

SA's dwindling economy increase risk for payroll fraud – how to prevent this

The struggling South African economy has created considerable hardship, with low salary increases coupled with greater calls on disposable income. And this has resulted in a perfect storm driving people to commit fraud, says Arlene Leggat, a director of the South African Payroll Association (SAPA).

“People make unwise decisions when they are under sufficient pressure,” she states, adding that companies can help to combat high levels of payroll fraud by encouraging their payroll administrators to become members of a professional association.

“Payroll administrators manage large amounts of money. It therefore makes sense to professionalise this industry from a number of viewpoints, not the least of which is the prevention of fraud,” Leggat puts forward.

She states that if payroll professionals have signed up to a code of ethics, they understand the impact. Acting ethically is a conscious decision, and the more it is done, the more it becomes second nature.

Additional measure

“The other side of the equation is to ensure that the correct controls are in place.” Leggat advises companies to collaborate with their external auditors to design the most effective controls. Because they interact with so many organisations, auditors are best placed to advise on fraud patterns, and what controls work best. Given that payroll processes are software-driven, she adds that real-time variation reporting is emerging as a key mitigator of fraud risk.

“Professionalisation, with its combination of an ethical code and ongoing education, and proper controls are the two pillars payroll-fraud detection and mitigation,” she concludes. “Fraud generally, and payroll fraud in particular, are real threats, but these basic measures can really help.”

Drivers of professional membership

“It’s a relatively new concept in South African payroll, but the trend towards professionalisation in other disciplines, such as tax practitioners and directors, is quite marked. The drivers are very similar: to ensure that people have the right skills for the job, that they sign on to a code of ethics and are subject to the professional association’s disciplinary procedures.”

As a member of SAPA, a payroll administrator undertakes to adhere to its code of ethics, and to undertake structured continuous professional development to ensure his or her skills remain current. Any contravention of the code of ethics would lead to the rescinding of the professional certification.

Globally, payroll fraud is the number-one source of accounting fraud and employee theft, according to the Association of Certified Examiners. It occurs in 27 percent of all businesses, and the average instance lasts on average for 36 months. Research by PwC shows that South African companies suffer hugely from HR fraud, of which payroll fraud of various kinds is prominent: falsification of entitlement/ employee benefits (36%), false wage claims (39%), ghost employees on the payroll (30%) and misclassification of payroll expenses (16%).

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Matthew Garrett, "Payroll Fraud—A big threat and how to avoid it", Forbes (10 September 2013), available at <https://www.forbes.com/sites/matthewgarrett/2013/09/10/payroll-fraud-a-big-threat-and-how-to-avoid-it/#40c6826c746f>.

PwC, Economic Crime: A South African pandemic (Global Economic Crime Survey 2016), available at <https://www.pwc.co.za/en/assets/pdf/south-african-crime-survey-2016.pdf>.

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