

How effective payroll management could save your business and your family wealth **– advice for family businesses**

Fraud committed by an employee is one of the greatest threats to businesses, and alarmingly, it is on the rise as current economic conditions see more people falling on hard times. Coupled with this is the increasing availability through the internet of information and tools with which to commit fraud, as well as the decreased size of organisations that have downsized in the face of tougher trading.

Employee fraud can take many different forms. Some may be small, such as lying on an expenses sheet or "borrowing" a bit of money from the petty cash draw. This may seem insignificant, but if all employees within a certain company were to do the same thing then there would be knock on financial implications for the business.

This is according to Tania van Zyl of Private Client Corporate Solutions, one of the divisions at Private Client Holdings, who says that there are far more serious forms of employee fraud, and in particular it occurs from those in a position of trust and power with regards to business finances and staff payroll. Petty cash and the use of business bank cards are also places where fraud creeps in.

Employees left unchecked may steal fortunes

"Many small to medium businesses have one staff member in charge of creditors, debtors, payroll functions etc. These people take over the onerous administrative side of the business so that the business owner can continue to focus on the core product or service – i.e. the reason they started the business in the first place. These administrators, in our experience, are largely left unsupervised making smaller business entities more prone to being victims of fraud as they lack the staff numbers to put clear task segregations and checks in place."

"An employee who handles the financial side of a business can funnel off money over time – causing terrible damage to the businesses bottom line and ultimately its success," says van Zyl.

"Several months ago the owner of an IT business approached PCH Corporate Solutions division for assistance. The business was in dire circumstances as the employee responsible for the entire accounting function had been defrauding the

company for a period of two years – to the tune of R1 million! The business was floundering and basically bankrupt – despite increased business and income.”

What can business owners do to protect themselves?

Van Zyl advises that the business owner be the only one within an organisation to release payments and that they regularly check the bank account details of those being paid to ensure they are legitimate. “This is particularly important if the business owner is not the only person authorised to add or amend supplier details on EFT banking profile, then they must review the banking details when releasing electronic transfers to ensure that the banking details loaded by the employee are valid and correct.”

“Business owners need to review bank reconciliations, the payroll summary, debtor and creditor reconciliations and petty cash. Any differences should be investigated and supporting documentation made available.”

Although acknowledging that it is not always affordable, Van Zyl also stresses the importance of businesses separating employee roles. “For example the person who performs the payroll should not be the person who processes these salary payments (including amending banking details of employees).

“In addition to this, every quarter business owners and/or managers must compare actual costs incurred to budgeted figures, and also obtain explanations for any unusual variances, such as unusual increases in payroll expenses, bank balances being lower than expected, discrepancies in cash flow, etc.”

Outsourcing is best practice to protect your business

However, van Zyl goes on to advise that most business owners and managers are too time pressed to personally engage in the above suggested checks and balances in an effective way. That is why she recommends that businesses outsource their payroll functions including PAYE, UIF and WCA to a reputable independent organisation that specialises in this service, such as PCH's Corporate Solutions division.

“Outsourcing payroll administration improves efficiency and ensures 100% accounting accuracy.”

Van Zyl concludes that it is essential to run background and credit checks on employees who will have access to the businesses finances and bank accounts. “As we have seen the importance of this role we do credit checks on behalf of our clients and also assist with appointing the right person to the position.

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