**Payroll Common Problems and Errors Checklist**

Australian payroll law is notoriously complex and while we all like to think we get it right the first time, errors do happen. Whether you are reviewing your own work or another bookkeeper’s work, payroll figures are especially important to reconcile and verify.

Reconciliation errors commonly occur when payroll has not been processed correctly, journals have been posted directly to payroll accounts, and BAS or IAS payments have been allocated to incorrect general ledger accounts.

Payroll accounts should be reconciled prior to completing a BAS or IAS and prior to financial year end.

Reconciling the balance sheet monthly is good practice, but it should be done quarterly at minimum to avoid compounding problems.

**Payroll Processing Errors**

Processing errors often occur when employers look after the payroll themselves. As an accounting technician or BAS agent, you may need to review the payroll of a client when you have not been involved in any of the processing.

What should you look out for?

* Making up their own rules, either because they have not checked the award, or they don’t understand, or they are following advice from an unqualified person.
* Misclassifying workers. It is the employer’s obligation to classify workers correctly, whether casual, permanent or contractor.
* Employers often don’t realise there are different types of termination and classify the payments wrongly. This can result in incorrect tax and super or underpayment of final pay entitlements.
* Not accruing or paying entitlements correctly.
* Not paying overtime when due.
* Not tracking hours worked.
* Paying extra amounts outside payroll and therefore not taxing the payments or allowing for superannuation.
* Unpaid, partially paid or incorrect superannuation.
* Missing payroll payment schedules, which affects reconciliation of the payments to the pay run.
* Single Touch Payroll not set up correctly or not being filed with the ATO.
* Not accounting correctly for unusual payments like parental leave, child support or workers compensation.
* Not taxing bonus or commission payments.
* Making unlawful deductions from payroll payments.

Many of these processing errors could affect payroll accounts reconciliation.

|  |  |
| --- | --- |
| **Reconciliation Task** | **Notes** |
| Compare previously lodged W1 and W2 figures to current reporting and note discrepancies.  |  |
| Revise BASs that have been lodged with incorrect payroll figures. |  |
| Reconcile wages payable – are there over or under payments? |  |
| Reconcile superannuation reports to balance sheet. |  |
| Reconcile PAYGW reports to balance sheet.  |  |
| Check for journal entries affecting wages, tax and super accounts. |  |
| Check payments to workers match their classification. For example, are casuals being paid casual penalty rates? Are part-timers being paid overtime when required? Do payments to contractors match invoices? Are sole trader contractors being paid super if required? |  |
| Review termination payments including the reason for termination. Is the classification, tax and super correct? Is there an ETP payment that should be processed and taxed separately? |  |
| Review payroll tax annual reconciliation and allocation of payments. |  |
|  |  |

**Reconciling Payroll Accounts**

* Run payroll summary report for the month or quarter.
* Run the profit and loss report for the same period.
* Run balance sheet at the end of the same period.
	+ Does the payroll report wage category total equal the wages expense on the profit and loss?
	+ Does the payroll report PAYGW total equal the amount payable on the balance sheet?
	+ Does the payroll report superannuation contribution guarantee equal the super expense on the profit and loss?
	+ Does the payroll report superannuation total including salary sacrifice equal the amount payable on the balance sheet?

**Trouble Shooting**

* Drill into account transaction listing to inspect details of all transactions allocated to the account. Are there incorrect allocations or payments sitting in this account?
* Check payments made for PAYGW in the BAS online services Integrated Client Account. Do the payments from the bank match the amounts received in the ICA?
* Check payments made for superannuation. Have salary sacrifice amounts been included? Have amounts been paid late, underpaid or overpaid?
* Check general journal entries. Have end of year entries been made to control accounts or any wage-related accounts? You may need to check with the tax agents if they have adjusted balances for payroll accounts before you do anything to correct it.