



Fraud and Fraud Prevention Strategies in Zimbabwe Local Authorities

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ABSTRACT:- Fraud is ravaging Zimbabwean local authorities. As a result it is necessary to highlight the patterns that the fraud is taking. In a bid to understand how the fraud is perpetrated as well as understand fraud. Then recommend fraud prevention strategies that can be adopted by Zimbabwe local authorities in a bid to reduce the unwarranted losses. The prevention strategies recommended include proper management procedures, auditing, training whistle blowing and strong ethical behaviours

I. INTRODUCTION

The local authority landscape in Zimbabwe has undergone a number of fundamental changes since 2008 among them is the constitutionalisation, increases in ministerial directives, lack of fiscal assistance, the departure of experienced workers and an end to sub-contracting. These developments have seen society's focus on local authorities increasing with increased calls for local authorities to perform with merge resources. Reducing fraud has been suggested as one of the many ways local authorities can adapt to make real savings and improve service delivery.

Due to fraud local authorities are losing a lot of resources. Katsande (2001) [1] writing in the herald Katsande described fraud as "an unfortunate business culture that has emerged". This was as far back as 2001 when fraud in local authorities was being noticed.

Madzivanyati (2010) [2] wrote in the herald that "The country is losing billions to fraudsters every month and this has a negative impact on the economy" Several explanations for the commitment of fraud exists. The explanations take into account factors like the motive of the fraudster, perceived suitability of targets, opportunity, technical ability and expectation of consequences on discovery. This paper will peruse existing literature on the causes of fraud in a bid to come up with the appropriate fraud prevention strategies that local authorities in Zimbabwe can adopt.

II. NATURE AND EXTEND OF FRAUD IN LOCAL AUTHORITIES.

On 10 February 2010 the herald carried an article with a breakdown of fraudulent activities in some local authorities in Zimbabwe. At that time six local authorities were under investigation these are Bindura were tender procedures and employment practices were under investigation. Chitungwiza, the Mayor and seven councillors were under investigation for corruption. In Harare seven municipal branded cattle were found at the Town Clerks farm. In Hwedza mismanagement of stands was reported. In Redcliff human resource matters were under investigation and in Zaka two vehicles were reported as having been procured without going to tender. (Herald 10. 02. 2010).[3]

Other local authorities that have come into the spotlight for fraudulent activities include Victoria falls were two councillors fought over the local authority's failure to suspend the Town Treasurer who had embezzled cash amounting to \$13000.(US dollars) with the assistance of a clerk who was on the run. In Shurugwi Town Council the local authority reportedly resolved to bring back to work the Chief Executive who was on suspension for fraud at the same time the chronicle reported that the Shurugwi town councillors were busy parcelling out pieces of land to each other. (Chronicle 11 February 2010) [4] All the activities reported above indicate a high level of fraudulent activities that are taking place in local authorities. In fact the herald concluded that "the situation is such that most councils have failed to carry out their duties and most councillors have displayed an insatiable lust for self-aggrandisement". (Herald 10 February 2010).

Even the former Finance Minister Tendai Biti echoed his fears of fraud in local authorities when he presented Harare city council with 17 million US dollars for sewage reticulation renovations were he said "My

experience with the city is not a happy one. There is a lot of pilferage, corruption and a culture of short changing processes". The Zimbabwe Situation 28 April 2010.[5] The Minister's views point at a history of legal and regulatory violations reinforcing the need for a research.

III. FRAUD DEFINED

There is no precise legal definition of fraud just as there is no single offence that can be called fraud (Ogunleye 2004). As a result this paper will provide a number of definitions put forward by deferent scholars on the subject of fraud. Ogunleye(2004) [6] sees fraud as "intentional and unlawful misrepresentation"

Fraud is defined as an intentional perversion of trust for the purpose of inducing another in reliance upon it to part with some valuable thing belonging to him or to surrender a legal right (Black's law Dictionary).[7]

Webster's new World Dictionary [8] defines fraud as "intentional deception to cause a person to give up property or some lawful right".

