of the eleven institutions contacted by the researcher for the purpose of obtaining the fraud and corruption risk management policies or procedures, only one institution had adequate documents. This reflects the issue mentioned in the literature survey (chapter 3): "Poor governance structures in institutions". The Institute of Internal Auditors, The American Institute of Certified Public Accountants, and Association of Certified Fraud Examiners

(2007: 6) further state that a written policy conveys “the expectations of the board of directors and senior management regarding managing fraud risk”.

The fraud and corruption categories mentioned in the literature review are similar to the categories in documentary evidence and the interview data presented in table 5.1, 5.2, 5.3, 5.4, and 5.5. For example, the risks of student data, fraud relating to certificates, verification of certificates and plagiarism infringements. These risks were also mentioned in the literature as “Inadequate selection process, weak enrolment process, inadequate verification of certificates”.

The literature that was reviewed addressed the need for the formulation of both fraud and corruption policies and procedures for institutions of higher learning in order to promote good governance, resulting in an appropriate corporate culture and the promotion of ethical behaviour. In the literature review, this risk was classified as “non-existence or weak legislation or policy to address fraud, irregular behaviour and corruption adequately”. This risk was identified in the response of the three interview participants under the theme “Fraud and corruption risk management policy”. The risk is further implicitly identified in the findings relating the institutions’ websites visited by the researcher.

The literature also addressed the priority areas where fraud and corruption are likely to manifest themselves and suggested the possible counter measures to mitigate the risk of fraud and corruption. Interview data mainly addressed the areas and categories of fraud and corruption to be considered. This data mainly relates to the proactive part of fraud and corruption risk program – fraud risk assessment. The researcher is of the view that the interviewees

demonstrated inadequate knowledge of the subject, probably due to the lack of awareness and training in the field of fraud and corruption. Dessoiff (2009) states that principals believe that finding fraud is not their job as they have been hired to be educators and the majority of teachers do not have a financial or accounting or auditing background.

Neither of the models of Tanaka (2001) or the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (2004) addressed the issues relating to anonymous reporting, whistle-blowing, in the institution. The Risk Control Manager of the university at which the research was conducted addressed this aspect in a subtle manner in the “mind map” document, and his reference to the Protected Disclosure Act, 26 of 2000.

It has been established that there are similarities between the literature review in chapter 2 and 3, and the research findings from the document examination and the evidence obtained from the interviewees.

Chapter 6 will present the summary, the conclusions drawn from the research and the recommendations. The recommendations will include the formulation of fraud risk management policy and procedures based on the findings and the five key principles, namely; fraud risk governance, fraud risk assessment, fraud prevention and detection, and investigation and corrective action.

CHAPTER 6

CONCLUSION

6.1 INTRODUCTION

In chapter 5 the research findings were discussed. The findings were derived from the data gathered in four phases of the research. Phase 1 comprised the data collected from the documents obtained from the risk control manager of the university selected for the purposes of the research. Phase 2 comprised the data from interviews with members of the management of the university. Phase 3 comprised the data provided by certain institutions of higher learning. Phase 4 comprised the data obtained from the websites of institutions of higher learning.

Phase 1: The documents included the Centre for Higher Education Transformation: Centre for Higher Education Transformation Governance Series (2007), risk related legislation and the “Enterprise Risk Management mind map, 2009” of the university, provided by the risk control manager.

Phase 2, comprised of the data derived from the interviews conducted with three key university staff members. The purpose of gathering this data was to establish the critical issues that should be included in the formulation of a fraud and risk management policy and procedures for higher learning institutions. The roles of these three staff members put them in a position to contribute meaningfully towards the goals of the research: to locate the most critical institutional areas where and in what manner fraud or corruption can manifest itself.

Phase 3 and 4 dealt with the data sourced from fraud and corruption risk management policies and procedures requested from institutions of higher learning. Other data was drawn directly from the institutions' websites.

In this chapter, the research summary, conclusion and recommendations are addressed.

6.2 CHAPTER 1: THE INTRODUCTION

The introduction to the research served as a plan for the entire research. This chapter provided the context of the research with particular reference to fraud and corruption. It was established that fraud and corruption is widespread. The Sunday Times (2009) reported that white collar crime was costing South Africa roughly R150-billion a year. Roelofse (2007) also reported that in 2004 the KwaZulu-Natal Province Internal Audit's Forensic Investigation Services found that fraud in provincial departments cost the taxpayer R40 million per year.

