

India Payroll Risk Checklist

A practical, buyer-first checklist to validate PF/ESI/PT/TDS scope, month-end controls, and audit readiness — before you sign.

Version: 2026 • For 20–1000 employee orgs (India)

How to use this (2 minutes)

- Before demos: fill Step 0 (your payroll reality).
- In demos: run the month-end scenarios — arrears, reversals, cutoffs, exceptions — using real sample employees.
- After demos: demand the outputs (Step 3) and score vendors consistently (Quick scorecard).

Buyer note

Payroll is a trust system. Prefer tools that produce stable, reconcilable outputs — not tools that demo the most features.

What this is (and isn't)

This is an operational buyer checklist for Indian SMEs evaluating payroll software (or a payroll module inside an HRMS). It is not legal advice. The goal is to prevent the most common outcomes:

- Payroll works in the demo but breaks during month-end.
- Compliance outputs can't be reconciled or audited.
- Multi-state complexity is discovered after implementation.

Step 0 — Define your payroll reality

Write these down before you talk to vendors (so the demo matches your actual process).

- Employee count today and in 12 months
 - States you operate in (and expansion plans)
 - Salary structure complexity (allowances, variable pay, reimbursements)
 - Contractor vs employee mix
 - Attendance rules (late/early, overtime, comp-offs)
 - Finance system (Tally/Zoho Books/ERP/spreadsheets)
 - Filing responsibilities (in-house vs CA)

Step 1 — Compliance areas to validate (India)

Use the sections below as demo prompts. Ask to see reports/exports — not just slides.

PF (Provident Fund)

- Coverage rules supported (thresholds, exceptions)
- Handling of arrears and reversals (backdated changes)
- Month-end PF summary and challan workflow

Demo scenario

Employee gets a backdated increment and arrears. PF should recalculate correctly and remain reconcilable.

- How do you handle PF wage ceilings and exemptions?
- Can we export PF employee-wise contribution details?
- Do you keep an audit trail for overrides?

Step 1 (cont.) — Compliance checks

The goal: predictable statutory outputs + clean reconciliation at month-end.

ESI

- Applicability rules and transitions
- Joiners/exits handling
- ESI contribution reports + reconciliation

Red flag

Vendor can't explain month-to-month applicability changes or how exceptions are handled.

Professional Tax (PT)

PT is where many tools fail for multi-state SMEs.

- PT support for each state you operate in
- Transfers between states/locations
- Export formats and reconciliation

Ask explicitly

Show PT for two states in one month (with sample employees) and explain the mapping rules.

TDS / income tax outputs (where applicable)

- Investment declaration workflow (if provided)
- Form 16 support approach
- Clean data outputs for filing processes

Even if you use a CA, you need clean, consistent data.

Step 2 — Month-end operations (where payroll fails)

Compliance rules are necessary, but payroll fails on process. Validate these workflows end-to-end.

Attendance !' payroll handoff

- How do you lock attendance for the month?
 - Are overtime/late deductions approved?
 - How are missed punches handled?
 - Are exceptions visible in one place?
 - If attendance is manual, can we do repeatable imports?

Exceptions and corrections

- Can you run a dry run payroll?
 - Can you revert and rerun safely?
 - Is there an audit trail for overrides?
 - Can you compare “this month vs last month” quickly?

High-risk pattern

A payroll system without safe reruns (and clear change history) is high risk.

Full & final settlement

- Full & final settlement steps
- Leave encashment rules
- Recoveries/advances
- Variable pay inclusion rules

Demo scenario

Employee exits mid-month with pending recoveries and variable pay. Run it end-to-end.

Step 3 — Reports you must demand

Ask for anonymized samples (PDF/export). If the vendor won't share sample outputs, treat it as risk.

Minimum set

- Payroll register
 - Payslip
 - Statutory summaries (PF/ESI/PT)
 - Employee-wise contribution reports
 - Variance report vs last month
 - Audit log / change history

Reconciliation-friendly outputs

- Totals by cost center/location
- Bank advice / payout export
- Adjustments log (arrears, reversals)

Reality check

If you can't reconcile totals to bank advice + statutory summaries, month-end becomes Excel firefighting.

Integration posture (keep it boring)

- Month 1: exports only
- Month 2: mapping + repeatable import
- Month 3: automation (if stable)

Define owners: HR vs Finance.

Step 5 — Implementation questions + failure modes

Evaluate rollout readiness, not just features.

Implementation questions

- Who configures statutory settings — vendor or you?
 - What data templates are required?
 - Typical timeline for your size and states?
 - What happens during first month-end? Is there dedicated support?
 - Escalation path if payroll is blocked?

Common failure modes (watch for these)

- Over-customized salary structures
- Attendance rules not aligned with payroll cutoffs
- Multi-state PT handled manually
- No audit trail for overrides
- Reports change after reruns

Quick vendor scorecard (1–5 each)

- PF/ESI/PT/TDS coverage
 - Multi-state readiness
 - Month-end reconciliation outputs
 - Rerun/rollback safety
 - Support SLA quality
 - Auditability (logs + exports)

The 20-minute vendor evaluation drill

If you only have 20 minutes with a vendor, do this. Vague answers = risk.

Do this in order

- Ask them to show sample PF/ESI/PT reports (PDF/export)
 - Ask how they handle arrears + reversals
 - Ask how they rerun payroll safely
 - Ask the support SLA during month-end

Implementation success criteria (before go-live)

- Attendance lock and exception workflow are defined
 - Payroll dry run completed
 - Exports match finance expectations
 - Escalation path is tested

Tip

Pick one real employee scenario (transfer + arrears + cutoff) and ask the vendor to run it live.

Copy/paste: must-have reports + controls

Use this to keep vendor follow-ups consistent across HR + Finance.

Ask vendors to share anonymized samples of

- Payroll register
 - Payslip
 - PF/ESI/PT summaries
 - Employee-wise contribution details
 - Variance report vs last month
 - Audit log / change history

If they cannot share samples, ask to screen-share live during the demo.

What to ask your finance team

- What exports do you need monthly?
 - Do you need cost center/location splits?
 - Do you reconcile payroll totals with bank advice?
 - What format does Tally/Zoho Books accept?

Controls & governance (simple but essential)

- Who can edit salary components?
 - Who can override attendance inputs?
 - Who approves reruns?
 - How long are payroll outputs retained and where?

Final note

Want a compliance-first shortlist? Visit <https://hrsignal.in/recommend>.