



Building employee trust

**Start with the basics:
getting pay right**

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High profile cases of wage underpayment with impacts to brand and reputation, significant penalties and the threat of new criminal offences for serious breaches are prompting business stakeholders to ask their payroll and HR teams

“are we sure we are paying correctly?”

Everyone should be asking this question.

Businesses are required to innovate and evolve in order to remain competitive and meet consumer needs. This has increased pressure to drive down costs, create more flexible access for customers (including longer opening hours), create more nimble structures and operating models and scale both organically and inorganically. The confluence of these factors, coupled with complexity in awards and underinvestment in systems and compliance arrangements, have created the “perfect storm” for endemic underpayment in corporate Australia.

There no silver bullet to solve this as the root cause of the underpayment issues vary from organisation to organisation.

In many cases, it’s not a question that can be answered with a confident “yes we are” response... So why is it so hard?

Well, it depends on who you ask because the complexity is driven by a combination of factors.

Your payroll team's perspective



Australia has one of the most complicated industrial relation systems in the world. There is no one minimum wage or safety net but in reality, multiple different safety net contained within 122 different awards. This means 122 different sets of rules that regulate working hours and overtime, allowances, working conditions, minimum rates of pay and everything else in between.

Many companies believe that a payroll technology system can be the solution to these problems, but some organisations have agreed to complex and sometimes unworkable provisions that can't be systemised. Layer this with the fact that many systems are not sophisticated enough to reflect changes in a minimum condition in a reward, not to mention some of the complex provisions companies may have agreed to during pressured negotiations.

The challenges in configuring these systems can largely be attributed to the fact that many used here in Australia have been configured in countries where the industrial relations frameworks are nowhere near as complex. And any new system has to be customised to the nuances of every individual instrument, a complicated and difficult process.

Learnings:

A set-and-forget approach, trusting that the systems and processes put in place will magically apply the right instruments to their payments is no longer acceptable. Correct payroll systems and governance requires human inputs and regulator monitoring over its efficacy.

Payroll systems need to be optimised for your operational environment, correctly connected with an appropriate time and attendance system and HR system. Changes in some modern awards will require organisations to keep good records of time worked and appropriately monitor to ensure that employees are paid correctly. These practices are not common and are not embedded in many organisations.

Your remuneration and benefits team perspective



Within each industrial instrument are different classification levels. Where an employee's role sits in this classification structure determines what minimum wages they are entitled to.

It can be challenging to know if the correct classification has been assigned to an employee, particularly when the person responsible for making that decision does not have clear visibility over an employee's daily duties. A subtle shift in duties can have consequences for the minimum rate of pay that the employee is entitled to.

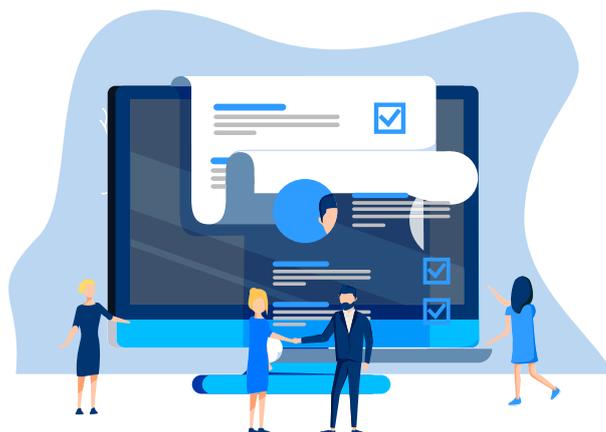
The status of an employee can also greatly affect their award entitlements. Whether an employee is considered a casual or ongoing is an area of attention right now following a federal court decision and in some cases the answer may not be clear.

Consideration is also often not given to providing appropriate remuneration increases in line or above award and appropriate employee entitlements like allowances.

