

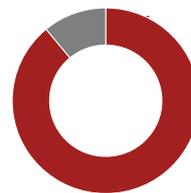
March 2017

Making Payroll Pay

Access the true value of your payroll



Australia's top employers make payroll errors exceeding **\$4.4 million per annum**



89% of employers expect international mobility to increase

Increasing reporting requirements over the next **3-5** years



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Introduction to Making Payroll Pay

Payroll is one of the most critical functions in helping manage and remunerate a workforce. An organisation's payroll function often manages its largest expense and, with recent technological improvements, has the ability to produce powerful employee insight for management.

And yet, it is an area that seems to be governed by the mantra - "Payroll. No news is good news."

At PwC, we have a vision to raise the profile and potential of payroll.

Payroll is an area that is often not properly serviced by a continuous improvement mindset and methodology. This can result in organisations:



- Using technology that isn't right for their needs and that requires significant workarounds
- Running payroll processes that are disbursed amongst too many different departments and sites
- Being overly reliant on the (often undocumented) knowledge of a few key people; and
- Underinvesting in regular training and support offered to the payroll function.

Each of these factors can increase the cost and the time taken to deliver payroll, limiting a payroll function's ability to add true value.

We believe that organisations which view payroll as a low cost compliance function are limiting their ability to leverage the valuable employee data and insight that sits within the function. Worse, the lack of a continuous improvement mindset can find an organisation exposed to increased compliance costs, employee dissatisfaction and fraud risk.

In establishing the Payroll Consulting practice, PwC has brought together people with practical payroll experience – team members who have run payrolls and shared service centres for multi-national organisations. Our team members understand the challenges of successfully managing a payroll function, and also see the opportunities and potential.

We are also pleased to have launched the Payroll Consulting practice in alliance with Australian Payroll Association. In addition to APA bringing more than 20 years' experience in the Australian payroll industry, our alliance allows the Payroll Consulting practice to access APA's strong vendor relationships and, through the APA annual Payroll Benchmarking Report, gives us the ability to benchmark an organisation's true cost of payroll against industry peers and like-sized employers.

We are passionate about payroll. We believe that payroll functions have the ability to deliver real value and insight to an organisation, provided the function can get the support to help maximise the effectiveness of their processes and technology.

I trust that you will enjoy reading this paper and that it will give you food for thought about the opportunities, and the risks, sitting within your own payroll function.

Rohan Geddes
National Leader - Payroll Consulting practice



Every year, Australia's top employers make identified payroll errors which exceed, on average, \$4.4 million dollars per employer. Correcting these errors adds cost to the payroll function and creates employee angst in the workforce. Isn't it time you took a closer look at your payroll?

Overview

The objective for payroll has always been a simple one – pay your employees accurately and on time. Payroll has historically been seen as a low risk function, generally automated (or outsourced) – one which rarely troubles the higher levels of management, as long as it is running smoothly. To that extent, you probably haven't given it a great deal of management time or attention.

This means that many organisations are not accessing the true value of payroll. Technological advancements, the power of data analytics and changing employee demographics provide the opportunity for organisations to take a critical look at their payroll function and identify where there are potential improvements, leading to cost savings, increased efficiencies and improved employee engagement.

For example, changes include:

- How, where, when and for whom we work.
- How, where and when we access information.
- How organisations use technology to record, analyse and report data.

This also means employment turnover rates are higher than ever before, as is greater workforce mobility and flexibility.

Organisations should face up to both the opportunities and challenges facing payroll. Technology now provides an opportunity for payroll functions to evolve and become valued business partners. At the same time, they still need to manage the financial and reputational risks of processing payroll late or incorrectly, or of failing to adhere to evolving data privacy and protection regulations.

In this paper we look at the payroll function and process through a number of lenses, being:

- Payroll technology in the Digital Age.
- Controls and Governance.
- Regulation and Compliance.
- Industrial instruments.
- Globalisation.

