



Helping you understand
the threats your
business may face

POST PANDEMIC: IS YOUR PAYROLL THE NEXT DISASTER?

Key points

- Outdated systems and understaffed teams can give rise to significant legal and fraud risk
- Outsourcing payroll can reduce cost, mitigate threats and let you focus on achieving core objectives
- Regular internal audits are essential to ensure key controls are designed and operating effectively



Summary

While most employers don't deliberately underpay employees, errors can occur. Coles, Woolworths, Hero Sushi and MasterChef George Calombaris are the latest in a long line of companies and franchises to be caught in payroll scandals as a result of outdated payroll systems. Errors can also go the other way, with companies inadvertently overpaying employees due to complexities such as the compulsory superannuation contribution rate.

The COVID-19 Pandemic has impacted where, how and when our businesses operate. Australia has seen an overnight transformation which has fundamentally impacted almost every department within an organisation, including payroll.

With complexities including the JobKeeper scheme combined with pre-existing considerations such as the appropriate base to apply superannuation contributions; how to treat the various components of a termination payment (including redundancy and concessional tax treatment); and how to apply overtime and penalty rates, now is the time to review and ensure your payroll processes, systems and people are aligned to your strategic goals.

This is essential to make sure that employers can keep up with constant changes in the various legislation that governs employee entitlements. For example, earlier this year, the Australian Taxation Office (ATO) made clear its view on applying compulsory superannuation to annual leave loading (the 17.5% applied to annual leave), which means many businesses will be caught out continuing with old practices.

Over the past 12 months, there has been a significant spike in demand for outsourced payroll services in Australia to save businesses time and cost of addressing the increasing complexity of tax and payroll legislation.

In this summary we share the benefits of a payroll system review and what companies can do to further mitigate their compliance risk.

Addressing knowledge gaps

Companies often have knowledge gaps about how to calculate an employee's entitlements under the relevant employment award, PAYG withholding, employer superannuation and other compliance obligations. Generally, the payroll officer is often undervalued even though this may be a highly complex role.

The best way to know if a company is payroll-compliant is to engage a skilled team to audit your company's systems. Where possible, an audit process is preferable, to have systems in place which would identify when a change to employment conditions, or relevant legislation occurs, rather than relying on annual reviews. It should identify errors and rectify payments quickly to reduce company risk.



Key issues to consider

Here are five questions that companies should consider regarding payroll compliance:

1. What is the staff turnover rate?

Payroll systems often need to keep up with a dynamic employee environment, particularly where casual or temporary staff are involved. Businesses must assess whether existing payroll systems are nimble enough to manage multiple staff changes, especially those which arise over a short period of time due to sudden and potentially unforeseen redundancies and terminations.

2. Is the business undergoing rapid growth or decline?

Rapidly changing companies need to be particularly vigilant because their existing payroll systems can become unsuitable, which can lead to additional expense and compliance issues.

3. Are employees paid cash salaries?

Extra security in accounting systems is required if a business pays employees in cash.

4. Contractor vs Employee

The difference between a contractor and an employee is not always clear cut with subtle, yet important, distinctions between strategic objectives and those relationships predicated on contracts of, as opposed to for, service.

5. Does the business know its payroll obligations?

Businesses must address obligations such as PAYG withholding, employer superannuation contributions, and determining the correct treatment of the various components of an employee's remuneration, including penalty rates, application of overtime, fringe benefits. In addition, there are other state-governed obligations to consider including long service leave entitlements, payroll tax and WorkCover, which vary from state to state and can be overlooked when the business is growing.

6. Is the business complying with legislative requirements?

The business needs to know its regulatory requirements regarding factors such as tax legislation, minimum wage, parental leave, and minimum employment standards. Companies can register for Fair Work updates to keep informed about legislative changes.

Payroll best practice

Planning

Companies can reduce the risk of error and non-compliance when they take the time and energy to effectively plan how they will manage payroll. This includes having adequate payroll systems in place, keeping payroll records up to date, and committing to ongoing regulatory compliance. Time often needs to be allocated to attend webinars and other information seminars to keep abreast of any new legislation or processes.

Accounting software

Businesses must be careful to choose the right software to support payroll accounting. It's important to do due diligence and choose a system that ensures compliance, reduces risk, and automates processes where possible.

Fraud response plan

The RSM Global Corruption Law Compliance Survey found that companies with a clear, documented fraud response strategy were over seven times more likely to initiate investigations. Having a sufficient level of support available helps ensure that the initial response is thoughtful, coordinated and timely, avoiding potentially negative financial, legal and reputational issues that can arise when addressing payroll fraud.

Staff involvement

Involving staff in payroll decisions can make them feel more valued, which enhances productivity and reduces staff turnover. It can also mean that any issues that arise are more likely to be resolved successfully internally without involving the Fair Work Ombudsman, or the ATO.

Seek expert advice

Engaging expert advice regarding payroll accounting, superannuation, and compliance reporting under the relatively new Single Touch Payroll process with the ATO, as well as Fair Work and tax legislation lets companies reduce their risk and focus on core business, which leads to increased productivity and reduced costs.

Next steps

Businesses with a concern about outdated payroll systems or that need support with understanding compliance requirements should consider an audit and potentially outsourcing this increasingly complex function. Businesses should ask their tax professional, auditors or business adviser for guidance on the best course of action to ensure payroll compliance.

*This is an updated version of the article released in February 2020:
[Old payroll systems are a recipe for disaster](#)*