Learnings:

Sound governance practices around employee classification and changes to duties are needed. Position descriptions should be regularly reviewed and embedding an expectation that managers communicate any changes to duties to HR and payroll so rates of pay, benefits and records can be adjusted in a timely manner.

Your HR team perspective



Businesses are having to balance their operating models to meet changing employee expectations for greater flexibility, customer demands for greater service and convenience and meeting cost constraints.

Flexible working conditions make it hard for businesses to monitor when and where its employees are working. Many organisations do not have clear processes for tracking attendance to determine what hours employees should be working and when, compared to what they actually worked. So many simply determine pay based on the roster or assumed working practices, and not what hours were actually worked.

This can give rise to underpayment risks, particularly if an employee is paid an 'all up salary' but is actually covered by an award or instrument with rules about working times and overtime payments.

Learnings:

Organisations need to balance desire for flexibility with systems for tracking the time and attendance of their employees who are covered by industrial instruments. Knowing what hours have been worked and when they are worked, is critical in understanding whether employees have been paid sufficiently.

Your industrial relations and legal team perspective



Your organisation's industrial relations and legal team will tell you that enterprise agreement negotiations can be tough. Placed in a pressure cooker situation with the risk of industrial action imminent and negative employee engagement impacts if you don't secure a deal with your workforce and their unions, there is a temptation to reach agreement on provisions without fully understanding how the complex provision will be given effect to in payroll and if the payroll system can be customised to deal with it.

In other cases, both you and the union have conflicting yet plausible interpretations of the same provision and you might be tempted to agree to include it in your agreement as a 'win for all'.

Employment contracts need to fully detail which entitlements are covered within employee remuneration and benefit arrangements and these need to be written in a way that employees understand and to achieve transparency through well-constructed set-off clauses.

Learnings:

Organisations should review their existing arrangements to identify the complexity in their instruments so they can seek advice or address them in the next round of bargaining. They should also consider what risks the current instruments pose to the business and implement measures to monitor those exposures.

Your finance and operations team perspective



Businesses are constantly looking to reduce cost, increase margins, drive revenue growth and simplify operating models. Combined with introducing shared service models, leveraging better use of technology, reduce duplication of work and optimising workforce efficiency brings opportunities but also challenges. Often these decisions are made without considering the impact on employer obligations with regards to employee entitlements and span of control over new operating models to ensure compliance.

In a cost conscious environment, budget setting for remuneration increases and employee entitlements are also not congruent with annual award increases. Too often than not, teams are benchmarking remuneration levels with peers in the market to sense check but this is no longer good enough. Many in the market are now being caught out with not correctly capturing and monitoring their own pay structures to ensure they have it right.

On top of this, traditional internal audit, finance and payroll checks are no longer enough to identify exposures. There needs to be new ways to gain assurance with more focussed approaches to target risky awards and agreement compliance.

Learnings:

Organisations should fully explore broader impacts of cost reduction strategies on employee remuneration and benefits. Embed good governance strategies and frameworks that addresses the compliance obligations and target the areas of highest risk and exposure.

Summary

To get this right, requires a collaborative effort within your organisation. HR, payroll, workplace relations, legal, finance and operations teams need to collaborate to ensure they have the appropriate processes and monitoring measures in place to ensure that employees are being paid what they are entitled to.

Organisations need to set an industrial relations strategy that identifies where the pain points are in their industrial instruments. Identifying all the industrial instruments that require human governance processes will allow companies to identify ways to simplify or streamline those or otherwise integrate these governance processes effectively into business practices.

Organisations need to also be thinking about what systems - such as inbuilt spot audits and updating of terms and conditions when enterprise agreements are renewed - are in place to catch any risks and changes in a timely way

Wage underpayment issues and mistakes affects all industries - no one immune to this - it's not just a retail issue. Organisations need to demonstrate that they have taken action to look and assess as to whether they have any issues. Where organisations have identified issues, it is an opportunity to quickly fix and remediate and look for ways to enhance current processes and monitoring systems to prevent the issues from occurring again.



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