A Global Payroll Control Framework for Multinational Organizations

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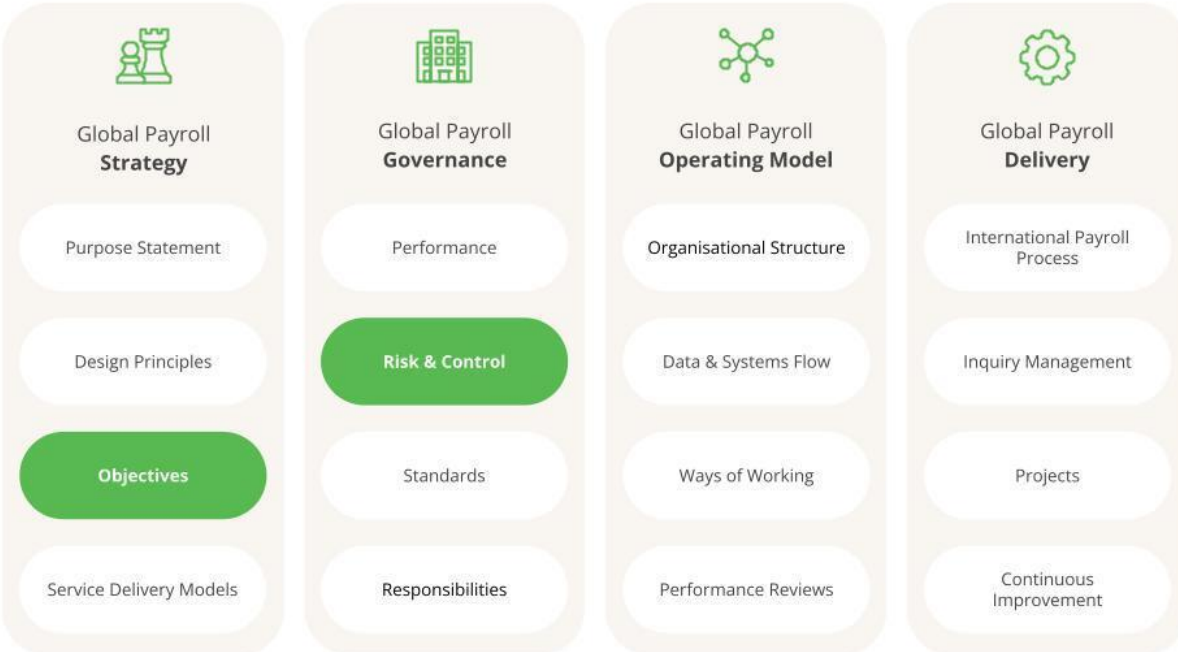
Abstract

Large multinational organisations require standardised systems and frameworks to operate their business processes effectively. Improvisation is the enemy of efficiency; thus, every department must have standard operating procedures that dictate how they function. This is especially true for payroll, given its compliance exposure and critical work keeping the entire organisation running. It is well known that poor payroll quality rapidly translates into poor employee well-being, which in turn results in poor performance and workforce attrition. Despite this, my research into global payroll standards and best practices conducted over the last year has shown that many organisations **often struggle to operate best-in-class global payroll operations**. In this whitepaper, I propose a guideline for a **global payroll control framework (GPCF)** for multinational organisations and offer guidance on how to implement and operate it.

This whitepaper outlines the environment and details controls for pre-payroll, run payroll, and post-payroll. These will be linked to the overall best practices around global payroll management, shared in an earlier whitepaper published by PayrollOrg. While all components are truly interlinked, the **GPCF** focuses on Risk and Control as part of the Global Payroll Governance component and, as it is so linked, also the Objectives as part of the Global Payroll Strategy component (see below).