Public entities, including Institutions of higher learning are required to have risk management strategies that include a fraud prevention plan to direct internal audit effort and priorities. It was also stated that it is a requirement that the risk management strategy be communicated to all employees (Public Finance Management Act: 1999). The purpose of the present research was therefore to establish the critical issues that would be relevant for inclusion in a fraud and corruption risk management policy and procedures for higher learning institutions, and to recommend the best practice.

The following research goals were set;

- to identify the critical issues that would be relevant for the formulation of fraud and corruption policies and procedures of higher learning institutions;
- to establish a framework against which the fraud and corruption risk management policies and procedures of higher learning institutions would be measured;
- in the case of one selected institution of higher learning, to determine whether the policies and procedures are appropriately implemented, including the setting of the appropriate tone and whether the policies and procedures are communicated to staff, who also receive appropriate training; and
- to identify the deficiencies in the policies and procedures obtained from the institutions or their websites.

6.3 CHAPTER 2: LITERATURE REVIEW ON FRAUD AND CORRUPTION RISK MANAGEMENT

A literature review on fraud and corruption was conducted and the key areas discussed were the following:

- Corporate governance was defined;
- Enterprise Risk Management was described;
- An Enterprise Risk Management framework was defined;
- The ORCA (Jones: 2004) approach was described;

- It was explained how organisations benefit from Enterprise Risk Management;
- The relationship between the risk universe and fraud risk was described;
- Fraud and corruption was defined;
- The distinction between fraud and corruption was explained;
- The main legislative framework that is used to address fraud and corruption in South Africa was set out;
- The reasons for people to commit fraud were identified;
- The ways in which fraud and corruption are measured were established;
- The impact of fraud on organisations was described;
- The manner in which organisations should manage fraud and corruption was described;
- A fraud and corruption risk management policy was explained.

Fraud and corruption risk management procedures were set out, as well as a fraud and corruption management program.

Klomp and de Haan (2008) stated that, although there are differences in the definitions of governance, there is, however, a broad consensus that good governance implies that a government is accountable, transparent, responsive,

effective and efficient, and follows the rule of law, thereby assuring that corruption is minimised.

Loghry and Veach (2009) defined enterprise risk management as a coordinated approach that an enterprise takes to assess and respond to all risks affecting the company

According to the Institute of Directors of Southern Africa (2009), risk management is the cornerstone of corporate governance. The board of the company has to be satisfied that risk is managed properly.

Chapter 2 defined corporate governance, enterprise risk management, fraud and corruption in the South African and global context. The relationship between corporate governance, enterprise risk management, and fraud and corruption and their impact on the organisations and their management within enterprises was also discussed.

It was also submitted that the literature demonstrated that fraud and corruption policies and procedures play a major role in preventing, detecting and responding to fraud and corruption activities in an organisation. The literature also emphasised the need for employees and other stakeholders to know what is considered as fraudulent and corrupt conduct and how the organisation should deal with offenders.

6.4 CHAPTER 3: FRAUD AND CORRUPTION RISK MANAGEMENT IN INSTITUTIONS OF HIGHER LEARNING

In chapter 3, critical issues that would be relevant for inclusion in a fraud and corruption risk management policy

and procedures of a institution of higher learning were discussed. In discussing fraud and corruption risk management in institutions of higher learning, the following concepts were dealt with: the type of fraud associated with the institutions of higher learning, the consequences of fraud and corruption, contributing factors to fraud and corruption and the recommended controls to mitigate the fraud and corruption risks.

The following areas were found to be common areas of weakness where fraud and corruption could occur in institutions of higher learning:

- corruption in the personnel sector;
- corruption in the financial and procurement systems;
- corruption in access to education institutions; and
- corruption in terms of quality and quantity of education and certification of examination results.

The researcher recommended that anti-fraud and corruption training should be conducted throughout the entire institution of higher learning. Administrators, staff and students should be made aware of and receive training on the anti-fraud and corruption policies and procedures of the institution. The training should include an awareness of the types of fraud and corruption that are specific to institutions of higher learning.

The researcher set out a model in Table 3.2 with basic components to be considered when drafting a fraud and corruption policy and procedures.

6.5 CHAPTER 4: RESEARCH METHODOLOGY

Chapter 4, the research methodology chapter, described the research purpose, the research procedure, the procedural design, the collection of data, and the manner in which to promote the validity and reliability of the data and the results of the research.

