



*South African Payroll Association  
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### **When work dedication masks payroll fraud**

Payroll fraud schemes typically last about 2 years before being detected, and are twice as frequent in small businesses as in larger ones. This is according to a 2016 Global Fraud [Study](#) by the Association of Certified Fraud Examiners. Most often, perpetrators hold accounting positions (21.6% of cases).

Cathie Webb, a Director of the South African Payroll Association ([SAPA](#)), says employers should be wary when their payroll administrator resists being away from the office. “It may be they’re afraid that someone standing in for them will uncover irregularities and expose them.”

So a payroll administrator who never takes time off, arrives early, leaves late and works over weekends may seem dedicated. But they could also be committing payroll fraud.

Apart from always being at their desk, such administrators are overly protective of their records, computerised or physical. They’ll insist that the work won’t be done correctly by those who don’t know their system but will avoid training backup personnel to perform their duties.

#### ***How it starts***

“It often begins with financial difficulties at home,” suggests Webb. “The practitioner might create and pay a falsified employee or change their own pay rate for a single run just to get out of hot water.” But when the act goes unnoticed, it becomes easier to repeat and eventually snowballs into major fraud.

#### ***Why the problem exists***

Unfortunately, blame falls squarely on the organisation. “In most cases we’ve witnessed, the shocked employer completely trusted the payroll administrator and never audited their work,” reports Webb. “It’s an accounting function and the same checks and balances need to be enforced.”

#### ***How to prevent it***

Employers can take several steps to short-circuit payroll fraud:

*Employ a certified payroll practitioners*

The days when payroll was a 'fallen into' career, one which was discovered as someone worked their way up the ranks, are rapidly disappearing. Today, payroll is one of the pillars holding up the business, handling one of its biggest costs and providing strategic insight which transforms corporate communication and impacts on the bottom line.

"When a business hires someone who has chosen a career in payroll, they are hiring someone who understands the challenges, knows how to minimise statutory risks and reputational damage and who can see the links between payroll, finance and HR," says Webb. "They have the skill and knowledge to address any disconnect with management and are strategists who know their value and how to communicate with those in charge."

Today's payroll practitioner is a strategic thinker who understands risk, recognises the potential for engagement across departments and knows the business from the inside out.

#### *Segregation of duties*

Certain payroll duties can be delegated to others. For example, the payroll practitioner prepares the banking file, but finance performs its submission to the bank. A third person should be responsible for checking that all the reporting balances. Additionally, the banking transactions should always require two authorisations, by people who clearly understand that the responsibility includes checking the details.

#### *Internal audits*

It's good practice to perform regular audits to make sure the business is running smoothly. Include a thorough inspection of payroll records and processes.

#### *An approval process*

Payroll submissions should follow a systematic approval process with department or team managers reviewing and signing-off payroll for their staff. The financial director or CEO should also inspect and approve consolidated payroll for the company.

#### *Master record auditing*

It may be possible to place automatic alerts on changes to computerised master records, such as employee pay rates or bank detail changes. Secondary staff are alerted, and review and approve them.

#### *Task automation*

Some payroll tasks can be handled by a computerised process. Because calculations or processing happen in the background, there's less opportunity to tamper with figures.

#### *Staff rotation*

Train backup staff to perform payroll duties so they can stand in for an absent payroll practitioner. But also have them perform payroll duties regularly so that one person never has complete control.

*Annual leave*

Force payroll practitioners to take annual leave. It's a good way to prevent both fraud and burnout. A well-rested practitioner is more alert and less prone to errors that could also result in loss if undetected.

*Be proactive*

Your dedicated payroll practitioner may or may not be defrauding your company. "Rather than worrying about it," advises Webb, "take time-tested steps to prevent the opportunity."

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