Our focus is not simply on the compliance aspects of the payroll process, but making sure that the payroll function has strong support, from a governance and controls, technology and people perspective.

The developments in payroll are happening globally, and we believe the discussions we raise in this paper can be replicated in many territories. Our view, and how we help our clients, is not confined to Australia.

Payroll technology in the digital age

In the past, digital meant ecommerce. But the landscape has changed – the rapid rise of social media, smart devices, big data and cloud computing has opened up avenues to access data more frequently from anywhere at any time. At the same time, employees are expecting and demanding greater access to their information and flexibility as to how it is consumed and experienced. Technology and social media are making employees better informed, more connected and more vocal – get their payroll wrong and with the power of social media you, and the wider world, will very quickly get to know about it!

For many organisations, the payroll system (or interface with an outsourced providers system) is not directly integrated with the HR and Finance systems which drive payroll inputs and manage the outputs. Very few organisations have transitioned to true cloud based payroll platforms enabling integration with other internal and external systems.

The management of employee data and payroll results could be inadvertently transmitted or sent via email or other non-secure data exchanges.

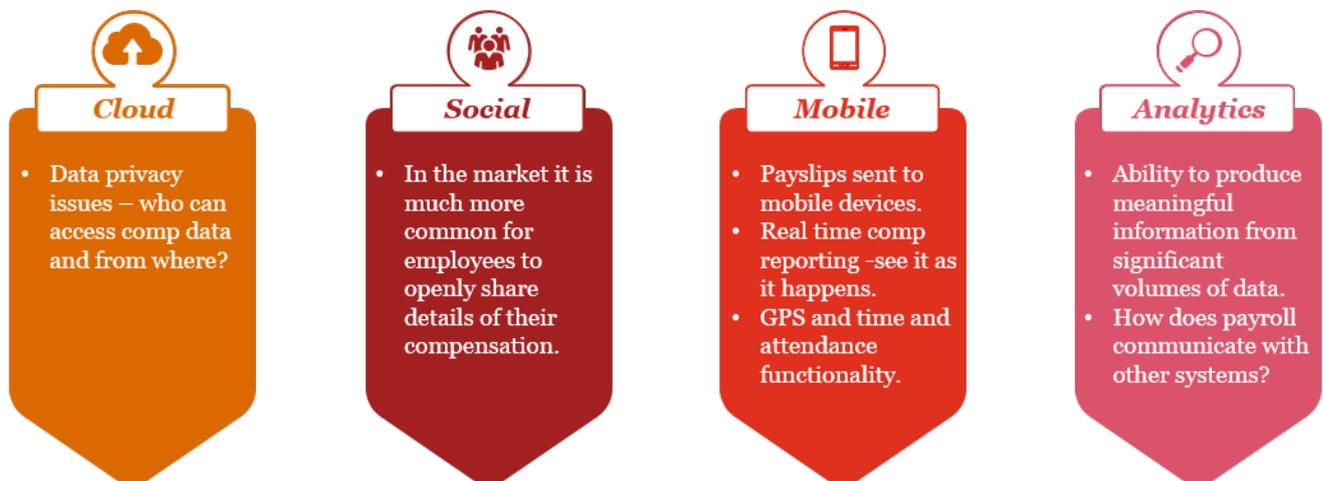
With an increasing number of payroll systems available, selecting a new platform that meets the requirements of the organisation is sometimes seen as a very big challenge. Identifying and implementing a system that not only fits the wider IT and business strategy, but is capable of unlocking the power of the data held in payroll, is difficult and often seen as too risky. With your mobile phone plan, you will often assess the price, data inclusions, calls and texts available to get a good deal. As the saying goes “If you’re staying on the same mobile plan for 5 years – you’re paying too much”. The same can be said for your payroll system –regular reviews of system capabilities and business requirements can provide commercial value in identifying better technology at a better value. Don’t not look at Payroll because it may be too risky. Undertake a

review, determine the value in what is being delivered and compare this to the market. You would do it with an \$80 phone plan – why not a business system that costs many times more than that?

