Bad debt practice not wrong, says Lewis

By Hanna Ziady

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Lewis Group has dismissed allegations of wrongdoing relating to the practice of cancelling credit transactions in default and reinvoicing them as cash sales, saying this did not affect provisions for future bad debt.

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In an interlocutory application that will be heard in the high court on Thursday, Lewis has applied to have a request for detailed information on this practice denied.

David Woollam, a director of Summit Financial Partners, who has brought the request, has said that Lewis had been understating its bad debt.

This comes after current and former Lewis employees told Summit that the practice of cancelling nonperforming credit transactions and restating them as cash sales was common.

In an affidavit, Leon Mocke, Lewis's regional manager for the West Coast, said that R1.7m in credit transactions across seven branches were cancelled during the February-March 2016 internal "write-off period". These were restated as cash transactions to avoid writing them off as bad debt, Mocke said.

Payments made in respect of these credit transactions were then reflected as settlements of the reinvoiced cash transactions, he said.

Reasons staff gave for restating transactions in this way included unresolved stock complaints or unhappiness with the quality of the goods. But, according to branch reports, the restatements sometimes took place more than three years after the original credit sale.

There was no proof that any of these reasons were valid, said Mocke, suggesting that customers were not aware of restatements, nor were they refunded for faulty goods.

Woollam said this practice amounted to accounting fraud and was artificially improving the quality of Lewis's debtors' book. The practice contravened International Financial Reporting Standards, he said.

It was not generally accepted accounting practice to reverse a sale because of nonpayment, said Charles Hattingh, managing member of PC Finance Research and former chairman of the South African Institute of Chartered Accountants' international accounting standards harmonisation committee. "That is a bad debt and should be treated as such," Hattingh said.

Woollam, who lost a high court application in October to have four Lewis directors declared delinquent, has made a second demand along the same lines in light of new evidence, including the cancelled credit invoices. He is requesting that the high court order Lewis to furnish Summit with reinvoicing reports for all 760 of its branches for the period January 15 2016 to March 30 2016.

Lewis argued in court papers that Woollam's application was an abuse of process and that such reports would not implicate any of its directors, which is his ultimate aim.

The documents Woollam sought would "merely show how frequently credit transactions were cancelled and reinvoiced as cash transactions", which was irrelevant to the fraud charge, Lewis said.

Two senior staff members had been issued with final written warnings for improperly approving such cancellations, illustrating that Lewis's senior management could not have supported such conduct, it said.

In an independent review, KPMG found cancelling a credit sale and reinvoicing it as a cash sale would have no effect on Lewis's impairment provisions.

KPMG and Lewis's auditor, PwC, would not comment, citing client confidentiality.

Lewis declined to comment on specific questions, saying the matter was sub judice.

Source: Business Day