



ARTICLE

Undergoing a Payroll Compliance Review

Five Tips To Reduce Time and Cost

The Fair Work Ombudsman reported that a record \$532 million in unpaid wages and entitlements was recovered in 2021–22.¹ This was more than three times that of the previous year. With the Fair Work Ombudsman increasing its compliance and enforcement approach, how prepared are you for a payroll compliance review?

In this article, Joanna Yeung and Nelvin Tam outline five tips to aide your Payroll and HR Teams to reduce time and cost when undergoing a payroll compliance review. We also outline some proactive steps to consider by laying the groundwork for a more robust payroll system.

Payroll compliance reviews can take anywhere from months to years to conduct, depending on the size and complexity of the organisation, and the issues of concern. While a payroll compliance review involves many types of analyses, it always begins with understanding and preparing the data. In our experience, the main difficulty comes from the gap between practical working knowledge of payroll systems and processes held by the company undergoing the review and the reviewing party's need to assess detailed records. So, what proactive steps can you take to smooth out the process?

FIVE PRACTICAL STEPS TO STREAMLINE A PAYROLL COMPLIANCE REVIEW

1. Understand your payroll systems

A key factor to a successful payroll compliance review is understanding what payroll systems and practices are in place in relation to rostering, recording timesheets and paying employees. Consider these key questions:

- How does the business record the time spent by employees (this is typically in the form of manual or electronic timesheets)?
- How does the business record what and how much it pays employees?
- Do all employees have a consistent unique identifier that is used across multiple systems?
- Do disparate systems communicate with each other?

- Does the payroll team have any manual practices or adjustments? Are these recorded and if so, how?
- How are allowances tracked and approved?
- How are different pay categories recorded and paid?
- What is the pay period (that is, weekly, fortnightly or monthly)?

This list is not exhaustive, but these basic questions can help you better understand your payroll system. Doing so will mean you can more easily extract the information you need when conducting a payroll compliance review.

Issues with manual timesheets

Manual timesheets create additional complexity. This is because they need to be manually typed into a spreadsheet, increasing the chance of introducing an error. Incorrectly entered dates, employee names, and shift types or times can cause anomalies in the review that require manual checks of original source documents. Additionally, inconsistent date formats can cause significant issues if they're not corrected prior to beginning a review. Therefore, consider implementing an automated timekeeping platform to avoid these errors. However, if manual timesheets are used, budget more time and resources for checking the quality of the data.

2. Document any manual payroll practices

When conducting payroll reviews, we often find that a single payroll system is unable to manage the complexities of rostering, timesheet entries, interpretations of the award or agreement, and payslip processing. As a result, the payroll team needs to intervene manually to adjust the data so that employees are paid correctly. Adjustments may include:

- amendments to timesheets (for example, when an employee decides to cancel a period of leave or when an employee doesn't have sufficient sick leave available and is forced to take leave without pay)
- poor record keeping of overtime (that is, accruing time in lieu, rather than paid overtime penalties), or
- backpay processed by payroll for a previously identified underpayment that has been remediated.

In these circumstances, it is important to document the changes and make the reasons understandable to the third-party reviewer. Without proper documentation, variances in a payroll compliance review may not correctly reflect under- or over-payments in each pay period.

3. Consider public holidays

Public holidays can be complex in Australia, and typically fall into one of three categories:

- nationwide
- state-specific, or
- region-specific.

Depending on the award or agreement in place, the role or type of employee, and whether they worked that day, different penalty rates may apply. An additional layer of complexity arises when an employee works across multiple locations – this occurs regularly in industries such as healthcare.

Keeping records of locations worked by each employee – and the public holidays applicable in each location – is vital to assess if the correct penalty rates have been applied. This will reduce the number of changes required during the review.

4. Identify out-of-cycle payments

Making payments to employees outside of the normal pay cycle is common and can occur due to:

- delays in timesheet submission
- the need to process backpay for a known underpayment in a previous pay period, or
- early payment for an employee whose contract has been terminated.

However, it is important to be able to provide details of the reason for the payment and the relevant period to which the out-of-cycle payment relates so the reviewer can accurately assess whether there have been underpayments.

Case Study - Timely timesheets

In a recent engagement, we observed a time lag between timesheets and payslips of up to three months due to timesheets being submitted late. From the data, it was unclear what timesheet period the payslips related to.

In addition, we found that there were incomplete and inaccurate records for these out-of-cycle payments. To solve this challenge, we implemented data analytics techniques to process this information efficiently and accurately to complete the payroll review.

5. Alignment and commitment from all stakeholders

There are often inconsistencies in how finance, payroll and business management understand the same payroll system. To ensure all key stakeholders are aligned on key inputs and assumptions when preparing for a payroll compliance review, we recommend holding formal discussions and/or workshops with all involved before the review takes place.

Stakeholders could include:

- legal
- payroll and finance teams
- the Board
- employees, and
- the external parties that will undertake the compliance review.

CONCLUSION

Conducting a robust payroll compliance review can be a time-consuming and resource-intensive task. By not preparing properly before conducting a payroll compliance review, it is likely the review will take much longer and be resource intensive. In addition, there is a possibility that having a non-compliant payroll process could increase your exposure to litigation, adverse media coverage and material losses. By being proactive and laying the groundwork to make these reviews more efficient, you can save time, resources and money if you, for example:

- thoroughly understand your payroll systems
- document any manual payroll practices
- consider public holidays
- identify out-of-cycle payments
- align and obtain commitment from all relevant stakeholders.

At FTI Consulting, our multi disciplinary team of forensic accountants, data analysts, digital forensic experts and communication specialists work collaboratively as one seamless team with finance, HR, in-house counsel and external legal teams, to anticipate and illuminate complex payroll compliance issues. These include:

- Assessing underpayment risks
- Implementing compliance frameworks
- Investigating allegations of underpayments
- Communication strategies to manage internal and external communications
- Advice to Boards, legal teams, HR teams
- Expert testimony or consulting expert.

¹ FWO recovers half a billion dollars in wages, The Fair Work Ombudsman (August 8, 2022), <https://www.fairwork.gov.au/newsroom/media-releases/2022-media-releases/august-2022/20220808-fwo-media-release-pir-speech-august-2022>

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