



**New Zealand
Payroll Practitioners
Association**

Developing and Supporting
Payroll Professionals

www.nzppa.co.nz

NZPPA Payroll Audits The Insights

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Payroll Compliance is a little like Jenga. “The ultimate challenge”

Object of the Game: to be the last player to stack a block without knocking the tower over

Object of Compliance: to meet our legislative obligations in payroll through our day-to-day business activities.

To build on the foundations and periodically check we are continuing to be as compliant as possible, improving our processes and technology over time to better support us.



JENGA - THE RULES

1. Carefully stand the loading tray upright, then remove it altogether so the tower stands up by itself
2. Start play with the player who built the tower
 - Using only one hand
 - Remove one block from anywhere in the tower before the last complete storey
 - Stack it on top, right angles to the below
3. Continue play, one block at a time



1: The Tower is Standing

- Good UAT was performed
- Implementation is complete
- We are live in our Fully Compliant environment (or are we?)



2: Start play - and follow the rules

We Process our payroll on time and accurately

The Business is satisfied

The Employees are happy

Everything is “A” okay (or is it?)



3: Continue play, one block at a time

We keep up to date in our Payroll Environment

We action any changes accordingly

Maybe we even get some training

Do we have our periodic reviews in place?

- Change Control (payroll updates, legislation updates)

- Security

- Process



4: What is the reason for engaging NZPPA audit services?

- MBIE audit - EU
- We want to carry out due diligence before we purchase a company
- Implementation of new system – compliance with current legislation required by our Audit and Compliance committee
- We want to ensure that current state is set up correctly and that our leave payments have being done correctly
- We have concerns around the current Payroll systems compliance capability and want to assess and mitigate our risk
- We would like to ensure that the New Zealand Payroll processes are complaint with all New Zealand requirements, given the recent changes and legal cases on payroll compliance.

Reference: Tourism Holdings and Metropolitan Glass.



What is the reason for engaging NZPPA audit services?

- Change in staffing and looking to ensure that we are compliant
- Recently there has been a wave of questions/queries from employees, which has prompted this review process.
- An employee raised a query about payments for Sick leave and while we had previously checked with a **third party re our system** we have checked again and believe there is an issue with payments for Sick leave, Public Holidays and potentially Holiday pay as well.



5: Do you believe you have any compliance issues with the current payroll system you use?

Yes or No Question.

- No
- Yes
- Yes No
- No Yes
- No but we want to ensure we are compliant
- ? We aren't sure, we hope we have got it right but not 100% confident



6: Legislation	Impacts on Payroll
Employment Relations Act 2000	Good Faith, Agreements, bargaining entitlements, record keeping
Holidays Act 2003	Minimum Statutory Entitlements and Calculations for Payments
Parental Leave and Employment Protection Act 1987	Minimum Statutory Entitlements and Calculations for Payments Section 42 – remuneration and holiday pay
Income Tax Act 2007	PAYE, Allowances, Salary & Wages RD5, Extra Pay RD7
Privacy Act 2020	Ensuring the Privacy Principles are being upheld
Commissioners Operational Statements & Determinations	EE001, OS19/05 Allowances under the Income Tax Act 2007
Accident Compensation Act 2001	Payments, top up pay
Wages Protection Act 1983	Protection of wages and consented deductions
Minimum Wage Act 1983	Minimum Wages are paid to NZ employees
Child Support Act 1991	Deductions, 60% Protection
Student Loan Act 2011	SL Deductions
Kiwisaver Act 2006	KS Deductions
District Court Act 2016	Court Deductions, 60% Protection
Social Security Act 2018	MSD Deductions, 60% Protection
Volunteers Employment Protection Act 1973	Calculations for Annual Leave Payments
Juries Act 1981	Jury Service



Payroll System Capability

Payroll System Configuration

Business Process (workflows for information)



7: Payroll Systems – 100% compliance

- Tool that we use to meet our legislative requirements

Can it really be expected to deal with every scenario in an automated fashion?

What we hold/store and/or process in this tool determines what it can/can't do for us

- System complexity/capability
 - System modules / tiers/ layers
 - Simple – 1 layer
 - Complex – multiple layers

Do we know our system and its capability, are we using it to it's full potential?



