

Payroll: find the best people and avoid a media storm

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Short-changed redundancies and high-profile payroll mistakes show just how complicated the calculations are. Find the right professionals to avoid morale-busting screw-ups.

I'm not at all surprised about [the recent news](#) that public servants taking redundancies are being short-changed – with the Department of Prime Minister and Cabinet having to repay dozens of its former staffers after mistakes by payroll officers left one worker \$17,000 short.

The vast majority of public sector redundancy payments are incorrect, with redundancy calculations being some of the most complicated in payroll, along with long service leave provisions and superannuation rules.

Take my word for it: payroll is complicated and difficult. When it's wrong, particularly when it involves large organisations or government departments, it ends up in the press. Who can forget the headlines screaming "Queensland Health payroll debacle", the untidy management of Department of Defence overpayments, or the Clive Peeters \$20 million payroll fraud? In light of the most recent redundancy underpayments in Prime Minister and Cabinet, I have come up with three key pieces of advice to help ensure public sector professionals avoid such mistakes.

Most people think payroll is a simple calculation of hours by rate, then a deduction of an amount of tax before adding some superannuation. While this isn't necessarily untrue, it doesn't take into consideration the decisions that need to be made by payroll professionals that affect the final payroll outcomes throughout that process.

For example, many people think superannuation is a simple calculation of 9.5% of gross earnings. This is not the case; superannuation is actually 9.5% of ordinary time earnings. Therefore, someone in the payroll department needs to make a decision about what are ordinary time earnings and what are not.

Redundancy payments are some of the more complicated in payroll. How you tax a redundancy depends on the employee's start date, years of service, long service and annual leave accrual totals, ex gratia payments, age at the end of the financial year in which the payment is made, and what their year to date earnings are.

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Not only are payroll professionals required to be across all the legislation that affects the actual payments which are made, they are also responsible for the correct accrual of leave – which is a significant liability in the balance sheet.

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I'm often involved in payroll compliance audits where we look at the accuracy of a payroll as well as the efficiency of the operation. Ignorance is widespread throughout organisations that just assume their payroll is compliant. The errors we find can be both overpayments as well as underpayments. This was evident in a recent compliance audit of a not-for-profit organisation with 200 casual staff who were overpaying more than \$500,000 per annum due to a lack of knowledge by their payroll team.

My top three tips for avoiding such mistakes and ensuring payroll compliance are ...

1. Ensure you have the right people

The key to payroll compliance is having qualified payroll professionals. To become qualified has historically been difficult as nationally accredited training in payroll was only available from January 2013 (when we established Australia's first payroll qualifications at Certificate IV and Diploma level).

If you can't find staff with a competency-based qualification such as Certificate IV in Payroll Administration or a Diploma of Payroll Management, you should ensure that the candidates you assess go through a thorough payroll knowledge assessment to identify any knowledge gaps. You typically won't find the best payroll professionals on Seek as they are being actively retained by their employers because they are as rare as hen's teeth.

3. Keep your payroll team knowledge up to date

Payroll experience does not necessarily mean payroll knowledge. Because legislation affecting payroll changes every year it is important to keep your team up to date with regularly training and assessment to ensure their knowledge is always current.

4. Measure your payroll operation

To ensure you are running the most efficient and compliant payroll operation possible you must benchmark your operational payroll costs. Once you have these measurements, you will be able to identify where to make improvements in both cost and governance.

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The Department of Human Services is very forward thinking in the area of payroll, and have followed these guidelines. They understand the consequences of having unqualified payroll professionals and are in the middle of a program to ensure their payroll team complete nationally accredited qualifications in payroll to ensure they have the competencies to support the employees in the department.

Most payroll mistakes are made because the payroll team genuinely don't have the knowledge or training that they require to do their job. We expect that an accountant will have an accounting qualification or that an HR practitioner has a competency-based HR qualification, however for some reason this isn't necessarily expected for payroll professionals who can arguably cause more damage if they don't do their job correctly.

This week's example is just one of many that shows the cascading effects a poor payroll operation can have.