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Skimming of cash - the classic debtors rolling scheme

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Managing Director
Horwath Forensics

There is a major difference between auditing and forensic accounting. Auditing is governed by materiality. Forensic accounting however is the opposite. Often, one is looking for one transaction, no matter how small, that will be the key. In a way, finding fraud is like taking a metal detector to the city dump. You find a lot of 'stuff', but most of it doesn't help. You have to keep digging, searching for that transaction that will open the door.

Horwath Forensics was recently engaged by a company to investigate a problem in their debtors department - specifically cash receipts that had been stolen.

Skimming of cash is known as 'off-book' fraud as money is stolen before it is entered in the accounting records of a company. Skimming can occur at any point when cash enters a business; in other words, anyone who deals with the receipt of cash may be in a position to skim funds. In a cash skimming and debtors rolling scheme, the perpetrator will credit one customer's account with a payment received from another customer. This process will continue indefinitely until either the scheme is uncovered or the perpetrator makes restitution to restore the credits to the accounts.

In the described case, our suspect was responsible for all aspects of the debtors and banking functions at her company. She would also handle calls from customers. This lack of segregation of duties created the opportunity for her to abuse the system and to falsify accounting records to conceal her theft.

It is common for employees involved in fraudulent activities to be fearful of taking leave, since the possibility exists of their scheme being uncovered during their absence from the office. Although our suspect was pregnant, she decided against taking any maternity leave and worked right up until the day before she gave birth. Remarkably, this scheme was uncovered during her first day away from work. A customer called to query a discrepancy on his account. The employee who fielded the call was alerted to the possibility of a problem. That's when Horwath Forensics were called in.

Our report concluded that the evidence inspected strongly supported the existence of a debtors rolling scheme perpetuated by our suspect, for the purpose of concealing the theft of cash from the company. The scheme had continued for over a year, indicating the consistency and deliberateness of the fraud. The suspect was suspended and the matter is scheduled for criminal court later this year. We are also in the process of recovering the stolen funds for the company.

Horwath Forensics conducts forensic investigations of all kinds.
If you suspect any wrongdoing in your business, contact Horwath Forensics.

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Minors and Wills

Kent Karro
Managing Partner
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In terms of an amendment to the Children's Act, with effect from 1 July 2007, a child, whether male or female, becomes a major upon reaching the age of 18 years. The age was previously 21 years.

The effect is that when a child reaches the age of 18, the child is a major for all legal purposes.

In many cases a person making a Will provides that a beneficiary will only inherit or receive an inheritance when they become a major.

We are informed by a competent lawyer that whether such Will was executed before or after 1 July 2007, or the person died before or after 1 July 2007, the beneficiary will now be considered a major as soon as the age of 18 is reached.

If therefore you do not wish your child or beneficiary to receive an inheritance before the age of 21 years, it will be necessary to amend your Will to refer specifically to such age instead of the use of the words "major" or "minor".

Should you require further information or advice, please contact us.

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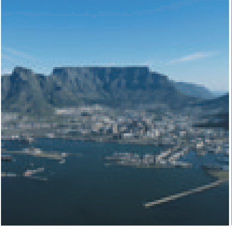

Pension Fund Reform

Nigel Willmott
Managing Director
Horwath Employee Benefits

The Pension Funds Amendment Bill, 2007, is likely to be enacted by the end of the third quarter of this year.

The amendments should be seen as distinct from the retirement fund reform process. The reform process is the beginning of a longer term process that will result in an entirely new Pension Fund Act. The proposed amendments are mainly of a technical nature which the National Treasury believes cannot wait for the broader reform process. They are largely intended to clarify existing provisions of the Act and to bring it in line with other legislation.

Some of the key proposals in the Bill are summarised below.

Pension Fund administrators' responsibilities and remedies

Although the Registrar must approve administrators, the Act currently does not make explicit provision for remedies for specific shortcomings (for example, the practice of bulking).

