

E-BOOK

How to avoid the 5 perils of payroll

*A guide to navigating through the
common traps of payroll administration.*



How can you ensure you get payroll right every time?

Getting payroll right has never been more of a priority for Australian payroll professionals.

Some of Australia's most well-known companies have recently made headlines for reasons every company dreads – underpayment of staff due to payroll errors.

The fact that these companies – with their ample resources – are making mistakes demonstrates just how easy it is to get payroll wrong. Your payroll team must deal with all sorts of complexities like regulatory updates, managing different employee types, status, and pay scales.

In this guide, we'll identify five of the most common ways organisations get payroll wrong, and how you can spot and avoid them.

One-third of Australian organisations admit to making a mistake every single monthly pay run.¹



¹ Australian Payroll Association survey, 2019

1. Underpaying staff

In recent times, the issue of unpaid wages, overtime and super has haunted Australian businesses large and small. Simple payroll mistakes, like not classifying staff correctly, or failing to pay overtime or penalty rates, can easily go undetected and accrue over time into significant underpayments.

The recent surge in Australian businesses underpaying their staff is of such gravity that FairWork Ombudsman, Sandra Parker, recently made this statement:

“Each week, another large company is publicly admitting that they failed to ensure staff are receiving their lawful entitlements. This simply is not good enough. Companies will be held accountable for breaching workplace laws.”

So how can you help ensure your company doesn't inadvertently underpay its staff?

Here we list some of the most common scenarios that typically result in underpayments.

Make sure you and your payroll team keep these scenarios in mind to help ensure you get payroll right every time.

- **Incorrect calculations in overtime provisions.** When organisations don't ensure every ruling in overtime has been considered, incorrect calculations happen. Many employee awards have several sections on overtime. Employees must receive a break of at least 10 hours between shifts. If their break is shorter than 10 hours, some awards require overtime payment until their full 10-hour break. Be sure your process includes a way to account for all types of overtime provisions and factors them into every payroll run.
- **Underpayment upon termination.** Another common mistake is payroll managers forgetting to refer to the Fair Work Act, which entitles employees over 45 who have been employed with the company at least two years to receive an additional week of pay upon termination. This is in addition to any relevant employee award. Add a checkpoint for this as part of your employee exit processing to flag for applicable employees.
- **Not paying overtime penalty rates to part-time employees.** Many organisations erroneously place the same rules on overtime payments to part-time employees as they do to full-time employees. However, some employee awards like the retail and clerk awards require overtime penalty rates to be paid to part-timers when they work more than their contracted hours. Apply a checkpoint here as you check for applicable overtime provisions.
- **Underpaying superannuation.** Many employers fail to pay superannuation on employee payments as well as regular wages or salary. Super should be paid on any employee payment that is regarded as ordinary time earnings, including bonuses, leave loading, payment in lieu of notice of termination, and cashed-out annual leave.
- **Only paying the base rate for annual leave.** This is a common underpayment among the health support services and manufacturing sectors. The awards governing employees in these sectors require that annual leave payments should include the full payments owed to the employee if they had worked, including penalties and allowances. Be sure to cover all applicable annual leave circumstances, especially if your organisation falls into one of these sectors.
- **Not paying commissions and bonuses from long service leave.** These payments should be included when long service leave is paid.

2. Overpaying staff

Cases where employees have received overpayments don't generate as much press as underpayments, but they pose a tricky situation for any business.

Employees aren't generally as vigilant of overpayment errors and therefore less likely to alert you if it occurs. Recovering overpayments is more difficult than rectifying underpayments because you can't deduct overpayments without the employee's written consent.

Overpayments typically result from one or more of the following payroll errors:

- Late terminations
- Delay in updating job records
- Miscalculated hours
- Duplicate time data entries or other time reporting errors

For best practice, create these checkpoints and lines of communication between your team and other supervisors to ensure you're accurately capturing payroll data:

- Ensure employees have sufficient leave available before they make requests. Employees should also be able to check their leave balance.
- Create a process for supervisors to communicate terminations promptly and process them on the day of termination
- Have a process for supervisors to communicate changes in time, salary/wages, and employment type
- Review all standard reports for inconsistencies in salary and payroll
- Review payments already processed to avoid duplications



3. *Not meeting compliance requirements*

A 2019 Australian Payroll Association survey seems to confirm what many payroll managers believe – that Australian employee legislation is complex and difficult to interpret.