Objectives

The main categories of objectives will vary between organisations. It is best practice to break these down into the following three categories:

1. **Payroll Efficiency.** Efficiency refers to how well resources (e.g., people, time, budget, effort) are utilised to accomplish the purpose statement. It focuses on minimising unnecessary steps, shortening payroll calendars, and optimising processes to achieve results with the best possible balanced resources and the lowest total cost of ownership (TCO) possible. In other words, efficiency is about doing things right and maximising results while minimising effort: the route to success.

2. **Payroll Effectiveness.** Effectiveness measures the extent to which a particular goal or objective is achieved, such as payroll accuracy and worker and stakeholder satisfaction. It focuses on whether the desired results are achieved and whether the intended outcomes are met. Effectiveness is about doing the right things and getting the desired result: achieving success.

3. **Payroll Compliance.** The compliance position of global payroll is part of the license to operate for a business, therefore serving as an object category in itself. Compliance is often about processing payroll changes (e.g., starters, leavers, movers), pay policies, and benefits in a compliant manner. This should result in timely, accurate, complete, and compliant statutory filings and subsequent payments. Getting this right by measuring it is challenging in a multi-country web of ever-changing rules and regulations.

Here are some examples of objectives I have implemented as a global payroll leader:

Strategy	**Payroll Efficiency**	**Payroll Effectiveness**	**Payroll Compliance**
Objective 1	Improve payroll processing time for outsourced payrolls by 20% from [x date] within 9 months.	Establish standardised and automated controls and 100% local adoption from [x date] within 6 months	Provide comprehensive training on local payroll rules and regulations to be less vendor dependent lowering advisory fees by 20% from [x date] within 12 months
Objective 2	Reduce payroll input errors to less than 1% of total transactions from [x date] within 12 months.	Implement a self-service global payroll reporting tool and reduce time spent on report requests by 80% from [x date] within 9 months.	Implement a global payroll compliance dashboard ensuring 100% visibility in meeting local regulatory payroll filing requirements from [x date] within 6 months.
Objective 3	Decrease payroll outsourcing cost by 15% from [x date] within 18 months.	Improve worker satisfaction with inquiry handling by achieving a 90% positive feedback rating from [x date] within 6 months.	Conduct a comprehensive review of all travel and expense items for taxability and processing in payroll, and achieve 100% local compliance from [x date] within 6 months.

Risk and Control Management

Often, controls are designed and operated based on experience and intuition. While this can be very valuable, it also creates a risk of operating controls that don't mitigate or monitor concrete risks. This can lead to investing time and resources in operating controls that add no value. Therefore, reviewing, designing, and operating controls should always start with risk management. If a control doesn't mitigate or monitor a risk, ask yourself if it is essential. If your organisation operates a lot of (local) controls, gather the details around those and then take a step back to start with risk management.

Risk management for global payroll refers to the ongoing process of identifying, assessing, and categorising potential risks that could adversely affect meeting the **purpose statement**, **brand**

promise, and **objectives** of payroll. The goal of risk management is to proactively anticipate and address potential risks to ensure accurate, timely, and compliant payrolls.

An expanded explanation of risk management for global payroll follows:

1. **Continuous Risk Identification.** Global payroll risk management involves constantly scanning and monitoring the internal and external factors that could threaten the payroll function. This involves identifying internal risks such as process vulnerabilities, data security concerns, potential system issues, and vital high-risk data points (manual upload, complex data orchestration) and events (e.g., starter, mover, leaver) for validation. Identifying risks is a crucial first step and should be repeated continuously (at least every quarter). **Once identified, use this format to describe the risks: [Event/activity that affects objectives] caused by [cause/s] resulting in [negative consequence/s].**

2. **Risk Assessment and Analysis.** Once risks are identified, a thorough assessment and analysis are conducted to determine each risk's potential impact and likelihood of occurrence. The impact can be assessed based on the material (amount of potential fines, financial misstatements) exposure and immaterial exposure (hiring profile, employee satisfaction, reputation). These can then be sorted into three categories based on impact: **tolerable**, **unacceptable**, or **intolerable**. This impact mapping is not always an exact science and should be approached with a mix of data points, common sense, and stakeholder involvement. The likelihood is the risk of the event occurring, for instance, **improbable**, **possible**, and **probable**, and requires an understanding of the maturity level of process, staff, and data handling. The risk assessment process best involves other more specialised functions, such as Finance and Audit, to ensure alignment with the overall risk assessment processes. This likelihood and impact will result in a **risk score** (e.g., likelihood is 3 and impact is 2, so the score is 6 (3 multiplied by 2). By assessing risks this way, you can easily classify risks.

