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Employees are the most valuable tool for detecting fraud

I recently read the ‘Association of Certified Fraud Examiners’ (ACFE) ‘Report to the nations on occupational fraud and abuse’. The global report has become the “most authoritative and widely quoted research publication on occupational fraud”.

The report certainly made for interesting reading, and the reported findings were based on in excess of 1,800 actual cases of fraud, including over 100 from Africa (the ACFE has a rapidly growing footprint in South Africa.)

The high level findings of the report stated that the typical company loses an estimated 5% of annual revenue to fraud. The average loss caused by an occupational fraud case was approximately R1.1 million, and a fraud lasted an average of 18 months before being detected.

Occupational fraud is defined as: ‘the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employer’s resources or assets’. According to the findings of the report, smaller companies are disproportionately victimised by occupational fraud. This makes sense as smaller companies generally lack suitable internal control environments and anti-fraud mechanisms, and this increases their vulnerability to fraud.

What I found most intriguing was the detection of fraud schemes. Historically, tips were by far the most common detection method, catching nearly three times as many frauds as any other form of detection. The 2010 global fraud study confirmed this, with tips accounting for more than 40% of initial detection of occupational fraud. Management review (15%) and Internal audit (14%) were the second and third most common forms of detection. Companies tend to over-rely on external audits, which was the control mechanism most widely used by the victims in the ACFE survey. External audits ranked comparatively poorly in both detecting fraud, ranked 7th with 4.6%. The report concluded that audits play an important role in fraud prevention but should not be relied upon exclusively for fraud detection. In our experience as forensic accountants, we tend to agree with this conclusion.

Employees were the most common source of fraud tips accounting for more than 49% of all tips, followed (by some distance) by customers, anonymous and vendors, with 18%, 13% and 12% of tips, respectively. In this regard, the research also proved that fraud hotlines enhance fraud detection methods encouraging more tips. Accordingly, employee education is the foundation of preventing and detecting occupational fraud. Since employees are the companies top fraud detection method, employees must be trained in what constitutes fraud, how it negatively impacts upon everyone in the company and how to report questionable or irregular activity. The data collated by the research shows that those organisations that have anti-fraud training for staff experience lower fraud losses.

As small business are particularly vulnerable to fraud, and internal controls alone are insufficient to fully prevent occupational fraud, managers and owners should focus on the most effective anti-fraud mechanisms such as hotlines and setting an ethical tone for employees.

Horwath Forensics S A (Pty) Ltd
Ryan Sacks
Tel.: +27 11 217 8000
Email: ryan.sacks@horwath.co.za

Voluntary Disclosure Program

The Minister of Finance announced in his budget speech in February this year that SARS will run a Voluntary Disclosure Program (VDP), to provide amnesty to taxpayers who approach SARS to disclose any defaults and to regularise their tax affairs. The VDP was introduced in the National Assembly in August 2010 as part of the Taxation Laws Second Amendment Bill.

Any person may apply for voluntary disclosure relief unless that person is aware of a pending audit or investigation from SARS, or an audit or investigation has commenced but has not yet been concluded. The requirements for a valid voluntary disclosure are that the disclosure

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must be voluntary; involve a default on the part of the taxpayer; be full and complete; involve the potential application of penalties in respect of the default; must not result in a refund due by SARS; be made in the prescribed form and manner; must be made within the period prescribed by the Commissioner; and be in respect of a default that occurred before 17 February 2010.

The period for disclosure has not yet been published, but the Minister of Finance announced in his budget speech earlier this year that the VDP will run from 1 November 2010 to 31 October 2011.

The VDP will apply to any tax, levy or penalty under any tax Act, and by implication will therefore include inter alia normal income tax, capital gains tax, STC, transfer duties, VAT and PAYE.

If relief is granted to an applicant, SARS must enter into an agreement with the taxpayer. The agreement must include details of the material facts of the default; the amount of tax payable by the taxpayer; the amount of interest payable, if any; arrangements and dates for payments; treatment of the issue in future years; and relevant undertakings by both SARS and the taxpayer.

After a voluntary disclosure agreement has been concluded between SARS and the applicant, SARS may issue an assessment which will not be subject to objection and appeal.

SARS may withdraw relief granted if it is subsequently established that the applicant failed to disclose a matter that was material for the purposes of making a voluntary disclosure.

If voluntary disclosure relief is granted to a taxpayer SARS may not pursue criminal prosecution and no penalties or additional tax may be imposed, except for penalties on late submission of a return or late payment of tax. Furthermore SARS must grant relief in respect of interest, up to the date that an assessment is issued. 100% Interest relief must be granted if the taxpayer applied voluntarily, while 50% interest relief must be granted if the taxpayer was in any way directed by the Commissioner to apply for relief.