The research adopted a qualitative research methodology. The research was conducted in an interpretivist paradigm (Babbie and Mouton: 2007) in order to understand a particular situation. The research was also of an explorative nature in that it sought to establish a framework for an effective risk management policy and procedures in a university environment by identifying the critical issues to be considered in the formulation of an anti-fraud and anti-corruption policy and procedures.

A small South African residential university was selected for the research. The data collection was conducted using documents obtained from the university risk control manager, interviews with three key university staff members, documents from other institutions of higher learning, and information obtained from institutions' websites. The data was collected in four phases utilising multiple sources (data triangulation):

Phase 1: Initial discussions were held with the university enterprise risk control manager in the finance department. The aim of the meeting was to discuss the status of enterprise risk management at the university and fraud and corruption risk management policies and procedures. Risk management related legislation, guidelines and best practices were also discussed.

Phase 2: Three key personnel at management level were selected purposively in three departments at the university to be interviewed about fraud risk management at the institution.

Phase 3 comprised of the sending out of requests to institutions of higher learning via email for their fraud and corruption policies and procedures. The aim was to determine whether these higher educational institutions have such policies and procedures, and if they do, whether their policies and procedures included all the components referred to in the proposed institution of higher learning anti-fraud and corruption risk program framework.

Phase 4 dealt with the accessing of institution of higher learning websites in search of fraud and corruption policies and procedures. The aim of this exercise was to confirm whether the institutions that failed to respond to the researcher's request have fraud and corruption management or related documents freely accessible on their websites.

Chapter 4 also described the research purpose, the research procedure, the procedural design, the collection of data, the ethical issues, and the means adopted to promote the validity and reliability of the data and the conclusions.

6.6 CHAPTER 5: THE FINDINGS

This chapter dealt with the research findings from the data collected. The data was analysed according to themes. The themes were derived from the research documents and responses from the interviewees regarding the subject of the research and their environment.

The research data findings revealed that institutions of higher learning in South Africa that were addressed in the research did not have fraud and corruption management programmes, resulting in the failure to draw up fraud and corruption risk management policies and procedures. These findings were derived from phase 1 (document examination), phase 2 (interviews), phase 3 (requests for fraud and corruption documents) and phase 4 (accessing of institutions' websites) of the data collection process. The findings established that institutions were not complying with the requirements of section 51(a)(i) of the Public Finance Management Act as it requires the councils (university or college controlling body) of public institutions of higher learning to adopt enterprise risk management.

The researcher concluded that, generally, the majority of institutions of higher learning do not have fraud and corruption management policies. The websites of a number of universities were visited with the purpose of establishing the existence of fraud and corruption risk management policies.

6.7 CONCLUDING SUMMARY AND RECOMMENDATIONS

In chapter 3, the planning process for fraud and corruption prevention in higher learning institutions was described. This process refers to the norms for the prevention of fraud and corruption. These are the definitions of indicators (red flags) or conduct that reveals acts of fraud, corruption or improper conduct by potential perpetrators.

The planning process relates to the location of possible educational areas where corruption or fraud may occur. The

incidents can occur at the student registration offices, in the classroom and during examinations. The incidents may include fraudulent certificates or bribery. Once these improper incidents have been identified, an analysis is conducted to determine the impact and likelihood of corrupt or fraudulent behaviour occurring in order to prioritise the anticipatory and preventive measures. These anticipatory and preventive measures include reviewing the controls and investigation process to determine what happened, who was involved and what action is to be taken to prevent a recurrence. The lessons learnt are then fed back into the planning process. The planning process for fraud and corruption also includes a well-defined whistle-blowing process.

The research also addressed the main aim of research and the goals during phase 1 (documents obtained from the university risk control manager), phase 2 (interviews with the key university staff members to determine critical areas where fraud or corruption in the institution may occur), phases 3 and 4 (fraud and corruption document analysis of institutions with the aim of identifying the deficiencies and recommending the best practices). The main aim of the research and goals were:

- to identify the critical issues that would be relevant for the formulation of fraud and corruption policies and procedures of higher learning institutions and recommend best practice;
- to analyse the fraud and corruption risk management policies and procedures obtained from the institutions or their websites; and

- to identify the deficiencies in the policies and procedures in order to recommend improvements.

Of all eleven institutions that were contacted by the researcher with a request for documents, only four responded and only two of the four had such documents and the documents of only one met the criteria established by the researcher to assess fraud and corruption risk management policies and procedures. Although the Central University of Technology met the criteria, the procedures are included in the fraud prevention plan and are not in a separate document. The literature review prescribed that fraud and corruption risk management policy should be put into operation through a separate fraud and corruption procedure document.