Thus the Bill defines administrators' duties as being amongst other things, to:

- Avoid/disclose conflicts of interest
- Administer the fund responsibly
- Keep proper records
- Employ adequately trained and supervised staff
- Have well developed compliance procedures
- Maintain adequate financial resources
- Provide information reasonably requested by the registrar

Remedies have also been defined, and include:

- Suspending or withdrawing the approval of the administrator's license to operate
- Instructing an administrator to withdraw from the administration of a particular fund
- Directing an administrator to take action or to refrain from a certain practice
- "Naming and Shaming" of administrators where the Financial Services Board considers this to be in the public interest
- Administrative penalties of up to R5 million per day if a fund is in contravention of the Act

The implications are that Trustees of retirement funds should satisfy themselves that they are properly meeting their administrator's duties.

Powers of the Registrar with regard to boards of management and other matters

Currently the Registrar must apply to court to remove or appoint trustees, and has no penalty powers.

However, a lengthy court process does not serve members' interests and the Registrar's lack of enforcement power is not considered conducive to a culture of compliance.

Thus, the proposals allow the Registrar to:

- Remove the board where a fund is not financially sound or where the board failed to act in accordance with the Pensions Fund Act while the fund was in an unsound position, or where a fund is not managed . in terms of the Pensions Funds Act or rules, or where, as a result of an inspection or investigation, the rules of a fund necessitate amendment
- Appoint board members
- Replace a board member
- Issue a directive to a pension funds generally or to a specific fund
- Impose penalties of up to R 5 million per day
- Inspect funds or administrators, including on site compliance visits

The implications are that Trustees of retirement funds should take extra care to ensure that they are familiar with their duties and requirements, and to ensure compliance with these.

Written by Horwath Employee Benefits from, Source: Old Mutual Fact File

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Challenges facing the tourism industry in South Africa

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Horwath Tourism & Leisure Consulting is the advisory services firm responsible for hotel, tourism and leisure consulting. In light of the favourable investment climate in the region, our core services centre around Market Analyses and Financial Feasibility Studies in respect of proposed hospitality developments.

A market analysis, at face value, appears a straight forward task. Research and analyse the current and future supply in and the current and future demand for the relevant market in the given destination.

The aforementioned research and analysis enables us to formulate reasonable assumptions in respect of the likely primary operating variables for the project; including average occupancy rate, average room rate, patronage and average spends to be incorporated in the financial feasibility study.

However, I recall an engagement we undertook for a proposed hospitality development on Unjuga Island, Zanzibar and I am reminded that a market analysis is seldom straight forward.
A snapshot of the challenges we encountered are as follows:

Our research identified that tourism arrival trends were erratic. Further investigation illustrated that the erratic nature of tourism arrivals was directly attributable to the political environment. Almost every election held since 1995 was marked by violent outbursts with the election cycle mirrored in tourism arrival peaks and troughs.

Challenge #1: "What would tourism arrivals growth amount to in the short- to medium-term future?"

Available statistics indicated in excess of 70% of tourist arrivals accessed the destination via the airport. Given the length of the runway, the airport is best suited to Boeing 737 aircraft; larger aircraft are simply unable to land.

Challenge #2: "If larger aircraft cannot land, how would tourist arrival numbers grow beyond the current level?"

The Investment Bureau reported that "...there is ample hardworking and trainable workforce..." However, during the course of our field work, we concluded that the available workforce was mostly unskilled with low levels of literacy apparent.

Challenge #3: "Quantifying the cost associated with attracting a skilled workforce in order to provide service appropriate for an international luxury branded hospitality operation?"

Interviews with hotel managers revealed that in excess of 90% of reservations stemmed from tour operators; by nature, this implies substantially discounted room rates.

Challenge #4: "Given that a hospitality operation derives between 70% and 80% of total turnover from the sale of guest-rooms, what impact would this have on financial feasibility?"

Every destination presents its own unique challenges that require research, interpretation and analysis. It is our responsibility to decipher the issues, formulate reasonable assumptions, and make valid recommendations to our clients in order for our clients to achieve their desired results.

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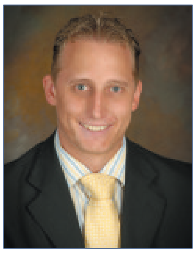
Horwath

Software Solutions -
"The world has come to an end!"