Horwath Tax Consulting (Gauteng) (Pty) Ltd
Reinette Theart
Tel.: +27 11 217 8000
Email: reinette.theart@horwath.co.za

Hotel Operators Remain Cautiously Optimistic

Results from the latest edition of the Horwath HTL Global Hotel Market Sentiment Survey show that hotel operators in all regions of the world continue to believe that the recovery in operating performance is on track, although without any strong conviction that the worst is over.

Looking at actual operating performance, it is clear that the global market has continued improving, allaying fears of a double dip recession, but more likely a long ‘u’ shaped recession. Generally speaking, hotels have managed to stimulate volume without losing more in average room rate, which in turn has stabilised revenues.

Coming into the second half of the year, the sentiments of hoteliers across most regions have moderated, although all remained optimistic. The global financial crisis has continued to have an impact on market performance and continues to subdue the outlook of many hoteliers across the world. In fact, when asked if the financial crisis had continuously impacted hotel demand, 39 percent of hoteliers responded that demand was still affected more or much more than expected. The overall sentiment scores segmented by world region are depicted in the table below.

By Region	Score			
Item	Feb 2009	Jul 2009	Jan 2010	Sep 2010
Asia	- 41	- 41	48	46
Oceania	- 34	- 48	41	52
Europe	- 36	- 55	4	15
Americas	- 25	- 28	21	8
Africa and the Middle East	- 21	- 22	43	7
Global Average	**- 35**	**- 44**	**27**	**29**

In Asia, the region least impacted by the global financial crisis, sentiment remains high, largely thanks to China, while market sentiment in Australia continues to be strong with the economy there continuing to remain positive. Oceania has the most positive outlook with Asia not far behind. Europe has a slightly more positive outlook than the Americas thanks to a negative outlook in the USA, while Africa and the Middle East recorded a larger decline in sentiment.

Historically, a consistent trend of the global survey over the last two years has been a more negative outlook in terms of Average Room Rate performance and this continues in the outlook for the second half of 2010. Whilst some 60 percent of hoteliers across the globe expect occupancy performance to be better or much better in the second half of 2010 in comparison to 2009, a reduced 47 percent of global hoteliers expect improved Average Room Rate performance for the second half of 2010 in

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Creating a Retirement Plan

When creating your retirement plan there are various matters to be considered;

- Your circumstances, retirement aspirations and prospects
- Understanding investment risk
- Affordability
- Retirement solution considerations

1. Your circumstances, retirement aspirations and prospects

There are many factors that affect you on a daily basis. These can be divided into those related to the macro economic environment and your own personal circumstances.

Macro economic environment

The economic environment plays a major part in affecting your circumstances. You should have an understanding of the economic environment and the main factors influencing economic conditions and how these forces can influence your choices and circumstances. Some of these circumstances include;

- inflation outlook
- economic growth and stability
- interest rates
- exchange rates
- taxation

Personal circumstances

Whilst being affected by the macro economic environment, your personal circumstances and choices can influence your personal environment. Your age and gender are a matter of fact but lifestyle choices can vary from person to person. Some of these lifestyle choices include;

- marital status
- healthy pursuits and lifestyle choices
- occupation type
- smoker or non smoker
- hazardous pastimes

Retirement aspirations and prospects

You may have different aspirations and place different values on certain factors influencing objectives and goals in retirement, including;

- retirement beliefs
- attitude to life and longevity
- future ambitions after retirement
- financial shortfall concerns
- planning for retirement

2. Understanding investment risk

In all aspects of investing there are always elements of risk. There can in some cases be too little risk taken and sometimes too much. It is all about planning your investment strategy in line with your investment goals, understanding the level of investment risk involved and then sticking to the investment plan over the investment period of time.

Far too much value is lost when consumers chop and change their investment strategies when they are lead astray by factors identified in the previous section.

3. Affordability

When determining your retirement needs it is necessary to take into account the cost of achieving those needs. Part of understanding your affordability is to make use of a disciplined approach towards monthly budgeting. Failure to plan is planning to fail – the same applies to managing your expenses and being able to determine if you have surplus funds to invest and to prevent excessive and irrelevant spending.

4. Retirement solution considerations

When considering various retirement planning solutions there are certain aspects that need to be understood and taken into perspective in addition to those mentioned previously;

- Taxation – benefits and deductions
- Flexibility
- Cost implications
- Estate planning considerations

These are just a few thoughts to ponder. The process of creating a living retirement plan is complex and consumers must seek the advice of a trusted and suitably qualified financial planner to understand the intricacies and benefit of an appropriately structured retirement plan.