Maintaining good data is increasingly important to ensure good governance and control over systems and processes. Using the data available can also provide insights into the workforce, help drive key management decision making and prevent opportunities for under and over payments.

At the same time, your employees expect you to act responsibly with their personal information and to respect their right to privacy. The Privacy Act 1988, which regulates how personal information is handled, demands this too. Failure to comply with the law can lead to serious legal and financial consequences and significant operational challenges, such as business disruption, financial loss and damage to brand and reputation.

Digital technology trends in Payroll



Questions to ask

- Does your current payroll system fit into your overall technology strategy?
- If your HR system is cloud based-what interface do you have to your payroll system and how do the outputs link to your finance system?
- Do you know the total cost of salary and wages paid to employees in the last 12 months?
- Have you analysed the cost of running your global payroll systems and number of vendors?
- Do you have confidence that your outsource provider can deliver an end to end payroll solution?
- Are you confident that you have not over or under paid employees in the last 12 months?
- Is your payroll data secure and have you performed penetration testing or tested ISO compliance with ISO 27001 (whether you operate the payroll internally or via an outsource provider)?
- How can you take advantage of cloud technology to enable a more resilient and efficient payroll environment?

Our View

Rapid technological advancements have resulted in great opportunity for organisations to review their current payroll technology and identify where there is potential to reduce cost, improve efficiency and make better use of the data held within payroll. Companies shouldn't be reticent to review their payroll technology solutions.

Risk, regulation and compliance

It is rare for a payroll system to fail completely, but there have been well publicised examples of organisations failing to process their payroll on a timely basis and the consequent impact across the workforce.

Payroll is an organisation's biggest expense and carries inherent risk. There is:

- Risk of fraud
- Risk of under or overpaying employees
- Risk of underpaying authorities.

Organisations require a robust risk and governance framework to ensure payroll is run without creating areas of exposure from either a workforce perspective or from an authority's perspective. Organisations without good processes and with a lack of visibility over the payroll function in place could be exposed to fraud from those charged with safeguarding payroll.

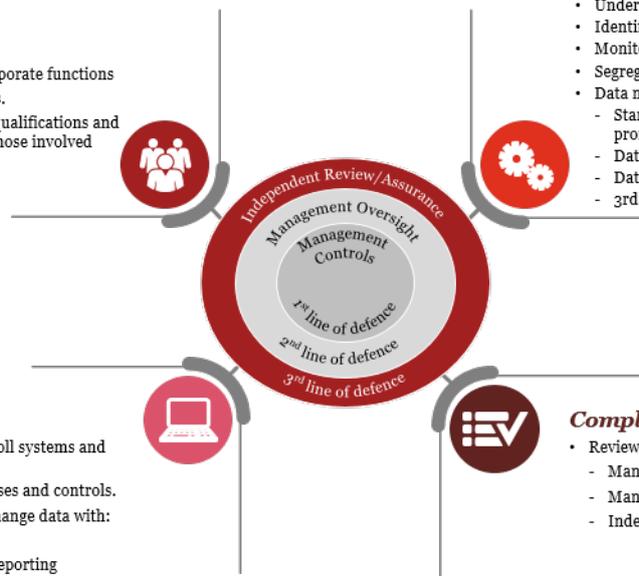
Understanding Payroll Risks

People

- Roles, responsibilities and accountabilities of:
 - payroll team
 - non-payroll teams and corporate functions
 - overseas support functions.
- Ensuring appropriate skills, qualifications and training of payroll staff and those involved throughout the process.

Process

- Understanding and documenting the end to end payroll processes.
- Identifying gaps in controls.
- Monitoring and review controls.
- Segregation of duties.
- Data management:
 - Standing data (including joiners, leavers, transfers and promotes)
 - Data entry and processing
 - Data storage (data privacy and security)
 - 3rd party data transfers (to and from).