Picket and Pickett (2000) [9] defined fraud as

non violent crime for financial gain committed by means of deception by persons whose occupational status is entrepreneurial, professional or semi-professional and utilising their special occupational skills, opportunities also non-violent crime for financial gain utilising deception and committed by anyone having special technical and professional knowledge of business and government irrespective of the persons occupation

Fraud is seen as dishonesty obtaining an advantage avoiding an obligation or causing a loss to another party, fraud includes activities such as theft, corruption, conspiracy, embezzlement, deception, bribery and exhortation (Association of Certified Fraud Examiners 2006)[10]. There is no precise definition of fraud just as there is no single offence that can be called fraud.Lobbecke (2004) [11] wrote that fraud is one of the most difficult crimes to assess Ogunleye (2004) takes the issue further to write that

fraud is usually taken to have elements including an intentional and unlawful misrepresentation, which cause prejudice, most often misappropriation, which is removal of cash or assets to which the fraudster is not entitled as well as false accounting in which records and numbers reported are falsified to give and create false impression.

No organization is immune to fraud as long as the organization has valuable property like cash, goods, information, and land upon which fraud can be perpetrated. Fraud will always take place as long as there are some weaknesses that can be exploited for gain. Organizations, companies and individuals will always be taken advantage of (Association of Certified Fraud Examiners 2006)

The perpetration of fraud in an organization is a pointer towards the absence of good governance. Fraud can also be a result of collusions by people in different positions in the organization,. Hence fraud can occur at different levels in the organization. However fraud perpetrated by several members of top management working in collusion is often the hardest to detect.

Though local authorities are not taking fraud prevention seriously, it is the responsibility of management in local authorities to establish and maintain policies and procedures to assist in achieving the objectives of ensuring as far as possible the orderly and efficient conduct of the local authority. This responsibility includes implementing and ensuring the continued operation of accounting and internal control systems which are designed to prevent and detect fraud

IV. CAUSES OF FRAUD

Causes of fraud will be analysed using a model developed by Donald Cressey and cited by Patterson Smith. Smith (1973) [12]The model observed three key factors that cause fraud as perceived opportunity/motivation, non-shareable pressure, and rationalisation.

V. MOTIVATION

Many frauds that are committed are simple in nature. An opportunity arises because there is poor control over the organizations resources Huefner (2004) [13] in his Rosylin school study observed that the types of frauds committed were not sophisticated. Observations undertaken this far indicate that frauds committed in local authorities are very simple. Fraud is common because the environment permits fraud to take place. Management is lacking.

NON-SHAREABLE PRESSURE

Financial problems that occur from time to time in a family to include a financial need such as college fees, medical bills, a divorce settlement evolves into a crises. The crises may be due to pressure on existing high standards, due to alcoholism and an addiction to gambling. Help may be difficult to come by so a person will resort to stealing under those circumstances. People will bow to greater pressure or more pressing need and they commit fraud. (Smith 1973)

RATIONALISATION

Rationalisation arises when perpetrators justify their actions to themselves using simple excuses like most staff are engaging in it or they are even doing worse. Rationalisation can also be used when an employee feels that the company owes them unpaid salary, overtime or any other allowances that may be outstanding. The perpetrators may be of the opinion that the crime is so small that it does not harm the organisation. The fraud will not be felt. Perpetrators may also feel that what they are taking away is something that no one really cares about. Items like scrap that may have been laying in the organizations premises for some years. In Zimbabwe today some local authorities go for month without paying their employees any salaries. Disgruntled employees are potential fraudsters in themselves as they need to survive and pay for their basics like accommodation, lighting, and school fees, water and rates. Employees become fraudsters when faced with economic pressure or ruin. Employees then rationalise their prospective crimes as necessary and justified. Using the unpaid salary or allowances. Other local authorities have deceived their employees by paying them salaries late whilst at the same time paying management hefty salaries of between \$30000 and \$50000 US dollars, as well as buying luxury cars for management and mayors. Employees view such big expenditure on luxuries and they are tempted to commit fraud. The employees will conclude that converting \$3000 to own use is harmless to the organization. Some councillors have taken advantage of Statutory Instrument number 1 of 1999 (SI1 of 1999) to go out and get stands for themselves as provided for in the statute. As a result local authorities have lost open spaces for a long. Employees in positions of authority have also taken advantage of the situation to allocate themselves and their close relatives' stands in the open spaces as well.

