

HRD

HUMAN RESOURCES DIRECTOR

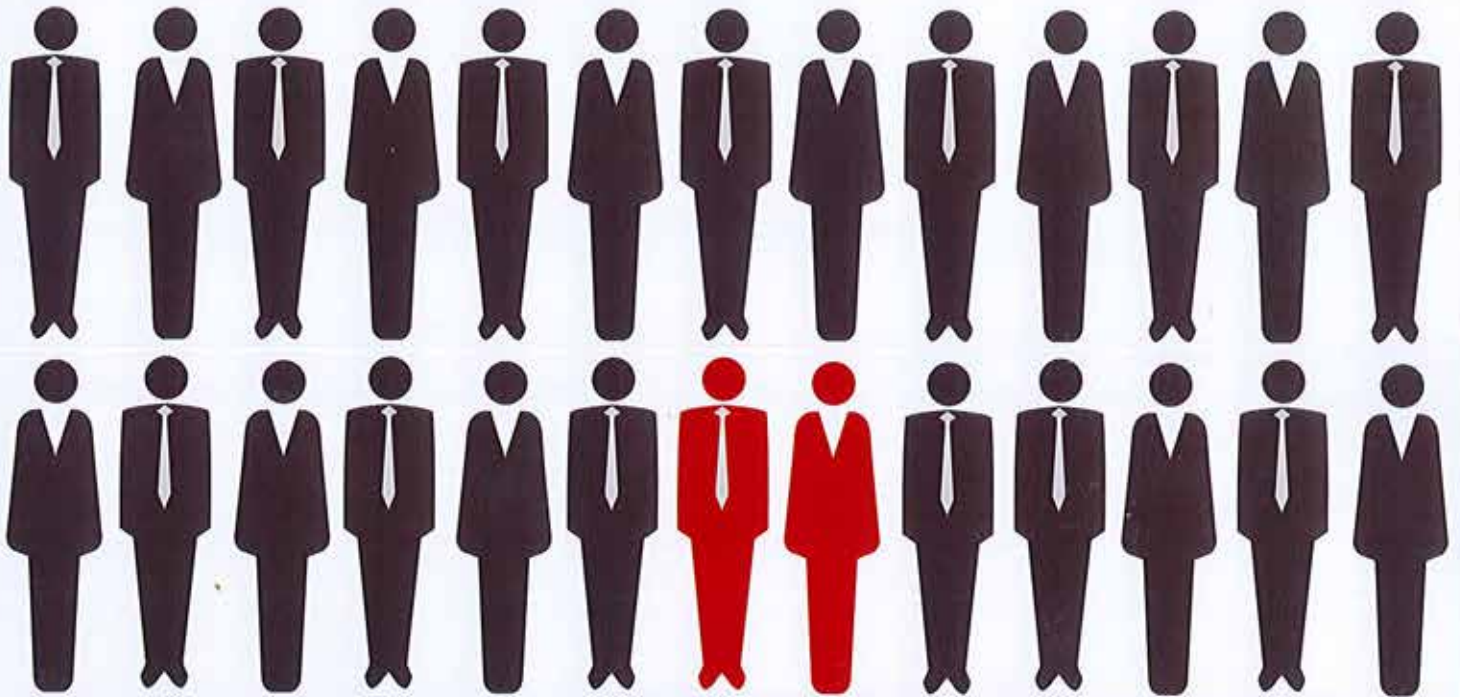
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HALL OF SHAME: AUSTRALIA'S PAYROLL BLUNDERS

As high profile incidences of payroll errors continue to plague Australian companies, *HRD* looks at why this is occurring and what can be done about it



IN SEPTEMBER 2014, the public service was left red-faced when Canberra's Prime Minister and Cabinet (PM&C) department was forced to repay former staff members whose redundancies were underpaid – in one case, by \$17,000.

In February this year, Australian advertising company Ooh!Media Melbourne and its director were fined \$85,000 and \$15,000 respectively after failing to properly pay several workers in Brisbane, Sydney, Melbourne and Adelaide.

The embarrassing headlines – which often seep into mainstream media and do untold brand damage – are bad enough. When combined with the obvious requirement to repay employees in cases of underpayment, steep penalties by the likes of the Fair Work Ombudsman, and the payments to consultants who are inevitably required to sort out such messes, it's highly likely that instead of counting sheep at night, you might be counting the thousands of dollars your company is at risk of losing through poor payroll practices.