8: Payroll Configuration

- Legislation
- Agreements
- Company Policy





NZPPA - Audit Insights

- Leave Entitlements – agreement vs config
 - LWOP, no separated codes (S16)
- Leave Calculations – GE, config, divisors
- Gross Earnings & Pay Element Configuration
 - Allowances - Meals, travel, other non-taxable allowances
 - Pay Element – not in correct leave calculations
- Deductions & Configuration
 - 60% Protected net earnings
 - Pay Element – EP, KS SL
- Termination Payments
 - Alternative Holiday on termination
 - Public Holiday count out
 - AL Entitlement v Hol Pay



9: Leave Entitlements

Defining a week vs not defining a week for leave purposes
(variable emps vs standard emps)

Agreement states weeks for Annual Leave and Days for FBAPS entitlement

However:

Payroll System is holding AL Ent in days or hours not weeks

Payroll System is holding FBAPS Ent in hours not days

What is the portion of weeks taken, what is the portion of a day taken

Worked hours vs agreed weekly hours (entitlement)

“accrual” is based on one or the other

Are we providing for at least 4 weeks AL and 10 days SL etc

What happens when I change hours or days (to current Entitlement and “accrual”)

Does that Accrual roll over on Entitlement Date



10: Leave Calculations

BASE RATE V OWP & RDP (system capability and configuration)

RDP = Base Rate

base rate is looking good, it's being used instead of RDP for FBAPS leave, employees are only working standard hours with no extra's....

but wait... they've started doing regular overtime on Mondays!

OWP 8(1) = Base Rate

base rate is looking good, it's being used instead of OWP for AL leave, employees are only working standard hours with no extra's....

but wait... they've started receiving regular enduring allowances, and performing regular overtime

OWP 8(2) = Default used

The system struggles with OWP 8(1) so defaults to OWP 8(2) for all employees



Leave Calculations

DIVISORS FOR LEAVE CALCULATIONS

Actual days worked (ADP calc)

If we don't hold days worked - can we get our divisor correct

Hours or days divisor vs stable divisor (4 or 52)

OWP 8(2) and AWE

Does the system divide by the legislation or does it divide by something else

- Hours worked
- Days worked
- Monthly 4.33

Parental Leave – Annual Leave Entitlement

Does the system split out AL Ent and PAL Ent

Can it do different calculations accordingly



11: Gross Earnings – what is in and out?

Capability to include/exclude from each of the leave calculations

What is regular? No definition or separation of items – like overtime, regular v irregular

OWP 8(1)	OWP 8(2)	AWE	RDP	ADP

OWP 8(1)

Can we build in regular payments

OWP 8(2) and AWE

Can we have different Pay Elements in each of these calculations

RDP

Can we build in regular payments (if required)

ADP

Does this calculation exist

Is this separated from AWE



12: Deductions

Capability to include/exclude from each of the relevant deduction categories

ACC Earner Levy	Kiwisaver	Child Support	Student Loan	Etc

Protected Net Earnings

Is the 60% protected net earnings applied

Deduction Priority

Can we load a priority around our deductions



13: Termination Calculations

What we put in is what we get out

Annual Leave Entitlement and Holiday Pay

Is the calculation correct, does it split out the Ent and Hol Pay accordingly

What if I terminated while on Parental Leave

What if my anniversary date is in the same pay period as my termination payment

Alternative Holidays on Termination

Is the calculation correct

If it's in hours how is this correctly converted to days

Public Holidays on Termination

Does the system count out AL Ent and provide payment for these

- Have we determined OWD
- Are we holding the work pattern
- Do we have a manual process in place?



14: NZPPA - Audit Insights

- Is the Payroll System doing what it says it is doing?
Know your Opponents weak spots
Mitigate these with good process
- Are we doing what we say we are doing
Documented process vs winging it (Lotto winner)
(checklists/ transparency/ business continuity/ business rules/
consistent application/ decisions for using calcs)
Use the legislation to our advantage
- Control & Security – lessen the risk
Single level authorisation vs multilevel authorisation
Good change control and audit checks in place

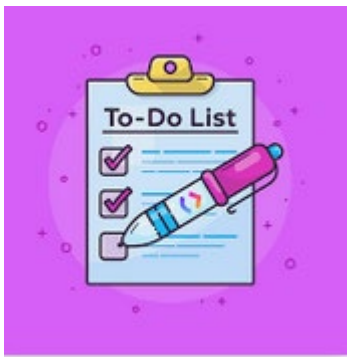


15: Let's review and be proactive

Periodic Review – when the:

- Payroll System gets updated
- Tax year rolls around - Annually, 1st April
- Legislation is updated
- The Business introduces New or updated clause, allowance, scheme, company policy.

What are the flow on effects?





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What now?

Would you like to enquire about our audit services...

BUILDING PAYROLL COMPLIANCE
ONE BLOCK AT A TIME

9TH ANNUAL PAYROLL LEADERS' SUMMIT 2023
(IN PERSON EVENT & LIVE STREAMED)

21 July 2023, Wellington
Venue: The Terrace Conference Centre, 114 The Terrace, Wellington

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