

5 Payroll mistakes you probably don't even know you are making

(and what to do instead)

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Hi, I'm Karyn, Accredited Payroll Specialist and founder of Payroll Consult.

If you're a business owner with employees, you know how important it is to pay them correctly and on time. In fact, it's probably one of the most important things you do!

And thanks to payroll software, many businesses like yours now manage this process in-house.

But after working for many years for a payroll software company helping business owners and payroll administrators with all their payroll questions (and frustrations!), I noticed something.

While payroll software made it possible for businesses to manage their own payroll, there seemed to be a knowledge gap that was resulting in them doing things that were, or could lead them to become, non-compliant.

And it's no surprise really. Payroll legislation in New Zealand is complex, and understanding all the rules – not to mention how to apply them to your own business – can be time-consuming and stressful.

But it's also incredibly important because the consequences of not complying can be quite serious.

Apart from disgruntled employees, non-compliance can result in fines, legal fees, and a huge amount of time and money to sort it all out.

That's why I've made it my mission to demystify the payroll process and take the stress out of paying your employees correctly (because let's be honest, there are plenty of things that are stressful about running a business, and paying wages shouldn't be one of them!).

In this guide, you'll discover the top 5 mistakes I see businesses like yours make when managing your own payroll – and what you can do instead so you can feel confident you're meeting all of your payroll obligations.

Ready to get started?

Let's dive in.

1

Not understanding payroll legislation.

The first big mistake I see businesses make when they manage their payroll is relying on payroll software to help them meet their payroll obligations without really understanding the legislation they need to comply with.

This is completely understandable because the legislation is complex and tricky to get your head around – even for payroll specialists like me!

But understanding the rules is important because if you don't know what they are, you won't be able to check they've been applied correctly in your system or that everything's calculating correctly.

Even if a payroll specialist set up your payroll software to start with, the rules are constantly changing, so if you don't keep up, it's easy for your system to get out of date.

That's why it's important that whoever is doing your payroll has a deep understanding of NZ payroll legislation and how any changes might impact your business.

An excellent place to start is the [Employment New Zealand site](#), which offers many resources to help employers (and employees) understand the legislation relating to leave, wages, and employee rights.

It's also important to familiarise yourself with the Holidays Act and consider investing in some payroll training such as that offered by the [New Zealand Payroll Practitioners Association](#).

Or, if you want absolute peace of mind that your business is complying with all the rules, you can also hire a [payroll specialist](#) to audit your system and run some checks to make sure everything's calculating correctly.

2

Not having proper payroll processes in place

Another mistake I see businesses make when managing their own payroll is not having proper processes.

Without a documented payroll process, it's easy for things to get missed or for something to be done incorrectly.

This is especially true if you have more than one person who administers your payroll, even if it's only occasionally when your usual payroll person is on leave.

Having a documented process also puts you in a really good position if the person who administers your payroll leaves and you need to hand this over to someone new (as sometimes this needs to happen quite quickly!).

Another reason why payroll processes are important is that they help ensure you're meeting your record-keeping obligations.

As an employer, you're required to keep records of each employee's time, wages, holidays, and leave for six years, even after they've left the business.

This is relatively easy if your employees work regular days and hours. However, if they don't, it's important you have a way to accurately record their time and attendance because the potential penalties for not doing so are severe.

All-in-one payroll software that includes time and attendance and employee self-service features can assist with this. But whether you're relying on your employees to record their time and attendance in a system, or using a paper-based method like timesheets, it's important there's a clear process so they know exactly what's expected of them.

2

Not having proper payroll processes in place

Some things to consider when reviewing and documenting your payroll process include:

- How do you set up new employees in your payroll software?
- What processes do you follow for terminated employees?
- What's your process for changing employee details and deductions?
- How often do you run payroll reports and who's responsible for checking they're correct?
- How do you store your employee records (including timesheets) and are you collecting all the required information?

