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Belastingpraktisyn • Tax practitioner
38 Akasia Street George East 6529 • ✉ 4529 George East 6539 • Tel: 044 871 5067 • Fa

WITH COMPLIMENTS

Email: jgmt@jgmt.co.za

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June 2019

How You Can Detect Fraud in Your Business

Your Tax Deadlines for July 2019 and Good News for Taxpayers

Few things are as devastating to a business' reputation as internal fraud – it undermines staff morale and creates a new uncertain relationship with stakeholders such as suppliers, investors and compliance authorities.

News bulletins and newspapers all talk of the massive corruption being unearthed in South Africa – don't think your business is immune.

Build good control systems, particularly around procurement

The bulk of fraud happens around procurement which makes it a good place to start. **Use your accountant here – you will need his or her expertise plus your accountant will have an independent, impartial view of your business.**

Whilst every business is unique you should ensure your system has the following basics in place:

- Thorough recruitment processes for procurement staff. Check for criminal records, debt judgments and properties and companies owned (a common method of fraud is buyers using a company they own to become a "supplier"). Also do exhaustive background checks to ensure his or her CV is consistent with the applicant's lifestyle. You need to satisfy yourself that the person being considered has integrity.

- Procedures should be robust - such as the three-quote system is used, new suppliers are carefully checked, a conflict of interest register is in place and maintained and gifts are declared.

- Ongoing checks are in place by management independent of procurement where buying patterns are analysed, any deviations from procedure are checked for justification and authorisation, and you continually monitor the lifestyle of the members of the buying department.

Judgment and common sense should be your guide e.g. it isn't time consuming to do an independent check on new suppliers whereby you phone their number (in the current Eskom/Transnet investigations, an early indicator of fraud is the supplier being essentially a front - the telephone is seldom answered and the address turns out to be a small unmanned office).

We all know how destructive fraud is to a business – make sure you put into place the systems needed to block it in your company.

Companies: What is an Alternate Director? A Curious Role…

"'Alternate director' means a person elected or appointed to serve, as the occasion requires, as a member of the board of a company in substitution for a particular elected or appointed director of that company" (Companies Act)

Situations can arise where a director becomes ill and takes a leave of absence or travels frequently and has to miss board meetings. The Companies Act provides for the business to appoint an alternate director to fill in for the absent director.

Roles, duties and risks of the alternate director

The Companies Act includes an alternate director in its definition of a "director". Thus, an alternate director is elected in the same manner as a director and when stepping in for the director, the alternate has the full powers of a director i.e. he or she participates and votes as a director in meetings and/or when resolutions are passed.

The alternate director also has to act in the best interests of the company, independently, with due care and skill, fully apprise himself/herself of the issues to be decided on and not have (or declare) any conflicts of interest.

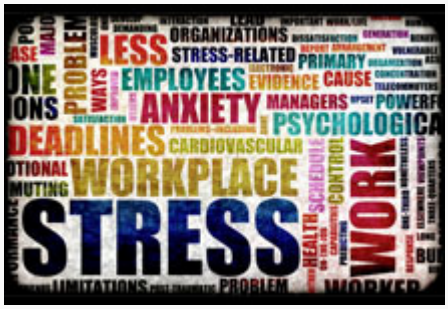
The liabilities incurred by directors fully apply to alternate directors and as the alternate plays a more limited role than a director, there is a strong case to be made for alternate directors being indemnified by insurance cover. In the event of being sued, the insurance will be paid out as long as the alternate director acts as set out in the above paragraph. The alternate director should also motivate for the company to pay any legal

costs incurred as a result of being sued.

When the director for whom the alternate director stands in for resigns, dies or is removed from office, the alternate director position ceases.

Whilst one can see the necessity of the role of the alternate director, it is nevertheless a curious role. In a sense, it is similar to a political vice president who needs to be ready at any time to fulfil the role of the president. Thus, an alternate director needs to be fully up to date in the affairs of the company and to step in whenever the director is absent.

Worker Burnout: Too Much Work and Unclear Goals



"'Burnout', n. 'Physical or mental collapse caused by overwork or stress'" (Oxford Dictionaries)

Two issues have come to the fore in terms of staff experiencing burnout - bosses who work too many hours, and conflicts in terms of duties performed.

This can result in burnout and high healthcare costs (estimated at $120 billion annually in the USA, along with 120,000 deaths).

Bosses working excessive hours

Generally managers who work long hours encourage their staff to work similar hours. This encouragement springs from either employees following their manager's example or exhortations by the manager to also work long periods.

Experts say that a balanced lifestyle between work and leisure is necessary to keep the workforce mentally sharp and they question the

benefit of excessive work hours. As one has put it, “Darwin only worked four hours a day and he radically changed human thinking”.