Werner Stapelberg
Managing Director
Horwath Software Solutions

The world has become so reliant on Computer Software that it has become one of the most profitable industries to be in. But this profitable industry is not problem free; in fact it is filled with problems. Can anybody still remember the Y2K bug?

What can we do without software? I think this question is asked daily all around the world. The answer: NOTHING! All our appliances, motor vehicles even traffic lights run on software.

In February 2007, a software glitch forced 12 United States Air Force F-22A Raptor stealth fighters to cancel their first overseas flight from Hawaii to Japan, main reason, inexperienced "users" of the software. A glitch of $125 million! In accounting, a company's management, shareholders, auditors, bankers and the South African Revenue Service all rely on financial statements before a financial decision is made. These financial statements are produced from accounting software. If the user is not trained on how to use the software, everyone will receive the incorrect information.

Training users is so important that some

companies, like Horwath started internal training departments to give users software training.

If we refer back to the heading "The world has come to an end!" this is how many of us feel when we start working on our audit or accounting software. The good news is, every problem can be overcome. The bad news is, it will cost time and money.

Bill Gates, the father of software, once said: "I believe that if you show people the problems and you show them the solutions, they will be moved to act." And that is what the software solution industry does - we help users to take the fear away from "The world has come to an end" and we give them a solution.

So, the next time your computer experiences a fatal error and needs to shut down, you know there was a simple solution "All users must save their work"! If all else fails and you need software development or support, call Horwath Software Solutions.

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Do you have a financial coach you trust?

Neal Mandy
Managing Director
Horwath Financial Services

Before investing, we should all undergo a thorough analysis to establish an investment plan and strategy that will allow us to achieve our lifestyle goals. This process should take into account our current circumstances, needs and lifestyle aspirations. This plan should throughout the investors life, be reassessed to ensure that the strategy remains current and relevant. Implementing the strategy requires investing into markets which will at times be volatile.

The past few years have seen the JSE rise from below 7 400 in April 2003 to above 29 500 in July 2007, a return of over 300%. Recent weeks have seen higher-than-average volatility on global financial markets resulting largely from concerns regarding the impact of the US sub-prime mortgage debacle (where banks have lent money to people who are poor credit risks) on the global economy. These concerns and the potential consequences for company profitability, have adversely affected markets.

Although the nature and drivers of the current market volatility are new, the motivation behind investor reactions is not. Generally, the most frequently asked question at this time is "should I switch or make a change to my investment strategy?"

In South Africa over the last 100 years, the greatest loss for any year on the All Share Index was -29%. In any given 10-year period over the last 100 years, South African equities have never produced a negative return. Equities have also, on average, outperformed any other South African asset class over this period.

Volatility implies that we must be prepared to see stock market prices go up or down in the short term, whereas risk is the possibility of your investment being worth less. In a properly diversified portfolio, volatility is not risk - it's just volatility.

There is, however, a much greater risk that comes into play when you switch out of your investment strategy, namely opportunity cost. Your investment strategy achieves a simple objective - to provide the target investment return you need in order for you to achieve your desired lifestyle. Abandoning your financial plan and investment strategy could result in you not achieving your objectives and forfeiting investment returns over the long term.

Despite what the media says, this time is no different from all the previous times we've seen when the markets rise and fall. In the past, those investors who sold when prices fell and bought when they rose again, were often worse off in the long run.

The fundamentals influencing our local markets have not changed. The profitability of SA companies is still robust with companies still reporting increased profits. The outlook for future profitability is still positive despite increased interest rates over the past year. The economic benefits of the current infrastructure spend for the 2010 FIFA World Cup and other major projects (including Eskom's electricity supply, Gautrain, and upgrading airports to name a few) are still major drivers for our economy. This is expected to remain the case for the next few years.

At Horwath Financial Services we follow a thorough yet practical coaching approach to investing. We help you through the process of creating your financial plan and guide you away from decisions that could ultimately be destructive to your plan. We also regularly review your investment plan and make appropriate changes to your investment strategy if and when necessary.