3. **Classification of Risks.** After assessing risks, they are classified based on their risk score (likelihood and impact). High-risk events are given top priority, as they have the potential for significant negative impact. Medium and low-risk events are also considered, but resources are allocated based on the likelihood and potential consequences.

4. **Risk Responses.** The risk responses vary from acceptance to monitoring to mitigating the risk. The responses have a direct impact on the design of fit-for-purpose controls and help prioritise investment in developing these controls, assigning resources, and possibly going to market to find the tools to do that.

5. **Monitoring and Review.** Risk management is a repetitive process, and it requires the ongoing monitoring of identified risks and new risks. Global payroll should continuously review the effectiveness of the mitigation strategies (controls), update risk assessments

as circumstances change, and adjust risk management plans accordingly. This ensures that the risk management approach remains relevant and responsive to evolving global payroll challenges.

To get a flavour of what some commonly identified, described, assessed, and classified risks with appropriate responses look like in global payroll, here are some examples:

Risk Description	Inaccurate labour cost reporting in the general ledger caused by incorrect mapping of payroll output to accounts resulting in material financial misstatements
Likelihood	2 - Possible
Impact	3 - Intolerable
Risk Score	6 (2*3)
Risk Classification	High Risk
Risk Response	Mitigation

Risk Description	Untimely and incorrect local payroll tax filings caused by negligence of providers and incorrectly approved payroll results resulting in non-compliance and financial exposure
Likelihood	1 - Improbable
Impact	3 - Intolerable
Risk Score	3 (1*3)
Risk Classification	Medium Risk
Risk Response	Monitoring

To Summarize, risk management for global payroll should follow a systematic and proactive approach that enables payroll to anticipate, assess, and address potential challenges before these occur.

Designing controls within global payroll is an art in itself. With the design principle in mind, we need standardised controls that allow local deployment to ensure compliance locally. This means the control should be flexible by design to satisfy that need. A way to do that is to design controls using these characteristics.

- **Control Objective**. The overall objective summarises the intent and purpose of this control. What is the desired outcome, and why should the payroll team invest time in designing, deploying, and operating this control?

- **Control Guideline**. This intends to aid management, internal audit, external audit, and other stakeholders in understanding the control activities and steps at a high level.

- **Control Classification**. Like risks, controls are also classified as key or non-key. Key controls mitigate and/or monitor key risks or a set of medium to low risks, demonstrating the importance of the design and operating effectiveness.

- **Control Type**. A control is either preventative and/or detective in nature and serves different purposes. Preventative controls aim to prevent risks from occurring, while detective controls focus on identifying risks or incidents after they have happened. Preventative controls are proactive, while detective controls are reactive. Both types of controls are crucial, ideally balanced to mitigate the same risk in separate controls.

- **Control Method**. Control methods are either manual, automated, or IT-dependent. Manual controls, of course, rely on human intervention and oversight to ensure proper execution, such as manual data entry verification and manual review of documents and outputs. Automated controls are executed by systems or software without direct human involvement and are designed to perform repetitive tasks efficiently and accurately. Examples include automated backups, software updates, automated access controls, and assignment of role-based profiles. IT-dependent controls leverage systems of software to monitor and manage risks but combine human involvement. Examples include automatic variance, and threshold reports that then require review and validation by humans without the need to manipulate the report itself.