The survey revealed that 90% of Australian payroll managers found interpreting legislation or awards around employee entitlements and payments either confusing or contradictory.

Of these 90%, 58% sought advice from another payroll, HR or legal expert to clarify awards or pieces of legislation. A further 18% consulted the relevant government body to clarify the information.

The solution here is to leverage automation and smart data now available with modern payroll software. Automation technology enables you to stay on top of changes by patching the latest legislative updates to your software. Once you download the newest version of your software, the updates are automatically available in your system and calculated where applicable.

Automation virtually eliminates non-compliance risks, giving you time back to focus on other strategic ways the payroll function can contribute to growing the business.



4. *Undertrained payroll managers*

Considering the multitude of complexities payroll managers face, it's understandable that many Australian payroll managers feel they lack the training necessary to deal with them.

That's what a 2019 Australian Payroll Association survey revealed, namely, that two-thirds of Australian payroll managers feel they need more training to interpret legislation and modern awards. Nine percent say it's been more than a decade since they've received payroll-specific training. Exactly half of the 601 payroll managers surveyed said their current job demands needed more detailed knowledge than they currently possess. This was especially so for small businesses (86%), but even respondents working at medium (64%) and large-sized (57%) organisations said the same.

An exceptional payroll operation requires routine training and development. It's essential to establish that as standard practice to empower your staff to do their jobs well. If you need to add more staff, look for candidates with proven experience running payroll and who demonstrate an intrinsic understanding of payroll practices, principles, and the associated risks. Remember, your team will likely write the biggest cheques in the business every payday.

Too often, payroll job ads specify experience in specific management software. Whilst prior experience with a particular system is desirable, it's important to remember that a solid understanding of payroll practices is much more valuable in a candidate. This type of person will have their senses on alert and most likely deliver compliant pay runs.

5. Payroll fraud

It can be tough to imagine one of your employees committing payroll fraud, but it happens within Australian businesses more often than you think.

Payroll fraud costs Australian businesses millions each year. For electrical retailer Clive Peeters, it was particularly costly. Over a two-year period, its former payroll manager stole over \$19 million from the company.²

Here are some of the vital measures you can take to help prevent payroll fraud in your business:

- **Segregation of duties is one of the most important measures you can take against payroll fraud.** For instance, you may entrust different people to handle payroll authorisation, distribution, and reconciliation.
- **Ensure payroll staff take annual leave.** If something untoward is going on with your payroll, you'll be better able to identify it when the perpetrators are on leave. Make sure you stay vigilant for any payroll anomalies that appear during this time.

- **Check for ghost employees.** Those are employees who are on payroll but don't work for the organisation. Someone in payroll creates a ghost employee and intercepts pay intended for this person. Investigate any duplicate names, addresses, dates of birth, tax file numbers or other details found in your employee records.
- **Check for errors with terminated employees.** In some cases, payroll staff may accidentally pay a terminated employee. If an outgoing employee is paid using EFT, it's important to remove them from this payment method once the termination process has been completed.
- **Track your payroll audit trail.** If fraudulent activity is taking place, it's likely to turn up in your payroll software's audit trail. Ensure your system stores a log of all changes to payroll details and that you're checking it regularly.

Want expert advice on how to manage and maintain payroll compliance?

Download our Quick Guide to Payroll Compliance for easy to follow tips from our payroll experts.

Download Guide >





Level 11
Zenith Tower B
821 Pacific Hwy
Chatswood
NSW 2067

1800 660 670

[sage.com](https://www.sage.com)



©2020 The Sage Group plc or its licensors. Sage, Sage logos, Sage product and service names mentioned herein are the trademarks of The Sage Group plc or its licensors. All other trademarks are the property of their respective owners. AU/WF 729442.