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Horwath

Be aware of those lease minefields

Yusuf Paruk
Partner
Horwath Mahomedy Omar Paruk

Durban Property Managers (Pty) Ltd (DPM), the specialist fixed property management division of Horwath Mahomedy Omar Paruk, were recently approached to administer a property which contained an interesting mix of problem issues for property owners. This case study will assist you in identifying lease minefields.

DPM's overview of the assignment revealed the following:

The lease agreements with two lessees who were in arrears with their rentals were not stamped under the Stamp Duties Act.

Whilst written lease agreements were in place, the non-stamping of the agreements implied that the landlord had diminished legal recourse to proceed against its tenants for enforcing any terms of the agreements. To rectify the situation, the lease agreements had to be stamped and the respective penalties paid by the landlord.

(Please note that, with effect from 01 June 2007, the Stamp Duties Act has been amended to provide that no stamp duty is payable on leases with lease and option periods which in total do not exceed 5 years).

Two of the three lessees were in arrears with their rental payments.

Discussions with a tenant regarding arrangements for the payment of arrear rentals revealed that the tenant was disputing its contribution towards the water account and recovery of certain renovations it had undertaken. The matters in dispute appeared to have been discussed between landlord and tenant and agreed to orally but not reduced to writing. This created the opportunity for both parties to recall the discussions in the manner which best suited them.

Both tenants also revealed that they were encountering difficulties in meeting their rental obligations due to their businesses not trading profitably. One tenant indicated that it was negotiating the sale of its business and was prepared to pledge such proceeds towards arrear rentals.

The landlord, in anticipation of such sale, granted the tenant an indulgence to pay the arrears and thereby incurred further rental losses as the sale never materialised and the tenant vacated the premises.

It also appeared that proper credit checks were not conducted on both tenants and this proved costly as the landlord was not able to collect the arrear rentals.

Vacant premises.

The landlord permitted occupation of one floor prior to allowing DPM the opportunity to conduct its credit check and sign a lease agreement. This proved costly to the landlord as the "tenant" did not pass DPM's stringent check and the premises were only vacated at great cost and after much correspondence and the landlord did not collect any rent for the period the "tenant" occupied the premises.

We are able to offer a wide variety of services and advice in the property administration field. Consult us before making any long term commitment.
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Fringe Benefits and STC

Kent Karro - *Horwath Zeller Karro*

If inadequate interest is charged to an employee (including working directors) on loans (other than for the purpose of furthering his own studies) in excess of R3 000 from his employer (or associated institution), tax on the fringe benefit may be payable.

Unless interest is charged at the "official" rate or greater, the employee is deemed to have received a taxable fringe benefit calculated as being the difference between the interest actually charged and interest calculated at the "official" rate.

For employees' tax purposes, the tax deduction must be made whenever interest is payable. If not regularly, then on a monthly basis for monthly paid employees, weekly for weekly paid employees, etc.

In general, only distributions of income from a company / close corporation are subject to STC. To the extent that there are profits / reserves available for distribution, loans or advances to or for the benefit of a shareholder / member will be deemed to be dividends subject to STC unless interest at the "official" rate (or market related rate in the case of foreign currency loans) is payable on the loan or fringe benefits tax is payable on an interest free (or subsidised interest) loan to an employee.

The "official" rate of interest was increased for both the above purposes from 10% per annum to 11% per annum with effect from 1 September 2007.

The "official" rate of interest over the past 6 years is as follows:

With effect from 1 October 2001
- 10,5% p.a.

With effect from 1 March 2002
- 11,5% p.a.

With effect from 1 September 2002
- 13,5% p.a.

With effect from 1 March 2003
- 14,5% p.a.

With effect from 1 July 2003
- 13,0% p.a.

With effect from 1 September 2003
- 12,0% p.a.

With effect from 1 December 2003
- 9,5% p.a.

With effect from 1 March 2004
- 9,0% p.a.

With effect from 1 September 2004
- 8,5% p.a.

With effect from 1 September 2005
- 8,0% p.a.

With effect from 1 September 2006
- 9,0% p.a.

With effect from 1 March 2007
- 10,0% p.a.

With effect from 1 September 2007
- 11,0% p.a.

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- Hotel, Tourism and Leisure
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The Horwath Advantage

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