Horwath Financial Services S A (Pty) Ltd
Nigel Willmott
Tel.: +27 11 217 8000
Email: nigel.willmott@horwath.co.za

The Horwath Advantage

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Contact Details:

Horwath Leveton Boner
Johannesburg
Tel: +27 11 217 8000
Fax: +27 11 217 8001

Horwath Zeller Karro
Cape Town
Tel: +27 21 481 7000
Fax: +27 21 481 7081

Horwath Mahomedy Omar Paruk
Durban
Tel: +27 31 337 3311
Fax: +27 31 337 3312
Stanger
Tel: +27 32 551 1111

Horwath Gurugroup
Botswana
Tel: +267 391 2805
Fax: +267 395 9638

Media Enquiries: Monique Ross, monique.ross@horwath.co.za

Editor: Kent Karro, National Tax Partner – Horwath in Southern Africa, Managing Partner – Horwath Zeller Karro
Sub-editor & Design: Monique Ross, Marketing Executive – Horwath Leveton Boner
Editorial Committee: Peter Katz, National Marketing Partner – Horwath Leveton Boner, Susan Greiner – Horwath Zeller Karro

Practice Management - Keeping Financial Records (Part 1)

(Editorial comment – Although this article was originally written for the dental profession, it can apply to many small businesses).

Running a modern dental practice today comprises much more than ensuring the health of your patients' mouths. Owning a dental practice is no different to owning any other small business, with you the dental practitioner as its managing director. Being an owner of any small business carries many responsibilities. It is vital that the business is managed competently, ethically and that all statutory requirements are met.

One of the more onerous responsibilities of running a business is ensuring that accurate accounting records of the business are kept. There are many reasons for keeping accurate accounting records –

- to ascertain whether the practice is running at a profit or loss
- for the accurate calculation of the various taxes due to the fiscus, and
- for the preparation of accurate financial statements for presentation to the bank for purposes of raising finance (to name but a few).

Dental practice accounting records would normally comprise the following -

A cashbook wherein all the practice's receipts and all payments which have passed through the bank account are recorded. A cashbook can either be written up manually, or a standardised computer package can be used. The cashbook should be written up regularly and reconciled to the bank statement at the end of each month. The practice's annual financial statements are drawn up using the information from the cashbook as well as from other records. As your income tax liability is based on your income as shown in the annual financial statements, it is imperative that an accurate cashbook is kept.

If you are registered as a VAT vendor on the cash basis, the cashbook will also be used to calculate your VAT liability.

A petty cash book wherein all purchases made by the practice in cash, as well as any cash receipts received from patients but not banked are recorded.

Unless all your patients pay your fees at each visit, a debtors ledger, wherein all patient fees that are due to you are recorded. Without an accurate debtors ledger there would be no way of knowing who owes you money. There are many computerised debtors ledger packages on offer and it is advisable to make use of one of them. This function can instead be outsourced to specialists in the market.

A general ledger usually produced by your accountant, from information obtained from your cash book and petty cash book and debtors ledger.

A salary register must be kept by all businesses. Starting from 1 March 2010 which is the beginning of the February 2011 tax year; IRP 5 reconciliations of employee PAYE deductions with amounts paid over to SARS will have to be submitted twice a year. (The first for the period 1 March 2010 to 31 August 2010 and the second for the period 1 September 2010 to 28 February 2011).

Without a salary register it would be very difficult to complete these reconciliations. A salary register should contain all the necessary personal information of each employee, as well as gross income, and all salary deductions for each month of the year.

It is a requirement of SARS that detailed salary records be kept. SARS has inspectors who visit small businesses (including dental practitioners) to check that they comply with these regulations.

A fixed asset register must be kept for all incorporated businesses and all businesses should keep a fixed asset register.

A fixed asset register records the date of purchase of each separately described asset bought by the practice, its purchase price, the annual depreciation charged against the asset, and its book value at the end of each financial year.

Part 2 of this article will be published in our next issue of Horwath Advantage.

Horwath Zeller Karro
Charles Gurland
Tel.: +27 21 481 7000
Email: charles.gurland@horwath.co.za

Hotel Operators Remain Cautiously Optimistic *continued*

comparison to 2009. Although the second half expectations for hotel revenues were largely optimistic with some 58 percent of hoteliers expecting better or much better performance levels, some 22 percent of respondents globally expect a decline in second half revenue performance.

The overall stabilisation in the market is good news however, as the longer the recovery continues, the more likely it is that corporate business will return in strength which in turn will start to shift the stubborn average room rate. Although all world regions have posted a positive sentiment score, all of these scores are below 75 meaning that hoteliers globally are cautiously optimistic of improved trading conditions in the short term future.

About The Survey
Horwath HTL has created an index to formulate an overall average sentiment score from all the survey scores. Points are assigned to each response and compounded accordingly. The index uses a scale of negative 150 to positive 150 in which negative 150 indicates a state of absolute pessimism, zero indicates unchanged expectations and plus 150 indicates a very optimistic outlook.

Horwath HTL
Michelè de Witt
Tel.: +27 21 527 2100
Email: mdewitt@horwathhtl.co.za