The data findings revealed that institutions of higher learning in South Africa that were addressed in the research did not have fraud and corruption management programmes, resulting in the failure to draw up fraud and corruption risk management policies and procedures. This is despite the fact that section 51(a)(i) of the Public Finance Management Act, requires the councils (university or college controlling body) of public institutions of higher learning to adopt enterprise risk management.

In emphasising the need for fraud and corruption risk management policies and procedures in institutions of higher learning, the researcher referred to a phrase by Klitgaard (2009: 2) cited in Cape Times (2010) that stated that the key parts of the civil society like schools and universities can assist in fighting corruption in the country. Klitgaard went on to encourage South African schools to follow the example of "Paramadina University, which requires all undergraduate

students to take a course in anticorruption. You can support research on anticorruption efforts, ranging from evaluations to prevention studies”.

6.8 RECOMMENDATIONS

In line with the research findings and pursuant to good governance principles and legal compliance, it is recommended that the institutions of higher learning use the fraud and corruption risk management policy document comprising of the following basic aspects:

TITLE

- The name of the policy

PURPOSE AND SCOPE

- The purpose of the policy is usually the reason why the policy is introduced. For example, the purpose of fraud and corruption risk management policy is to set out the rules that govern the prevention of acts of fraud and corruption at a university. The scope addresses the coverage of the policy in terms of the institution’s business units/ departments, its staff and all the parties that have dealings with the institution.

THE POLICY STATEMENT

- The policy statement or the background of the policy deals with the commitment of the management of the institution to promote the principle of good corporate governance and compliance with the relevant legislation. This statement also encourages staff and students to conduct themselves in an ethical manner for the benefit of all stakeholders of the institution.

OBJECTIVES

- The objectives of the policy are spelt out with the aim of focusing on specific elements of the business and their relationship to fraud and corruption.

DEFINITIONS

- The definitions of;
Fraud: what constitutes fraud and examples?
Corruption: what constitutes corruption and examples?
Irregular behaviour/ conduct: what constitutes irregular conduct and examples?
Protected Disclosure Act 26 of 2000;
Executive Management.

REFERENCES TO RELATED POLICIES AND LEGISLATION

- All the related policies and legislation are listed to ensure that the policy is not in conflict with the other policies of the institution and the legal framework. For example, the following table sets out the legislation and policies that could be included:

Table 6.1: References

No.	Title
1.	Public Finance Management Act No. 1 of 1999
2.	Public Entities Act 30 of 1997
3.	Prevention and Combating of Corrupt Activities Act No. 12 of 2004
4.	Protected Disclosure Act 26 of 2000
5.	Constitution of South Africa Act 108 of 1996
6.	Higher Education Act of 1997
7.	Centre for Higher Education Transformation

	Governance Series, 2007
8.	Institution's Code of Conduct
9.	Institution's Disciplinary Code

Source (Own Model)

FRAUD AND CORRUPTION PREVENTION MANAGEMENT

- This part of the policy addresses the institution's expectations and assumptions that the staff as well as the departments will work together towards the overall objective to eliminate fraud and corruption risks in the institution. The prevention strategies involve fraud and risk assessment, fraud awareness, fraud detection, reporting and investigation (only what should happen and not the process).

RESPONSIBILITIES

- The responsibilities of different stakeholders are stated in this part of the policy so as to clarify exactly the responsibilities of individuals and business units/ departments and board/ council's sub-committees. For example, the Risk Management Department is responsible and is mandated to proactively anticipate, prevent, detect and investigate fraud and corruption as well as irregularities in order to support the intent and objectives of the university. The responsibilities of management, employees, students, the audit committee and the council regarding prevention of fraud and corruption in the institution are spelt out in this part of the policy

AUTHORITY

- The authority regarding the fraud and corruption policy lies with the Risk Management Department through the enterprise risk management mandate. The Risk Management Department is given access to all functions, records or information in the investigation of any allegation, after notifying the Vice Chancellor or departmental head.

NON-COMPLIANCE WITH THE POLICY

- The Council, staff and students must comply with fraud and corruption policy and the disciplinary action must be taken where it is found that the policy has been violated.

The policy resembles the rules of the institution or an entity, while the procedures represent the implementation of the policy “and should evolve over time as new tools emerge, new processes re-designed, and the risks associated with an area change” (University of California of Santa Cruz: 2004:3). This statement supports the conclusion that policies and procedures must be separate documents. It is recommended that the fraud and corruption procedures document of institutions of higher learning should comprise of the following elements:

TITLE

- The name of the procedure

PURPOSE & SCOPE

- For example, the purpose of these procedures is to define the manner in which the university fraud risk management policy will be implemented.

