

# PAYROLL FRAUD, ETHICAL CULTURE AND THE CONTROL ENVIRONMENT

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# PAYROLL FRAUD CONTEXT

- 2014 and 2016 Global Fraud Studies by Association of Fraud Examiners Report
- Payroll Identified as the Top Source of Fraud and Employee Theft
- Occurs in 27% of businesses
- Occurs Twice as often in Organisations with less than 100 employees
- Average Fraud lasts approximately 24 Months

# DEFINITION

- Employees cheating the payroll system at the place of employment in order to receive funds which they are not entitled to.
- Common Types
  - Alteration of hours/days/overtime worked
  - Ghost Employees-Adding fictitious employees and collecting the wages
  - Unilaterally increasing the amount they should receive
  - Change of Bank Accounts
  - Expense Claims

## Payroll fraud tops heists



BUSINESS REPORT: COMPANIES / 22 FEBRUARY 2011, 2:26PM /

South African companies with single payroll administrators are most vulnerable to payroll fraud and costly administration mistakes, costing South African companies more than cash in transit heists.

“An emerging area of fraud and corruption risk is the underpayment of wages and the integrity of labour hire arrangements..”

The business impact lies not only in the legal breach, the associated costs (remediation; validation, calculation and the management of back-pay process) and financial penalties, but also the disruption to the business and, perhaps most significantly, the potential impact of reputational damage (internal and external).

Shane MacDonald: Partner  
Grant Thornton, Melbourne, Australia



# CAUSES

- Control Environment
- Pressure to Perform/ Blue Eyed Boy/Girl Syndrome
- Peer Pressure/Pleasure/Greed
- Power/Loss of Reality
- Ignorance

# Control Environment and Smaller Organisation

## The Committee of Sponsoring Organizations of the Treadway Commission (COSO)

- Integrity and ethical values
- Independence and oversight
- Management philosophy and operating style
- Structures, reporting lines and delegations
- Human resource policies and practices
- Assignment of authority and responsibility
- Recruitment, development and retention of competent individuals

# PREVENTION

- Ethical Culture (King VI)
- Fraud Risk Assessment/Management
- Automated Software/Information Security/Formal Change Control Process
- Segregation of Duties
- Bank account and ID number verification



# DETECTION

- Regular Independent Reconciliations
- Supervisory Control/ Review
- Analytical Review, Trend Analysis and Comparisons
- Detailed Budgeting Process
- Tip-Off Lines/Whistle-blowing/Lifestyle Observations
- Independent Reviews-Internal Audits
- Job Rotation

# Conclusion

- Ethical Leadership
- Effective Internal Controls
- Risk Management
- Consequence Management
- Automation