It is important that you satisfy yourself that your executives are not pushing their staff into an unnecessary workload.

Work-work conflicts

Surveys show that another area of unhappiness is that staff face conflicting duties when performing their work. It is natural that people want to be as proficient as possible in their jobs, but they often find this almost impossible to achieve.

As an example, take the roles a physician is expected to fulfil:

- Diagnose and treat patients
- Research in his/her chosen field
- Mentor learner physicians
- Travel to and attend conferences
- Attend to all the administration required including staff appraisals, budgets, sit in on committee meetings - the list goes on.

Yet when one looks at how the physician is evaluated, it is usually on the most prestigious function, that is, the research undertaken.

Thus, the physician ends up in the position of failing to meet some requirements which leads to frustration.

It can also potentially lead to lower productivity as it may encourage staff, like the physician, to get political in pleasing their superiors.

What can you do about these conflicts?

Researchers have made some key recommendations to address these work-work conflicts, beginning with defining what outcomes the business requires. This will result in:

1. Ensuring staff have an appropriate job description based on fulfilling the key aspects of their job requirements.
2. Making sure there is clarity and

transparency as to what is expected of staff, and what goals they are expected to reach.

3. Aligning their salaries and bonuses to these defined outcomes.

Work-work conflicts can easily arise in the workplace, so take action to minimise these conflicts in your business.

Small Business Owners: Don't Overlook Your New Compliance Requirements!

Small business has limited resources and optimising these resources is a balancing act. Part of this balancing act includes the role of compliance. These requirements have increased as new laws are rolled out along with other regulations, such as BEE and FICA, which also need to be considered.

One needs to carefully weigh up the consequences of not complying with laws or regulations. It is no excuse to say "I was not aware of that requirement" – the onus is on the business to take the time to understand what it needs to know.

The new accounting reporting standards and how they impact on you

If your business is subject to audit, be aware that new standards have become effective in 2019.

The most important of these is "Revenue from Contracts with Customers". This could, depending on your business, fundamentally alter the way your company recognises revenue (such as, construction and telecommunication industries) and even if it does not, disclosure requirements in the notes to your Annual Financial Statements

(AFS) may change. These notes will have knock-on effects, for example, to bonus schemes tied to sales which may need to be altered. This will affect how you disclose remuneration in the AFS and could in turn impact how much additional tax your staff need to pay. In turn, this will change your PAYE (Pay as You Earn) and will roll through to the EMP 201 and EMP 501 (monthly and annual earnings declarations to SARS).

This is only one of several new standards, so **speak to your accountant** to assess the effect on your business.

Banks and other financial institutions rely on your AFS to determine the health of your business. Not complying with these standards could result in an audit qualification, in turn resulting in a negative perception of your business by key stakeholders.

Disclosing directors' and prescribed officers' remuneration

The Companies and Intellectual Property Commission (CIPC) recently released a Notice warning that the Companies Act disclosure requirements of remuneration to directors and prescribed officers are not always being correctly complied with. The CIPC is referring to organisations' AFS (remember that you are required to lodge your AFS with the CIPC).

The Notice warns businesses that this is a significant area of governance and transparency - **failure to comply could trigger an investigation into your company.** This is something any business can do without as the CIPC is empowered to instruct entities, subject to the Companies Act, to correct contraventions. Or it may apply to the Courts to issue an administrative penalty or refer the matter to the prosecuting authorities.

Extensive disclosures are required as set out in the Companies Act in terms of remuneration – **so again, consult your accountant!**

Your Tax Deadlines for July 2019 and Good News for Taxpayers

Firstly, there are no major deadlines in June but tax season opens in July, so make sure you have all your documentation ready for your 2018/2019 Income Tax Return.

SARS and Tax Ombud Sign Cooperation Agreement to Improve Service

Then there is some good news - a Memorandum of Understanding (MOU) has been entered into between SARS and the Office of the Tax Ombud (OTO).

In recent times, the OTO has been critical of SARS particularly in the area of tax refunds. The recent Nugent Commission of Enquiry into SARS was told of refunds being held back at year end to bolster revenue collections. In the last tax year, SARS increased VAT refunds by R38 billion to address this problem. SARS also released a Service Charter in 2018.

The MOU sets out a platform whereby each party can collaborate to mutually resolve issues. The Ombud has hailed this agreement as he believes it will speed up the resolution of taxpayer queries. At the same time both parties have stressed that the MOU will not affect their respective independence.

The agreement also covers other areas of cooperation whereby SARS will improve the flow of information to the OTO, will make key staff available to the Ombud in resolving taxpayer complaints and will assist the OTO with Human Resources, Finance and Procurement.

This MOU is a welcome step for taxpayers as faster resolution of complaints is clearly in their interests.

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