OBJECTIVE

- For example, the objective of these procedures is to formalise the methods and activities to be followed in the implementation of the policy.

PROACTIVE FRAUD AND CORRUPTION RISK MANAGEMENT

- The proactive fraud and corruption risk management comprises of:

Fraud Risk Assessment

Fraud and corruption risk assessment should be conducted periodically. The assessment is conducted using the fraud tree/ categories as illustrated in chapter 5, figure 5.2. It must be borne in mind that this list is not exhaustive. The list is based on the literature review and institutions and areas can differ due to many factors. This process can be explained better by using the risk assessment template below:

Table 6.2: Fraud risk assessment template

Identified risks and schemes	Likelihood	Impact	Individuals/ department	Existing anti-fraud/ corruption controls	Controls effectiveness	Residual risks	Fraud/ corruption risk response
Fraud & Corruption in personnel sector							
Non-existent or weak legislation or policy to address fraud, irregular behaviour and corruption adequately							
Poor governance structures in institutions							

Lack of supervision and lack of incentive to work efficiently							

Source: (Own Model) based on Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners (2007)

Programme design and control activities

Programme design and control activities deal with the key prevention techniques to avoid potential key fraud and corruption risks. Regular reviews of fraud and corruption risk registers are conducted where necessary and new controls are developed to close the gaps.

Monitoring

Monitoring and detection techniques are put in place in order to uncover corruption events when unmitigated risks are realised. These events are sometimes referred to as indicators or “red flags”. The university must establish cost effective techniques in order to control and detect the fraud risks that could not be prevented.

RESPONSIVE FRAUD AND CORRUPTION RISK MANAGEMENT

Responsive fraud and corruption risk management comprises of the following;

Response and remediation/investigation and corrective action

Response and remediation/ investigation and corrective action are meant to address reporting of incidents that might have occurred even though the institution might have developed internal controls. The institution's internal controls cannot be considered to be a total deterrence. Suspected fraudulent and/ or corrupt activities have to be reported in terms of the prescribed procedures.

Reporting procedure and “whistle-blowing procedure”

The institution must establish the reporting procedure (hotline facilities). Other methods like email, anonymous and face to face reporting are also encouraged. These processes have to be documented in a fraud and corruption risk management procedures.

Reporting content

Reports of suspected fraud, corruption or irregularity should be as specific as possible. The report should:

- describe the nature of the suspected irregularity;
- contain the name of the individuals believed to have engaged in the impropriety;
- note the location where the incident occurred;
- outline the dates of the incidents;
- outline how the concern came to light;
- include a detailed description of the incidents and any other relevant information, including any supporting documentation; and
- provide contact information, if the allegation is not anonymous.

Responding to reports

The process to be followed when the report is received needs to be addressed in detail, including an assurance that all reported incidents would be investigated.

Confidentiality

The institution of higher learning must assure the individual reporting the incident that the disclosure of suspected fraud or irregularity is made in confidence and in line with the Protected Disclosure Act. All participants in a fraud or irregularity investigation must keep the details and results of the investigation confidential.

Findings

The investigation findings must be based on factual information and reasonable inferences. This will assure the individuals reporting the suspected fraudulent or corrupt activities or incidents that the results of the investigation are reliable and credible, and appropriate action will be taken.

Recovery

The institution needs to state that the university will effect the recovery of assets should the investigation reveal that there was a loss due to fraud or corruption.

Measuring

The institution has to establish the measuring method for fraud and corruption incidents to be used. This technique comprises of the generating of accurate monthly or quarterly statistics for the purpose of reporting, planning and improvements.

It is also recommended that a fraud tree/ categories for education sector/academic fraud and corruption with its definitions be developed. The objective is to educate and train the stakeholders and encourage efficient reporting of fraud and corrupt activities. Fraud and corruption training at institutions of higher learning should be encouraged, including the introduction of training at a first year level.

Further research regarding the protection of whistleblowers in line with the Protected Disclosure Act 26 of 2000 is recommended. This is due to potential victimisation and reprisals against people reporting fraudulent or corrupt activities, mostly people reporting on management. It is submitted that many whistleblowers lose their jobs after reporting fraudulent or corrupt activities occurring. The reprisals have a negative effect on the fight against fraud and corruption.

