

## HR tips for avoiding payroll fraud

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It's the stuff of HR nightmares – finding out that the CEO has decided to pay themselves a little extra on the side and working out what to do about it.

But your payroll manager can provide a first line of defence against fraudulent behaviour, according to Australian Payroll Association executive director Tracy Angwin.

"What would actually happen if the managing director – or anyone for that matter – decided to pay themselves a certain amount, is that any good payroll manager will not pay anything, no matter who instructs it, without the appropriate processes being followed."

Any changes to payments, even those instructed or authorised by the MD, require a paper trail, she said.



“No good payroll manager will make that change without having paper work to back it up. For example, you can’t even just email payroll and say, ‘Can you pay so-and-so this payment?’ without having an authorised, signed-off procedural document, they won’t do that.

“There have been payroll managers in Australia in the past who have gone to jail for payroll fraud, so payroll professionals take it very seriously. The last thing that they want is to have someone, be it an auditor or the CFO, come to them and say, ‘What’s this payment about?’ They always want to be able to go back to their source documents and say, ‘Here’s the authorisation, this is who signed it off.’”

According to the Association of Certified Fraud Examiners’ 2014 Global Fraud Study, the typical organisation loses five per cent of its revenue each year to fraud.

The median loss caused by the fraud cases in the study was US\$145,000 and the median duration of the fraud was 18 months.

While only nine per cent of the study’s cases involved financial statement fraud, they had the biggest financial impact, with a median loss of US\$1 million.



From an HR perspective, making sure there is a segregation of duties around salary and payments is critical, said Angwin.

“Segregation of duties is the number one thing to get right in your business if you want to protect it from payroll fraud. HR might do all the procedural documentation around salary increases or bonus payments, so they authorise it, and payroll actually keys it into the system.”

Having more than one department involved is also important for avoiding issues like “ghost employees”, said Angwin.

“When you’re bringing in new employees, HR might enter some of the details into the system and then payroll puts in the rest. That way, two departments have to have input to get someone paid. It means that one department isn’t putting an employee in the system that the other one doesn’t know about.”