With good reason. The financial penalties alone are a deterrent. For employers it's up to \$51,000 per breach; for individuals it's \$10,300 per breach. In other words, 10 underpaid employees could mean 10 breaches.

"There's an example from a couple of years ago where an employer underpaid wages and super to the tune of \$260,000. An employee brought this to Fair Work's attention, the company cooperated fully with Fair Work, yet the company still received a \$200,000 fine. Fair Work normally gives 28 days to get your act together – and you really do just get 28 days," says Tracy Angwin, managing director, Australian Payroll Association.

For individuals, the main thing to worry about – particularly HR managers – is Accessorial Liability.

"This little known clause of the Fair Work Act says if you've knowingly done something wrong we will go for you personally. There have been examples where HR managers have been fined \$10,000-15,000 for being complicit," says Angwin.

While the media reports on high profile cases of underpayment and payroll fraud, there are countless cases that don't get reported because companies don't get prosecuted. Instead, Angwin says "there's a lot happening on the steps of the court".

It need not occur at all, but there are a number of factors wreaking havoc on the seemingly straightforward ability of employers to pay their employees what they are owed.

Why is it happening?

Australia is regarded internationally as having complicated payroll obligations. This is exacerbated by Australia increasingly becoming an entry point for multinational groups expanding into the APAC region. However, the numerous obligations and the ambiguity in the treatment of certain payments is leading to recurring non-compliance.

Thomas Isbell, head of global mobility services, Grant Thornton, says that another contributing factor is the lack of clear guidance on key conceptual terms and even types of workers. "Contractors are a significant risk area of non-compliance of payroll tax and superannuation," he says. "As part of the ATO's recent website overhaul they have introduced a contractor calculator. However, this can actually result in a misleading representation of a complex area of tax law. As such, an employer may not be aware that obligations for superannuation and payroll tax are not being met as the extended legislative requirements are not encompassed and require greater technical analysis."

There are also different state and federal obligations, especially in relation to certain taxes and leave policies (annual leave, long service leave etc). "It sometimes appears there's no rhyme or reason for the differences," says Angwin. "For example, annual leave is governed federally while long service leave is governed by state-based legislation."

Long service leave is a good example; Angwin says most organisations get it wrong in some form - even if it's simply not recording it correctly.

"We go into organisations and find both under- and

"Typically employees think, 'well, the payroll people know what they're doing'"

Tracy Angwin

over-accrual. If you're a large organisation, certainly if you're publically listed, you don't want to have incorrect leave accruals on your balance sheet. The same applies to overpayments and underpayments. If you're underpaying, obviously you've got a liability that you haven't accounted for and if you're overpaying you've got a cost in your balance sheet that is incorrect."

She says that typically employers do find out about underpayments because employees generally know the minimum they are entitled to and will report it to their employer; overpayments, less so.

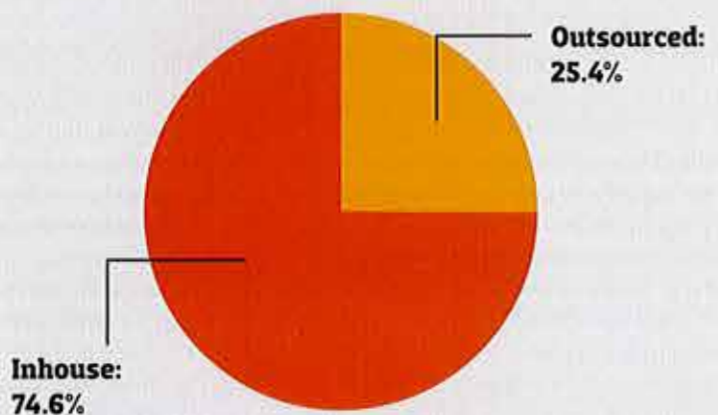
"In my experience it's not that people don't report overpayments because they want to fraudulently collect money that is not owed to them; typically employees think, 'well, the payroll people know what they're doing'"

The training issue

Complexity aside, there are other issues at play. For example, there are very few qualified payroll professionals

Outsource vs inhouse

Having an outsourced payroll function is more prevalent at the less than 200 employee and the over 10,000 employee ranges.