GREED

Perpetrators of fraud may also do it for greed. When they want to obtain a higher standing in society. One may want to acquire a better car go for a vacation and or buy property when the money is not there. Such perpetrators argue in themselves that they will pay back latter only to be discovered before settling /squiring up.

PREVENTION STRATEGIES

INTERNAL CONTROL SYSTEMS

In any local authorities sound internal control systems need to be in place. These comprise of all the policies and procedures that support the local authority's efficient and effective operation to include division of responsibilities, checks and balances and regular auditing. The internal control procedures need to be well documented in clear and simple language and they must be handed over to new employees as part of their induction.

Overall responsibility of the local authority's system of internal control must be at the highest level. The accounting officers must take the initiative to curb fraud, so that fraud prevention is initiated and managed at the top.

AUDITING

Association of Certified Fraud Examiners (2006) recommended auditing. The functions of an auditor must include prevention and detecting fraud. The internal auditor must examine and evaluate the adequacy and effectiveness of the organizations internal control and the auditor must do that diligently. Khalil and Lawarree (2006) [14] urged that an audit is not useful if it is non diligent or if independence is easily compromised. Faithful adherence to internal control systems and a strong oversight management is important. In some of the small local authorities there is lack of options to segregate duties. Individuals fulfil a number of roles creating opportunities and scope to commit fraud.

FRAUD PUBLICITY

Another prevention strategy is fraud publicity. A successfully publicised fraud investigation can be a sharp reminder to those who may be tempted as well as a warning to those who are responsible for management. A discovery can also be an embarrassment on the part of those who were close to the fraud and did not notice. However fraudulent activities when exposed cause serious adverse consequences to the people and image of the business concerned (Association of Certified Fraud Examiners 2006) Fraud has an adverse impact on the very local authority on which it has been perpetrated upon. So fraud is often not reported because of the damage it causes to the image of the defrauded organization. Local authorities with government assistance often make serious efforts to cover up on fraudulent activities. They exercise damage control. Krambia –Kapards (2010)[16] in a study in Cyprus reported that in spite of the fact that most victim companies had not reported, fraud is estimated to run into hundreds of millions of Cyprus pounds. The soft treatment often given to frauds that are discovered in a bid to buttress the image of the local authority has acted as the inspiration to who do be fraudsters as they feel not threatened by the punishment or lack of it that comes with discovered fraud.

WHISTLE BLOWING

Whistle blowing must be encouraged. Many frauds are known or suspected by people not involved. These need to be encouraged to speak. Speaking on the one hand can only be possible if people realise that doing so is in their own interest. On the other hand management will need to be aware of anonymous and malicious accusations that will need to be investigated (Association of Fraud Examiners 2006). Secondly the more people in management that are involved in fraud the fewer the potential whistle blowers that exist though many frauds are discovered by tips.

TRAINING

Risk awareness is also important. To raise the awareness through formal education and training programmes paying particular attention to the managers and staff operating in high risk areas such as procurement, billing, housing allocation, as well as those with a role in the prevention and detection of fraud like security, audit, human resources management. Local authorities must be aware that people trained in fraud prevention techniques can turn back and use that knowledge to commit fraud.

It's important for local authorities to spent money on fraud prevention; such an activity will bring many benefits to the organization in the long run.

ETHICAL BEHAVIOUR

Ethical behaviour is not entirely a matter of the characteristics of individual employees it is determined at least in part by factors in the local authority. People are influenced by forces surrounding them their peers the superiors the reward system group norms and organizational policies and values. So local authorities need to employ people who are ethical correct and place them in the right environment.

Local authorities need to employ people whose professional training include the analysis of information systems in the development and implementation of fraud prevention strategies and common indicators of fraud must be given special attention so that they work as early warning signs.

Identification of all ill-gotten gains and confiscate them place the burden of proof of legal ownership on the suspected individuals. Refer all cases of fraud to the criminal justice system.

Local authorities must endeavour to retain their management staff who are experienced have a better understanding of human behaviour as they are less likely to be defrauded.

VI. CONCLUSION

Fraud is rampant in Zimbabwe local authorities; fraud is being committed by residents, employees, management and councillors. As seen by Smith the causes include issues in the fraud triangle and greed is also present. To reduce the level of fraud management has to get involved, create systems, teach about the systems and monitor the local authority. Local authorities must employ the correct people in their jobs as well as pay salaries and allowances on time.

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