

## FEATURES OF THE PAYROLL PROCESS AND DEDUCTIONS FROM IT AT «ERNST & YOUNG» COMPANY

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**Abstract:** *The paper examines the features of the process of making settlements with employees of one of the «Big Four» companies and suggests ways to improve the payroll process to increase the level of reliability of employee labor assessment, as well as to reduce staff turnover.*

**Keywords:** salary; audit companies; organization personnel; taxes.

The role of highly qualified personnel in companies that provide audit and consulting services is very important, as is the issue of staff remuneration. Every year, subsidiaries of «Ernst and Young» consortium in Ukraine spend significant amounts of money to improve the quality of labor resources, as well as to pay wages. The analysis of these indicators for 2018-2020 is shown in Table 1.

Table 1

**Salary in subsidiaries of Ernst and Young, in thousand UAH.**

Indicator	2018	2019	2020
Labor costs	123 228	121 786	146 757
Social tax deductions	13 796	13 661	18 509
Tax and fee obligations	69 581	65 585	90 220

Built by the author on the basis of data [1,2]

According to Table 1, it can be noted that there is no single trend in changes in wage indicators and its characteristic deductions, taxes, and fees: in 2019, compared to the previous year, there was a decrease in the number of wages paid by more than 1.4 million. UAH, and in 2020, the 2018 figure was exceeded by 23.5 million. UAH. These differences are explained by the peculiarities in calculating the amount of remuneration for employees of companies, primarily involved in departments working directly with clients (Corporate finance Department, Tax Department, Audit Department, etc.), whose salary directly depends on the number of projects carried out and their size.

The organization of remuneration in departments that provide services to clients is based on a modified tariff grid, which reflects the intervals in which the salary of each of the seven positions in career growth is located. The Big Four companies have the following positions: Intern → Specialist → Consultant → Senior Consultant → Manager → Senior Manager → Partner. The intervals in which the main salary of the listed categories of employees is located are shown in Table 2.

Table 2.

**Salary of employees in the companies "Ernst and Young", in Thousand UAH.**

Position	Intern	Specialist	Consultant	Senior consultant	Manager	Senior manager	Partner
Amount	9-13	14-17	17,5-22,5	24-28,5	28,5-35,5	36-40	> 40

Built by the author on the basis of data [3]

The basic amount of salary, which is reflected in the ranges, is determined by the average estimate, which consists of the individual employee's estimates received on projects. With a monthly rating of «4», as a rule, the increase is several thousand more than with a rating of «3». In the process of career growth, the spread in salary becomes larger. In the future, the resulting indicator is adjusted according to the results of the activities of the relevant department, as well as personal indicators: the indicator of efficiency in the use of working time (every week employees provide a report on the use of each hour of working time, and at the end of the month these data are summed up), the level of environmental friendliness (the number of environmental and social activities in which they took part during the month), the number of hours of

training (courses provided by «Ernst and Young Global»), etc. In total, there are more than 20 personal indicators that affect the number of wages, and their list is the same for all departments.

A characteristic feature of consulting and audit companies of the «Big Four», including Representative Offices of the company «Ernst and Young», is a huge amount of work, built in such a way that the norm in these companies is considered to be daily work for 10-14 hours, and the main thing in the work is to hand over the project so that the client is satisfied and the interests of the company are taken into account. However, despite a significant number of overworks, they are not paid additionally, and if such requirements as listening to training courses are not met, the intern's salary may be higher than that of representatives of higher positions who do not have time to fulfill all the conditions set for them. Auditors and representatives of the consulting department have a lot of overwork during the busy season (at the end of the year, when all companies prepare financial statements), they work almost around the clock and seven days a week, which is why subsidiaries have a large turnover of personnel in all positions, except for partners, which reaches 80%. Despite this, the principle of calculating wages has remained unchanged for more than 30 years.

In turn, representatives of support departments, such as Financial, Marketing, Information Technology Department, Personnel Management (HR and Professional training), Intellectual Property Management Department, etc. the salary is fixed and does not depend on additional factors.

The form of remuneration in subsidiaries of the Ernst & Young consortium in Ukraine is presented in a modified time-based and piecework form. While representatives of support departments are paid mainly on a time-based basis, when calculating the amount of remuneration for other departments that are directly involved in working with clients, they take into account both the results of the individual employee and the corresponding department, as well as the time spent on work. But the time here is estimated differently - if the employee does not fit into the allotted time when performing the task, then the salary is reduced.