REFERENCES

- ALEXIADOU, N. 2001. "Research policy implementation: interview data analysis in institutional context", **Social Research, Methodology**, 4(1):51-69.
- AMBERT, A., ADLER, P. A., ADLER, P. and DETZNER, D. F. 1995. "Understanding and evaluating qualitative research", **Marriage and Family**, 57(4):879-893.
- ANFARA, V.A., BROWN, K.M. and MANGIONE, T.L. 2002. "Qualitative analysis on stage: Making the research process more public", **Educational Researcher**, 31(7):28-38.
- ASSOCIATION OF CERTIFIED FRAUD EXAMINERS, 2003. **Sample Fraud Policy** [On-line] Available: <http://www.acfe.com> [Accessed 10/08/2009]
- ASSOCIATED CERTIFIED FRAUD EXAMINERS, 2004. **Compliance and Corporation**. Las Vegas
- ASSOCIATED CERTIFIED FRAUD EXAMINERS, 2005. **Cleaning our Own House** [On-line] Available: <http://www.acfe.com> [Accessed 30/10/2010]
- BABBIE, L. and MOUTON, J. 2007. **The Practices of Social Research**. Cape Town: Oxford University Press
- BAXTER, J. and EYLES, J. 1997. "Evaluating qualitative research in social geography", **Establishing 'Rigour' in interviewing analysis**, 22(4)
- BERLINSKI, C. 2009. **The dark figure of corruption**. Istanbul: Policy Review.

BROWN, G.M. 2006. "Degrees of doubt: Legitimate, real and fake qualifications in a global market", **Higher Education Policy and Management**, 28(1):71-79.

BUSINESS DAY, 2009. **Need for greater morality among those in public trust** [On-line] Available: <http://www.businessday.co.za> [Accessed 4/12/2009]

BUSINESS ETHICS QUARTERLY, 2000. "Defining and understanding fraud: South African Case Study", **Fraud**, 10(4):885-895,11

BUSINESS REPORT, 2005. **Court told Denel executives involved in fraud cover-up** [On-line] Available: <http://www.busrep.co.za> [Accessed 10/03/2009]

CALVASINA, G. E., CALVASINA, R. V. and CALVASINA, E. J. 2007. "preventing employee identity fraud: policy and practice issues for employers", **Legal, Ethical and Regulatory Issues**, 10(2):69-80, 12.

CENTRE FOR HIGHER EDUCATION TRANSFORMATION GOVERNANCE SERIES, 2007. **What are the primary objectives and functions of the audit committee?** Rondebosch: Governance Series.

CHAPMAN, R.J. 2006. **Simple Tools and Techniques for Enterprise Risk Management**. John Wiley & Sons

CHARTERED INSTITUTE OF MANAGEMENT ACCOUNTANTS, 2001. **Fraud Risk Management**. London

CITY PRESS, 2009. **We gain the world and lose our soul** [On-line] Available: <http://www.citypress.co.za> [Accessed 8/11/2009]

COBERTT, R. B. 2004. "A view of future of risk management", **Risk Management**, 6(3):51-56.

CRANEFIELD INSTITUTE OF MANAGEMENT. (ed) 2006. **Theses/ Dissertations/ Research Report: A Practical Guide for Students to the Preparation of written Presentations of Academic Research.** Gordon's Bay: Content Solutions.

DEAKIN UNIVERSITY, 2010. **Prevention and control of fraud and corruption operational policy** [On-line] Available: <http://www.deakin.edu.au> [Accessed 30/10/2010]

DELOITTE TOUCHE TOHMATSU, 2003. **Fraud Risk Management**, No venue. Slide show presentation.

DEUTSCHE GESEESCHAFT FUR TECHNISCHE ZUSAMMENARBEIT (GTZ) GMBH. 2004. **Preventing Corruption in the Education System.** Eschborn: A Practical Guide.

DIXON-WOODS, M., AGARWAL, S., JONES, D., YOUNG, B., and SUTTON, A, 2005. "Synthesising qualitative and quantitative evidence: a review of possible methods", **Health Services Research**, 10(1):45-53.

DOIG, A., WATT, D. and WILLIAMS, R. 2007. "Why do developing country anti-corruption commissions fail to deal with corruption? Understanding the three dilemmas of organisational development, performance expectation, and donor and government cycles", **Developing anti-corruption commissions**, 27: 251-259.

DUQUETTE, C. 1998. "Perceptions of mentor teachers in school-based teacher education programs", **Education for Teaching**, 24(2)

DURGEE, J.F. 1986. "Richer findings from qualitative research", **Journal of advertising research**, 36.