Technology

- IT general controls over payroll systems and supporting infrastructure.
- Automated vs manual processes and controls.
- How the payroll systems exchange data with:
 - ERP/Finance system
 - 3rd party processing and reporting systems.

Compliance

- Review of the payroll process of:
 - Management Controls (1st line of defence)
 - Management Oversight (2nd line of defence)
 - Independent review/assurance (3rd line of defence).

Organisations can ensure visibility over the end to end process by implementing the three lines of defence:

- Management control
- Management oversight
- Independent review/assurance.

Ultimately, this allows organisations to concentrate on improving efficiencies and reducing cost.

With regular legislative changes and authorities such as FairWork increasing the level of investigations they undertake into compliance, many organisations are reaching a tipping point in terms of their ability to keep up with and accommodate the challenges facing their payroll function on a daily basis. Investing time now to review the capacity and capability of your payroll function, systems and processes will ensure it is resilient enough to deal with these ongoing changes.

From an internal perspective, a risk and governance framework can generate benefits to the business, such as providing visibility and accountability over the end to end process and providing management reporting insight. Having a comprehensive understanding of payroll related risks and defining how to address those risks through an effective payroll governance framework, is central to building a sustainable and resilient payroll function.

Questions to ask

- Have you assessed whether the payroll knowledge and skills of your payroll team are up to date, particularly if you have recently changed technology or been through a merger/acquisition transaction.
- Do you have confidence in the resilience of the systems and processes that manage your payroll data?
- Have you tested whether your payroll meets current local compliance obligations? Does your payroll function have the capacity/ability to take on the increasing reporting burden likely to be placed on it over the next 3-5 years?
- Are payroll processes documented with associated standard operating procedures and payroll checklists?
- Do you have sufficient visibility on the level of reputational and compliance risks some of your payroll arrangements might attract?
- Do you have confidence in the security of your payroll data?
- What are the roles that have access to payroll data?

Our View

Organisations need to take a holistic view of the payroll function based on a framework that provides overall governance over payroll and related activities, through the 'lenses' of People, Process, Technology and Governance.



Industrial instruments

A further complication for Australian payroll is the variety of industrial instruments that may cover an employee population.

Enterprise Agreements (EA's) are negotiated between an employer, their employees and their employee's bargaining representatives. They contain the minimum wage and working conditions that employees covered by the agreement are entitled to.

Employers can be obliged to adhere to the terms of multiple EAs, each of which can contain different rates of hourly pay, loadings, allowances and overtime.

All of these variances need to be configured and tested within the payroll system, including, in some cases, time and attendance applications – often within a very short time frame between the agreement being signed and the first pay run in which employees are entitled to new rates.

In addition, interpreting the circumstances under which an employee is entitled to certain payments – such as overtime, penalty rates, and certain allowances – can be very complicated. Without an electronic Award interpreter (software contained in all contemporary time and attendance systems that automatically calculates employee entitlements, based on hours worked), the interpretation for payment often falls to the local management or the payroll team.

Our View

Organisations need to ensure that their payroll team are kept full abreast of proposed changes to EAs, and are given enough lead time to plan for and test changes within the payroll system. It is also important that payroll team members are comfortable with interpreting these agreements, which can be complex, and are provided with the appropriate support and training to do so.



Questions to ask

- At what point in the EA renegotiation process is the Payroll team consulted and/or informed?
- Is there a change control process in place to manage system, process, communication and changes out of EA changes that need to be implemented?
- Do you have confidence that EAs are interpreted correctly and consistently?
- Do you use a Time & Attendance tool to capture employee data electronically and do you use an electronic award interpreter?
- How confident are you that the hours worked by employees are being paid according to the EA?



Globalisation and the impact on payroll operations

89% of large employers expect international mobility to increase, but much of this increase will be through short term assignments and international business travellers, rather than traditional long term assignments¹. Tracking individuals to determine their payroll obligations on a country by country basis is one of the hardest challenges that organisations face in order to be fully compliant with multi-territory tax withholding rules.