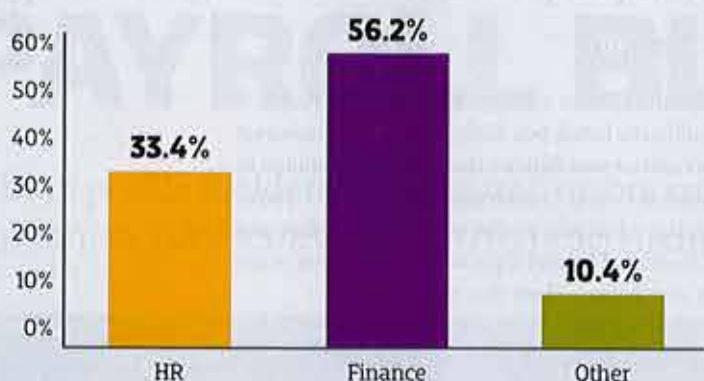


Source: Australian Payroll Association's 2014 Payroll Benchmarking Report

PAYROLL

Payroll reporting lines

It's a misnomer that payroll rarely reports to HR. Based on APA survey data, as organisations get larger employee populations they are more likely to report to HR than finance. There is also a trend for larger organisations to have payroll report to a separate department, often shared services.



	Company size (number of employees)			
	200-499	500-1,999	2,000-9,999	10,000+
HR	37.4%	42.5%	54.9%	58.3%
Finance	57.5%	54.1%	39.4%	33.4%
Other	5.1%	3.4%	5.7%	8.3%

Source: Australian Payroll Association's 2014 Payroll Benchmarking Report

in Australia. The only nationally accredited training program is offered through the APA and TAFE NSW, and these have only existed for a few years. "There's only a small percentage of payroll people qualified to do the job. You'd expect your accountant, your lawyer, your IT folk to have qualifications in their area of specialty. We don't with payroll, purely because there's never been a qualification," Angwin says.

There are also incorrect assumptions. One is that payroll is like accounts payable. That couldn't be further from the truth. Payroll is a highly technical field. Angwin cites one client's conversation with her CFO, who had lumped payroll in with accounts payable. The payroll officer produced a list of 50 compliance issues an employer must know the answer to in order to correctly calculate and tax a redundancy payment.

"She put this list in front of the CFO and said, 'when accounts payable can answer all these questions you can group us with accounts payable,'" Angwin says.

But in reality, she adds, most payroll professionals themselves might get 20 or 25 of those items right. This leads to the most glaring reason why so many payroll errors occur in large companies and government agencies: lack of training.

Angwin says the assumption in many organisations is that the rules are static. "They know things change but overall they think that once they set up the payroll system they don't need to look at a continuous improvement program. And that includes upgrading the skills of payroll employees."

And if the payroll system has been set up incorrectly, or if a payroll employee does

what they've always done, it can have a devastating impact on payroll costs. Angwin cites one client, a Catholic charity, which employed 200 casuals. Just in the way they were calculating the casuals' payments on weekends, APA identified over \$500,000 worth of overpayment.

Improving the situation

There are three 'problem areas' to resolve:

1. **People.** You've got the wrong people, or they are undertrained. The APA runs a help desk for payroll professionals and Angwin is shocked by the fundamental questions they are asked by people who are running national and sometimes global payrolls.
2. **Processes.** It doesn't matter how great your people are but the old mantra of 'rubbish in, rubbish out' comes to mind. If your processes are rubbish you'll have problems.
3. **Technology.** You could have poor technology or too much manual input. But again, if you have the best technology in the world but your processes aren't right or you have undertrained people, you'll still have an inefficient payroll function.

"You may feel under-resourced but sometimes just your processes are wrong," says Angwin. "What do we do manually, what can we automate? Where are the efficiencies, where can we use technology to do this? But don't look at that technology piece until you get the other two elements right. Companies can spend hundreds of thousands of dollars updating their technology but they don't see any benefit. The reason is they've just replicated their old processes. Driving a Ferrari doesn't make me a good driver."

Technology

With Angwin's warning about the importance of people and processes in mind, Nick Southcombe, general manager, Frontier Software, says that HRIS and payroll systems are programmed to address many of the complexities in payroll, albeit to varying degrees. This can include time collection, award interpretation, leave liability calculation, calculation of superannuation contributions and of course the taxation on all of these elements.