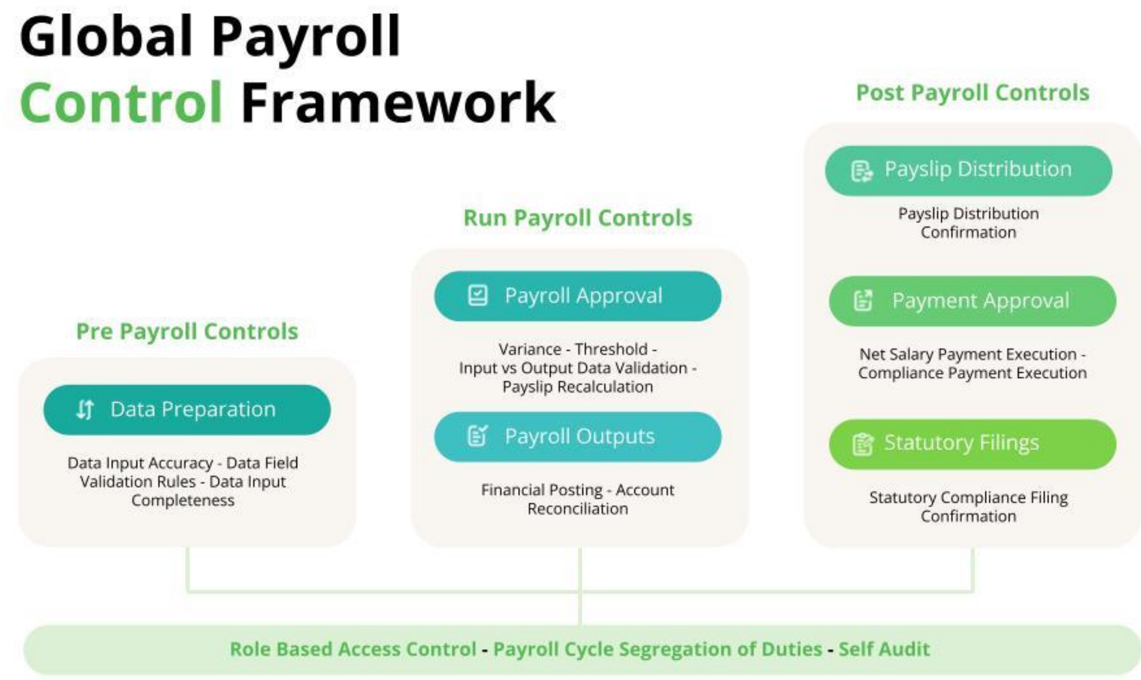
- **Control Owner and Operator**. This lists the position of the owner of the control, who is accountable for the deployment of the control and approval of results, and the operator of the control, who is responsible for the execution of the control.

- **Control Frequency**. The frequency typically follows the pay cycle (e.g., monthly, weekly, bimonthly, semimonthly, biweekly) for a set period (e.g., quarterly, annually) or on occurrence (e.g., per transaction, file transfer, interface).

- **Control Timing**. This is often either tied to the payroll process (pre-payroll, run payroll, post-payroll) or to occurrence. Understanding the timing helps in planning the workload across each payroll cycle.

- **Local Control Parameters**. While all the above controls are global, this one is local and allows for local nuances. For a variance control, for instance, this is where you will set the variance percentage for which a detailed clarification justifying the variance must be found. Or, for a threshold control from which amount, a detailed clarification justifying the amount exceeding the threshold must be found. Another typical local parameter is locally driven details around processing hires and leavers, certain benefits (e.g., medical, sell to cover for equity), and their taxability.

The following graphic provides a diagram of what a GPCF should ideally, at a minimum, look like:



Conclusions

Operating a successful GPCF requires careful balancing between micro and macro and balancing between global and local. Looking at risks from a qualitative **and** quantitative perspective is the key to building a robust framework that will help illuminate and prevent real issues that may burden your payroll operations. How you deploy your controls across the landscape to mitigate those risks will vary greatly and require monitoring. And remember, as a last tip, always be audit ready. If you operate a control, be ready to show it at all times.