EUROPEAN ACADEMY OF MANAGEMENT, 2010. **Corruption in Customs Department; An Analysis of Klitgaard Framework**. Rome: Discussion Paper.

FADE, S.A. 2003. "Communicating and judging the quality of qualitative research: the need for a new language", **Qualitative Research**, (16):139-149

GOBERT, J. and PUNCH, M, 2000. "Whistleblowers, the public interest, and the Public Interest Disclosure Act 1998", **The Modern Law Review**, 63(1):25-54.

GOLDEN, T.W., SKALAK, S.L. and CLAYTON, M.M. 2006. **A Guide to Forensic Accounting Investigation**. New Jersey: John Wiley & Sons, Inc., Hoboken

HALLAK, J. and POISSON, M. 2005. **Academic fraud and quality assurance: Facing the challenge of internationalization of higher education** [On-line] Available: <http://www.iiep.unesco.org> [Accessed 31/10/2010]

HALLAK, J. and POISSON, M. 2007. **Corruption and education** [On-line] Available: <http://www.iaoed.org> [Accessed 31/10/2010]

HANDAL, K. V. and BLOUNT, S, 2009. "Now more than ever", **Using Technology to Simplify Compliance**, 28(7):14-16.

HAYHOW, R. and STEWART, T. 2006. "Introduction to qualitative research and its applications to stuttering", **International Journal of Language and Communication disorder**, 41(5):475-493

HIGHER EDUCATION ACT 101, 1997. **Governance of Public Higher Education Institutions**. 19 December: 26.

INSTITUTE OF DIRECTORS OF SOUTHERN AFRICA. 2002. **King Report on Corporate Governance for Southern Africa**. Parktown: Inland Print & Lables

INSTITUTE OF DIRECTORS OF SOUTHERN AFRICA. 2009. **Code of Governance Principles for Southern Africa**. Parklands: Institute of Directors in Southern Africa

INSTITUTE OF INTERNAL AUDITORS, 2009. **The International Professional Practice Framework – Practice Guide** [On-line] Available: <http://www.theiia.org> [Accessed 23/09/2010]

INSTITUTE OF INTERNAL AUDITORS, 2010. **University Risk Management** [On-line] Available: <http://www.theiia.org> [Accessed 28/10/2010]

INSTITUTE OF SECURITY STUDIES, 2004. **Measuring Corruption in South Africa: What we know and what we need to know** [On-line] Available: <http://www.iss.co.za> [Accessed 02/04/2009]

JOHNSON, R. and WATERFIELD, J. 2004. "Making words count: the value of qualitative research", **Qualitative research**, 9(3):121-131.

KLOMP, J., and DE HAAN, J. 2008. "Effects of governance on health: a cross-national analysis of 101 countries", **Governance**, 61(4):599-614

KPMG. (ed) 2006. **Fraud Risk Management**. United States: KPMG International

KURER, O. 2005. "Corruption: An alternative approach to its definition and measurement", **Political Studies**, 53(1): 222-239

LEECH, T.J. 2002. "Risky business", **Risk Management**, 52.

LISTER, L. M. 2007. "A practical approach to Fraud Risk". **Risk Management**, 64(6):61-65.

LOGHRY, D. and VEACH, C.B. 2009. **Enterprise Risk Assessments**. No venue. Professional Safety.

LYTON, HUGH. 1996. "This is how it's always been done",: **The Treatment of Academic Misconduct in Canada**, 21(2):223-235.

MILES, M. B. and HUBERMAN, A. M. 1994. **Qualitative Data Analysis**. London: Sage Publications Inc.

MILES, L. and JONES, M. 2009. "The prospects for corporate governance operating as a vehicle for social change in South Africa", **Corporate Governance in South Africa**. 14(1).

PETROSA, 2007. **Enterprise Risk Management Procedure**. Cape Town: Document.

PETROSA, 2010. **Fraud and Corruption Risk Management Policy**. Cape Town. Document.

POTTS, D. 1990. **Bias lurks in all phases of qualitative research**, River Forest.

PRICEWATERHOUSECOOPERS, 2009. **Economic Crime in a downtown** [On-line] Available: www.pwc.com/za [Accessed 16/11/2009]

PUBLIC FINANCE MANAGEMENT AMENDMENT ACT, 1999. **National Treasury** . 30 April: 29.

PUBLIC PROTECTOR, 1997. **Public Protector's inquiry into certain irregularities pertaining to the issuing of degrees and courses at the University of Zululand**. Published report in terms of Section 8(2) of the Public Protector Act. Cape Town: The Parliament.