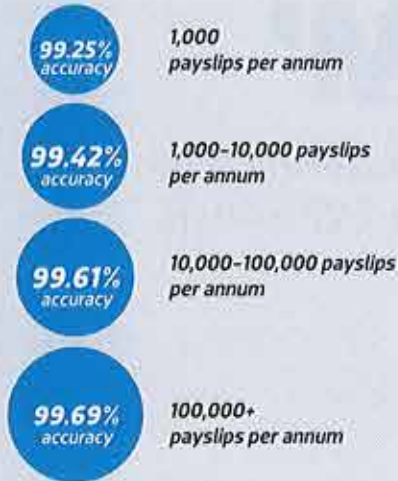
"Not all payroll software vendors have programmed their software products for all payroll factors and often additional manual entry or overrides may be required which means human error can still be a factor," he says.

Fortunately technology continues to evolve and software vendors are working to close the gaps. Today a best practice payroll system that will reduce the risk of future unfunded liabilities will include:

- Automation of time collection

Average accuracy rates

To calculate accuracy, the Australian Payroll Association's 2014 Payroll Benchmarking Report took the number of errors per pay period as a percentage of the total payslips produced. Errors are defined as those requiring recalculation.



The average accuracy rate for all respondents was **99.53%**

- Interpretation of hours worked against awards and EBAs
- Online Employee and Manager Self Service which reduces error-prone manual tasks for staff, managers and the payroll team
- Workflow to automate processes
- Expense management
- Access to the payroll system from mobile devices
- Strong reporting and auditing tools, including dashboards, which provide management with an additional level of review and control

"Clearly the more automation the better," Southcombe says. "However, there is always at least one person behind each and every payroll system who must also be managed and trained to use the system accurately and efficiently."

Payroll audits

To minimise the chance of errors, the more proactive companies are undertaking payroll compliance audits. Angwin admits this is the biggest growth area in her organisation. She says although the move is heading towards companies being proactive, it's still not quite there.

"The audits tend to happen particularly when there's a change of HR leader and that new HR person starts asking questions. When they're not being given straight answers they tend to smell when something is off."

An audit is really a reconciliation of what employers are actually doing and what they should be doing. It will look at all the applicable rules – from the ATO, from Fair Work, from the Offices of State Revenue – and check that these are being correctly applied in the workplace.

"We also spend some time reviewing policy and procedures," says Isbell. "Mistakes are often made due to contractual wording or internal procedures being outdated or often based on overseas policies. There is often confusion over what payments are subject to superannuation guarantee as it can be dictated by legislation, enterprise bargaining agreements or company policy."

From there, organisations will receive a set of recommendations.

This might include an outline of the risk of fines: the APA might, for example, point out that the company is doing something incorrectly, which might mean they are underpaying staff, which in turn puts the company at risk of a fine from Fair Work.

Or it might be around efficiency. Usually it's a combination of the three factors above: people, processes, technology. "In one national company at the beginning of the audit we calculated it was costing \$8 per payslip," says Angwin. "At the end of the audit, and after they had taken up the recommendations, it was less than \$2. So that was mostly around processes. Other companies would have different problems. We've worked with companies that were underpaying and genuinely not aware of it. You'd much rather find that out yourself. You don't want Fair Work to tell you you're underpaying people."

This last point is important. If Fair Work is notified of a breach and demands an audit be conducted, Angwin says there's a fair chance of a superannuation audit from the ATO. And possibly a call from the Office of State Revenue for underpayment of payroll tax. "It doesn't end with Fair Work. They all share information," she says. **HRD**

OUTSOURCING THE PROBLEM

Tracy Angwin's top tip: "If you've decided to outsource payroll because it's so complicated, remember that you can outsource the payroll function or the labour, but you never outsource the responsibility." Here are her three essentials to check before outsourcing payroll:

1. **Are they registered?** "Make sure your outsource provider is a registered tax agent with the Tax Practitioners Board. It's a little-known law that if you're providing payroll outsourcing services for a fee you must be registered with that board. At last count I found about 16% of payroll outsourcing providers have that registration. The majority don't have it. One implication of that is, for example, if you are underpaying your staff, you don't get the safeharbour provisions from the ATO that you might otherwise have. The ATO can demand the money be paid in 24 hours."
2. **Who's doing what?** "Understand which party is responsible for what. Ask the outsourcer to explain it like you would to a five year old. A lot of time people think, 'great, we've outsourced the payroll function' but what they've really outsourced is something very different."
3. **Do they have the qualifications?** "Know who is processing your payroll. Are they qualified to do it? Are they based in Australia? Often, outsource payroll organisations might have an office in Australia and you assume they have Australian qualified staff to process your payroll but often that's not the case. It might be offshored. If that's the case, where is your data being stored and is security an issue?"