Mapping out your payroll processes is a great way to ensure you're meeting your compliance obligations. However, if you want absolute peace of mind your payroll processes are set up correctly, you can also hire a payroll specialist to review them and check there aren't any gaps.



3

Not understanding how your payroll software works

If you're a New Zealand business that manages your payroll in-house, you really are spoilt for choice when it comes to payroll software providers, with a range of options to suit your business's needs.

But a mistake I see many businesses make (even those with the more expensive software with all the bells and whistles) is that they don't really understand how their payroll software works, or how it needs to be configured to suit their employment situation.

For example, in some payroll software, you have the option to use the four-week average for annual leave, which is great if you have employees with an irregular work pattern. However, I sometimes see businesses apply this setting for employees who have regular work patterns, which could result in incorrect calculations and their business becoming non-compliant.

Another problem I see is when businesses apply casual worker settings to employees who work irregular hours but who aren't actually casual employees. These businesses often think they're doing the right thing and configuring their software correctly, but it's another example of non-compliance that could be putting their business at risk.

To avoid these problems, it's essential you understand your employees' employment agreement and the Holidays Act so you know what things you need to consider when configuring your payroll software.

I also recommend taking the time to understand how your specific system works, and whether there are any particular constraints or 'quirks' you need to be aware of. Most software providers offer training, and you can also contact them directly for help with any specific questions you may have.

3

Not understanding how your payroll software works

It's also important to remember that while payroll software is a tool that can help you meet your payroll obligations, there will always be cases where manual intervention and adjustments are required (because New Zealand payroll legislation is complex, and I haven't yet come across a software system that automatically accounts for every situation!).

By understanding how your payroll software works and the situations where adjustments might be needed (for example, your employees' entitlement to public holidays after their last day of employment), you can ensure everything is set up correctly to meet your compliance obligations.

Or, if you have no idea where to start, you can always hire a payroll specialist who can perform an audit and check everything's calculating correctly.



4

Not managing leave correctly in your payroll software

It's no secret that New Zealand payroll rules are complicated, and one of the greatest areas of confusion is how to track and pay your employees' leave.

Navigating and understanding the rules in the Holidays Act is tricky enough, but working out how to apply them is where I see many businesses come unstuck.

For example, a common error I see businesses make with their leave calculations is paying holidays as-they-go for employees who are not casuals.

In the Holidays Act, an employer and employee can agree that an extra 8% will be paid on top of the employees' wage or salary, instead of taking annual holidays. This is a setting that can be easily applied in most payroll software.

However, I've seen many businesses apply this same setting to their non-casual employees who work irregular hours and days, which is not compliant and could lead to costly remediation work and/or fines if the error is not picked up.

Another problem that can occur is when businesses make additional payments outside of their employees' ordinary pay (for example, lump-sum payments, back pay, and bonus payments).

Depending on how your software is set up, these payments might not be included correctly in your employees' gross earnings, which can lead to their annual leave payments being miscalculated.

To avoid these problems, it's essential that whoever is administering your payroll understands the legislation inside out and how your software needs to be configured to calculate your employees' leave entitlements correctly.

And if you want absolute peace of mind that your software is set up correctly, I recommend hiring a [payroll specialist](#) to review your system and make sure everything's working as it should.

5

Not identifying problems in a timely manner

Mistakes with your payroll are a major risk for any business, and there are lots of ways things can go wrong.

Thankfully, most problems are relatively easy to fix and rectify, provided they're identified early.

However, if payroll mistakes aren't picked up or addressed quickly, they can lead to much bigger problems that can be time-consuming and costly to fix.

One way to help you identify if there are problems that need to be addressed is to regularly check your calculations are being applied correctly.

This includes checking the annual leave entitlements and payments for your variable employees at least every six months, because of the errors that can occur when making these calculations.

It's also a good idea to manually check your employees' termination payments, as this is another area where errors can often occur.

