

Payroll Fraud within entities

What is payroll fraud?

Over the last 3-5 years there has been an unfortunate marked increase in payroll related theft and fraud. This includes a recent example at Te Papa where an employee defrauded more than \$120,000 by falsifying data for more than 100 casual staff time sheets over more than a year. The employee then diverted the payments into their own accounts, and altered casual employees' details, including their email address, so they would not receive the fraudulent payslips

This indicates that small thefts over a period of time can result in significant financial loss. It remains to be seen why the number of frauds has increased; perhaps an increased susceptibility due to electronic processing and less segregation of duties; or possibly more minor frauds have been identified due to better controls and oversight.

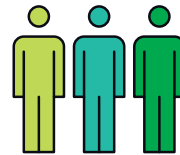
During the 2019 year, the Serious Fraud Office of New Zealand (SFO) had 36 defendants appear before the courts, including appeals, with a total of \$1.6 million in alleged value. Although none of these cases were directly related to payroll fraud, of the 36 cases, a large number of these were committed by employees of the business.

Payroll fraud occurs in entities when the payroll process system is manipulated by employees. Payroll fraud can be difficult to detect early since the amounts involved may be minimal at first but could escalate over a period of time if undetected timeously. Therefore, entities should consider ways in which to prevent such instances from occurring.

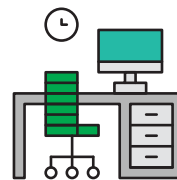
Now, for tomorrow

There are many different ways in which payroll fraud could be conducted, for example:

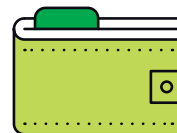
Creating fake employees (ghost employees): is when employees are created in the payroll system that do not exist or employees that did exist but no longer work for the company and are intentionally left on the payroll.



Unauthorised hours: colluding between payroll administrator and employee resulting in increased unauthorised employee hours.



Pay rate changes: altering unauthorised pay rate changes.



Buddy punching: employees getting their co-workers to clock in for them even though they have not worked.



Therefore, entities should consider ways in which to prevent such instances from occurring.



What can you do to reduce the risk of payroll fraud?

There is no one way to reduce payroll fraud. Due to the complexities and various ways to manipulate the system, it would be best to implement a multifaceted approach. A few ways in which payroll fraud can be reduced or mitigated within your business, include:

- Manager or supervisor approval of all timecards or timesheets, including all overtime
- Mandatory vacations for those with payroll responsibilities with another employee performing this function in their absence (the fraud of Te Papa was discovered after discrepancies were noticed by another employee while the employee responsible was on leave)
- Executive approval of all payroll reports and bonus type compensation, including commission
- The ability to modify wage rates, add employees, etc., within the system should be restricted. These access controls should be periodically reviewed
- Conduct periodic payroll audits and reviews of internal controls

- Use of exception reports and technology
- Implementation of a whistle-blower policy, or
- In person / verbal confirmation of underlying payroll data such as bank account details.

How can we help you?

Here at Baker Tilly Staples Rodway Taranaki, we have an experienced team that can assist in formulating good practice controls in order to minimise the risk of fraud occurring within your business. We also perform a comprehensive review, which includes our team performing testing of the controls within your business and evaluating the appropriateness, effectiveness and relevance of the control environment. We make recommendations on any shortcomings that may have been identified during our visit, ensuring these are practical and tailored to your organisation.



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