REVIEW OF HUMAN FACTOR STUDY, 2005. "Indian Corporate Scandals: Causes and solutions", **Corporations- Corrupt practices**, 11(1):70-89, 20,1.

RHODES UNIVERSITY, 2009. **Enterprise Risk Management, Mind Map**. Grahamstown.

RHODES UNIVERSITY, 2010. **Rhodes University governance structure** [On-line] Available: <http://www.ru.ac.za> [Accessed 05/10/2010]

ROELOFSE, S. 2007. "Minimising fraud in government", **Government Digest**, 26, (10).

ROWAN, M. and HUSTON, P. 1997. "Qualitative research articles: information from authors and peer reviewers", **The findings**. 157(10).

SANDELOWSKI, M. 2007. "Reading, writing and systematic review", **Advanced Nursing**, 64(1):104-110.

SAFIEDDINE, A. and ATWI, L. 2009. "Is governance a prerequisite for democracy? Insights from the Middle East", **Middle East Policy**, 16(1):85-100

SANLAM, 2008. **Forensic Accounting & Litigation Support Conference, Johannesburg**. Slide Presentation African Management Communications, Hilton Hotel.

SHANK, G. and VILLELLA, O. 2004. "Building on new foundations: Core principles and new directions for qualitative research", **Qualitative Research**, 98(1):46-55,10.

STACK, E.M. 2007. **An introduction to Research Methodology and design**: Grahamstown.

SUNDAY TIMES, 2009. **Fraud feeds at the top** [On-line] Available: <http://www.thetimes.co.za> [Accessed 22/03/2009]

TANAKA, S. 2001. Corruption in education sector development: a suggestion for anticipation strategy, 15(4)158-166.

THE INSTITUTE OF INTERNAL AUDITORS, THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND ASSOCIATION OF CERTIFIED FRAUD EXAMINERS. 2007. **Managing the Business Risk of Fraud: A Practical Guide**. No venue.

THE STAR, 2009. **Corruption the biggest threat to SA** [On-line] Available: <http://www.iol.co.za/thestar> [Accessed 30/09/2009]

TRANSPARENCY INTERNATIONAL, 2008. **Corruption Perception Index** [On-line] Available: <http://www.transparency.org> [Accessed 01/04/2009]

TRINTECH, 2010. **Unity ERM Features** [On-line] Available: <http://www.trintech.com> [Accessed 23/09/2010]

UNISA, 2007. **Policy on Prevention of Fraud/ Corruption and other irregularities**. Pretoria.

UNITED STATES DEPARTMENT OF DEFENSE, 2005. **Dictionary of Military and Associated Terms** [On-line] Available: [http://www.bits.de/NRANEU/others/jp-doctrine/jp1_02\(05\).pdf](http://www.bits.de/NRANEU/others/jp-doctrine/jp1_02(05).pdf) [Accessed 12/11/2009]

UNIVERSITY OF CALIFORNIA OF CALIFORNIA, SANTA CRUZ, 2004. **Guide to Writing Policy and Procedure Documents** [On-line] Available: www.ucsc.edu [Accessed 05/10/2010]

UNIVERSITY OF CAMBRIDGE, 2002. **Risk Management Policy** [On-line] Available: <http://www.admin.cam.ac.uk> [Accessed 31/10/2010]

UNIVERSITY OF LOUISIANA AT MONROE. 2007 **Shared Governance Procedures** [On-line] Available: <http://www.ulm.edu/sharedgovernance> [Accessed 10/12/2011]

UTTER, J. 2005. **Enterprise risk management in 2005: Moving beyond market and credit risk** [On-line] Available: <http://www.energycentral.com>
[Accessed 01/04/2009]

WELLS, J.T. 1997. **Occupational Fraud and Abuse**. Michigan: Obsidian Publishing Company, Inc.

WELLS, J.T. 2001. "Why employees commit fraud", **Journal of Accountancy**, 191 (2): 89-92

WELLS, J.T. 2005. **Principles of Fraud Examination**. New Jersey: John Wiley & Sons, Inc.

WELLS, J.T. 2007. **Corporate Fraud Handbook: Prevention and Detection**. Chichester: John Wiley and Sons Ltd.

WRIGHT, B.B. 2005. **A review of lessons learned to inform capacity-building for sustainable nature-based tourism development in the European Union funded "Support to the Wild Cost Spatial development initiative pilot programme"**. M.Ed thesis. Grahamstown: Rhodes University.