Global mobility adds complexity to the payroll process



¹ Moving People with Purpose – Modern Mobility Survey, PwC, October 2014.

As emerging market economies evolve, so does the level of payroll & employment tax obligations. This is evidenced by the growth in social security systems and emergence of Provident Funds in countries such as Brazil, China and India. At the same time, organisations are dealing with changing workforce demographics and flexible working arrangements. Employees on casual contracts, contractors, part-

time and job sharing arrangements all place additional burdens on the local payroll function. This is made more complex when these work patterns extend across geographic boundaries.

The pressure remains to gather data in real time for processing across multiple jurisdictions. Real Time Information (RTI) in the UK requires employers to submit

payroll reports to the authority “on or before” the point at which payment is made – previously, this information was provided at year end only. Additionally, in many countries individuals do not file tax returns – so if payroll and withholding is not correct, the authorities will seek the shortfall (and look to levy penalties) from the employer.



Questions to ask

- How do you currently identify and track internationally mobile employees?
- How do you know when frequent business travellers have triggered local withholding tax thresholds?
- As your international operations have grown, have you developed a multi territory payroll strategy (e.g. retained a single global provider, or are you managing a network of local providers)?
- How do you deal with multi-currency arrangements?

Our View

Organisations are struggling with the increasing complexity and global nature of payroll. Compliance is a key-driver, particularly for clients where they have small employee populations outside their key established locations. Managing payroll for mobile employees and dealing with cross border issues needs payrolls to be managed in a coordinated way, such that home and host country issues can be addressed simultaneously.



Making Payroll pay

Rapid technological changes are providing increased opportunities for payrolls to become a valued business partner by providing strategic management reporting support. By embracing a continuous improvement mindset, payroll functions can add real value to organisations by increasing efficiencies and reducing costs. In addition to these opportunities, care must be taken to ensure there is a robust governance framework to support the payroll function and to manage its inherent risk.

PwC has a range of services to help organisations assess the opportunities for their payroll function and to identify areas of potential exposure.

We help organisations to develop a technology strategy for payroll that fits with their broader business and technology strategy,

including advice on vendor and application selection, implementation and operation.

We help organisations to assess the reasons for payroll failures, investigate potential fraud situations and providing risk assurance to evaluate the effectiveness of the payroll function and efficiency of payroll processes.

We assist organisations to interpret their industrial agreements to identify and prevent incorrect payments to employees.

We also work with organisations to ensure the smooth transition or integration of payroll systems during corporate mergers or acquisitions. We can provide support in the pre and post deal stages and provide advice over:

- Vendor selection & management.
- Outsourcing.
- Retaining existing systems.
- Payroll consolidation.
- Employee data privacy management.

Our focus is on providing an end to end service to clients to ensure your payroll is not just fit for today, but the function is future-proofed to ensure it is capable of dealing with the increased complexity and regulations coming in future years.

If you would like to discuss any of the aspects in this paper, please contact any of the team listed below.

Contacts



Rohan Geddes

National Leader – Payroll Consulting Practice

T: +61 (2) 8266 7261

M: +61 413 029 966

E: rohan.geddes@pwc.com



Stephanie Males

Partner

T: +61 (2) 6271 3414

M: +61 421 054 074

E: stephanie.males@pwc.com



George Johnson

Director

T: +61 (3) 8603 0651

M: +61 409 692 206

E: george.johnson@pwc.com



Chris Harvie

Director

T: +61 (3) 8603 0132

M: +61 400 710 541

E: chris.harvie@pwc.com



Tracy Angwin

CEO of Australian Payroll Association (APA)

T: +61 (2) 8266 1809

M: +61 438 086 113

E: tracy.angwin@pwc.com



Lynette Jones

Director

T: +61 (2) 8266 1409

M: +61 408 656 297

E: lynette.jones@pwc.com

www.pwc.com.au

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