South African Payroll Association
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Top tips for preventing payroll fraud

The Association of Certified Fraud Examiners says that payroll fraud is the No. 1 source of accounting fraud and employee threat globally. It affects 27% of all businesses and lasts, on average, 36 months.

South African statistics are scarce, mostly because payroll fraud is under-reported by companies jealous of their reputations. A rare public case was the arrest in 2014 of two Eskom employees for tampering with the corporation's payroll network system in a scheme that could have costed the company billions. Research by Alexander Forbes in 2011 showed that payroll fraud was costing South African business more than R100-million a year.

"Payroll fraud is very much a reality and, in South Africa, my experience is that it's most prevalent in medium to large companies that run electronic payroll systems, and where the number of employees makes manual checking difficult," says Nicolette Nicholson, director at the South African Payroll Association.

She adds that payroll fraud is an occupation, "The books will be balanced legally on the system, because it has applied legislation. But typically, the fraud takes place when new data is entered onto the system, and that's why it's not easily picked up by financial audits."

Nicholson explains that payroll fraud usually requires collusion between colleagues, and small transactions that do not trigger alerts are preferred—one reason fraud schemes go on for so long. Most payroll fraud hinges on overtime claims, the payment of salaries to ghost employees whose bank accounts are controlled by the fraudster, dishonest expense claims and the payment of an extra month's salary when an employee resigns or dies.

Causes for payroll fraud include intent and character, as well as peer pressure – where a person's financial circumstances make them vulnerable to syndicates.

Nicholson advises that the best defence is to make a company a low-risk candidate by following these tips:

• Put controls in place from the beginning. Duties related to payroll processes should be rigorously segregated, with different people responsible for input, approval and release as a minimum. Frequent spot audits should be performed in addition to external audits, which do not cover segregation of duties.

• Use external fraud examiners, as most fraud is committed by managers, an external agency should be used to undertake fraud checks.

• Ethics management is a pillar of King III for very good reason: if the company's code of ethics is truly embedded into the corporate culture, the occasional rotten apple will find it harder to identify accomplices.

•Achieve process stability. Pay day is an emotive issue, so small issues tend to get ignored in favour of getting the payroll run underway. It is critical to keep to payroll procedures and cycles, or controls will be abandoned.

• Empower employees. Very often, blue-collar workers may be barely literate or may have a culture of not questioning payment. Work with union or employee representatives to educate employees about what information should appear on their payslips, and encourage them to check that information for accuracy. It should also help nurture a culture of trust that is likely to impact positively on productivity generally.

• Leverage the power of data. Put basic business intelligence capabilities in place to enable exception reporting and trend analysis to spot anomalies in overtime, PAYE, tax on bonuses and so on. Early detection is critical.

• Stern consequences. Criminal action should be taken against an employee caught committing payroll fraud, if the consequences are kept to a mere human resources disciplinary or suspension, the guilty party can go onto work for the next company where he/she can continue their misconduct. This is because the Labour Law does not allow unwarranted reference, in other words, if the guilty person's potential new employer calls the previous employer for a reference, they cannot divulge anything about the person's fraudulent activities. However, if the person is pursued criminally, the previous employer is allowed to do so.

"Fraud can have serious consequences for any company, both financial and in terms of the corporate culture," concludes Nicholson. "Making it hard to commit it in the first place makes good business sense in every way."

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