However, if you want complete peace of mind your calculations are correct, I recommend hiring a payroll specialist to conduct an audit on your payroll software at least once a year.

If you're checking your calculations yourself and do discover a problem, a payroll specialist can also help you fix the problem and undertake any remediation work required.

About Karyn Campbell Accredited Payroll Specialist and Founder of Payroll Consult

I founded Payroll Consult because I wanted to provide businesses like yours with personalised and specialised payroll support so you have peace of mind that you're meeting your payroll obligations.

Because after many years working for a payroll software company and helping people with their payroll questions, something became very clear:

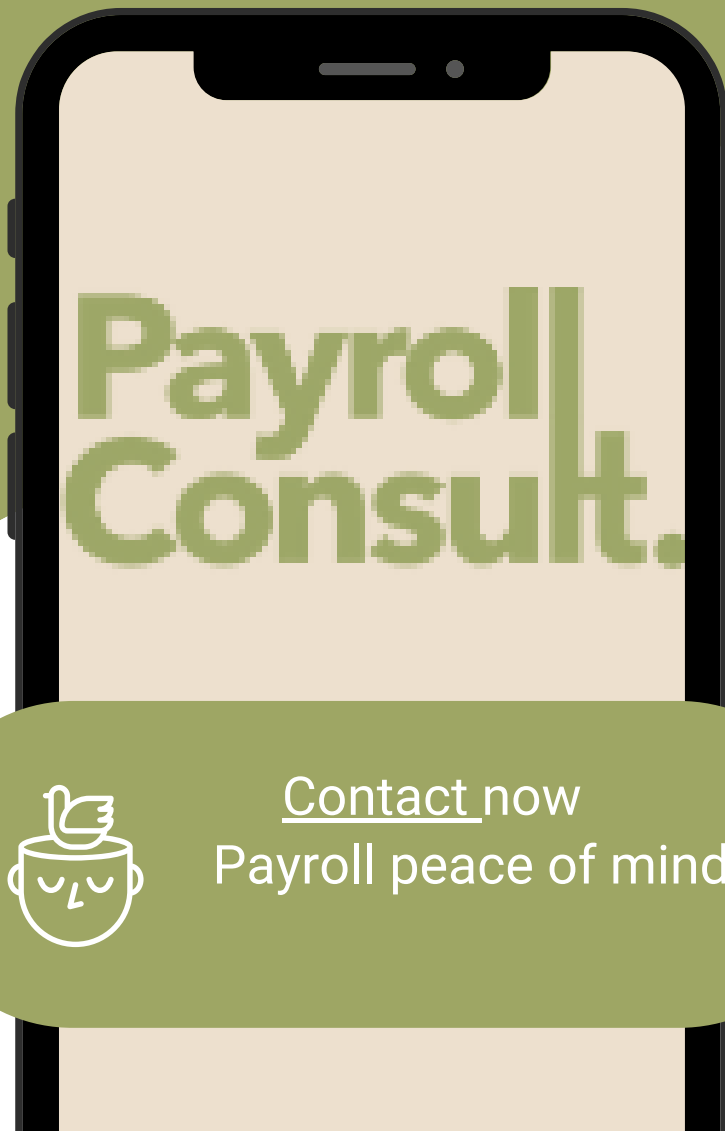
While many businesses use payroll software, they don't necessarily have the knowledge they need to ensure they're using it correctly to meet their payroll obligations.

With a deep understanding of New Zealand payroll legislation and how payroll software works, I can answer all your tricky questions and save you the time and stress of trying to work it out for yourself.

My services include reviewing your payroll set-up, identifying any areas of non-compliance, and helping you remediate any issues that we uncover. I can also help you get your payroll processes and documentation in place to minimise your risk of non-compliance in the future.

Want payroll peace of mind?

Book a free 30-minute [discovery call](#), and let's chat about what you need.



[Contact now](#)
Payroll peace of mind