The amount of salary for representatives of support departments (Financial, Marketing, Information Technology Department, Personnel Management, and Intellectual Property Management), which is formed depending on the amount of working time worked, is calculated by using an independently developed staffing table, based on the form approved by Order No. 57. This document specifies the list of structural divisions, positions, and the monthly salary fund for employees of the corresponding positions. The main source of information on the use of working hours in subsidiaries of the consortium in the territory of the state is the time sheet data, which is reflected in the «Time sheet». This form consists of two parts, the first of which provides theoretical information on filling out the report card, and the second directly enters the necessary data: the employee's report card number, his personal information, marks on appearances and non-appearances by day of the month, the number of days worked for the month, and from them overtime, evening, weekend, and holidays are separately allocated.

The payroll statement contains specific details for documentation in this area: the name of the institution, its code, date, personal information about the employee, and so on. In addition, the statement indicates the number of hours worked per month. The payroll itself is presented in the form of a table with two calculation columns: on the one hand, accruals are made by types of payment by adding the accrued amounts for each of the 22 categories, which in turn are divided into three groups: the salary fund, the additional salary fund, other incentive, and compensation payments, and on the second – the amount of funds withheld. The basic salary fund includes five categories: official salary, remuneration for full-time employees, remuneration for the time spent on a business trip, payment for vocational training, and other types of accruals. Indicators of remuneration for the time spent on a business trip and payment for professional training are especially important when calculating wages, because in the consulting and audit departments of EY there are groups where business trips reach 80-90% of working hours, in addition, the requirement to listen to at least 40 hours a year of courses developed by «Ernst & Young Global».

The additional salary fund contains 12 categories, among which you can highlight the most important ones: accrued bonuses, payment for overtime work, holidays and non-working days, performance of duties of a temporarily absent employee, vacations, and so on. However, despite the presence of such categories as payment for overtime, holidays and non – working days, the actual situation in the company's representative offices is different-no additional payment is charged for processing, moreover, this may negatively affect the total amount of funds received, due to insufficient efficient use of working hours.

The group of other incentive and compensation payments includes three categories: remuneration and incentives that are lump-sum, social payments, and other incentive and compensation payments. In fact, these data are almost not used by the group, because instead of monetary rewards, the company's management staff provides the staff with gifts in the form of items.

The «Salary deductions» group consists of an advance payment issued and contributions for mandatory state social insurance: to the pension fund, to the Employment Fund, to the Social Insurance Fund for temporary disability, personal income tax, trade union contributions, etc. All of these categories that are typical for the activities of Ukrainian representative offices of «Ernst & Young» are deducted from the salary amount accrued in the first column of the table. A special feature of calculating taxes and fees on earnings in subsidiaries of the Ernst & Young concern is that salaries for employees, in most cases, are not stable and are reviewed every month, taking into account the overall results of the department and a specific person, as well as the fulfillment of additional conditions specified in the contract. That is why this process is more complex than other companies of a similar type of activity.

In the course of the analysis carried out in this paper, a number of problems were identified in the activities of Ernst & Young's subsidiaries in Ukraine. Given the significant number of staff overwork, it is advisable to take into account and pay for overtime work. In addition, it is advisable to review additional requirements for employees, because more than 20 performance indicators, as practice shows, are difficult to meet, which causes an underestimation of employees' salaries and a significant turnover rate, which, in some departments, is 80%.

At the same time, obtaining licenses and passing international exams in working disciplines are not yet taken into account when calculating staff salaries, and while in other audit and consulting companies of the state, the presence of diplomas indicating successful passing of international and state exams is the reason for the increase in the salary of this employee. Ernst Young's representative offices should be able to use a similar evaluation system.

The reduction in wages can be explained by the unstable financial situation in the company, because, according to the data provided in the reporting, there is a noticeable shortage of quickly liquid assets and every year this situation only worsens, in addition, the gradual increase in the amount of debt confirms the negative trend and requires management personnel to develop actions aimed at identifying and solving problems associated with the deterioration of the financial condition.

The implementation of these recommendations will partially stabilize the financial condition of Ernst & Young's subsidiaries in Ukraine, and as a result, reduce staff turnover by redirecting additional funds to the payroll fund. Given that the most important resource for audit and consulting companies is personnel, improving working conditions and increasing wages can also have a positive impact on the company's performance indicators.

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