**TESTING THE PAYROLL SYSTEM**

**Control Objectives**

The control objectives in respect of a wages and salaries system are as follows:

(a) Payment of wages and salaries should be made only in respect of the client's authorized employees.

(b) Payment should be made at authorized rates of pay.

(c) Wages and salaries payments should be in accordance with records of work performed, e.g. time, output, commissions on sales.

(d) Payroll and payroll deductions (tax and social security) should be calculated accurately.

(e) Payment should be made to the correct employees.

(f) Liabilities to the tax authorities for tax and social security should be properly recorded.

**CONTROL PROCEDURES - WAGES AND SALARIES**

**(a) Approval and control of documents**

i) There should be written authorization to employ or dismiss any employee.

ii) Changes in rates of pay should be authorized in writing by an official outside the wages department.

iii) Overtime worked should be authorized in advance by a manager/supervisor,

iv) An independent official should review the payroll and sign it.

v) The wages cheque should be signed by two signatories and agreed with the signed payroll.

vi) Where weekly pay relates to hours at work, clock cards should be used. There should be supervision of the cards and the timing devices, particularly when employees are clocking-on or off.

vii) Where a piece work system operates, payment should only be made for work of an appropriate

quality which has been inspected and approved.

viii) Personnel records should be kept independently of the payroll department for each employee giving details of engagement, retirement, dismissal or resignation, rates of pay, holidays etc, with a specimen signature of the employee.

ix) A wages supervisor should be appointed who could perform some of the authorization duties

listed above.

**(b) Arithmetical accuracy**

(i) Where appropriate, payroll should be prepared from clock cards, job cards etc, and a sample checked for accuracy against current 'rates of pay.

(ii) Payroll details should be checked for '.he accurate calculation of deductions e.g. tax, social security, pensions, trade union subscriptions etc

**(c) Control accounts**

(i) Control accounts should be maintained in respect of each of the deductions showing amounts

paid periodically to the inland Revenue, trade unions etc.

(ii) Overall analytical checks should be carried out to highlight major discrepancies e.g. check against budgets, changes in amounts paid over a period of time, check against personnel

records.

(iii) Management should exercise overall review and control.

**(d) Access to assets and records**

Ideally, payment should be made by cheque or by direct transfer into the employees’ bank account. If payment is made in cash, the following procedures should be in place:

(i) Employees should sign for their wages.

(ii) No employee should be allowed to take the wages of another employee.

(iii) When wages are claimed late, the employee should sign for the wage packet and the release of

the packet should be authorized.

(iv) The system should preferably allow the wages to be checked by the employee before the packet is opened, by using specially designed wage packets.

(v) The wages department should preferably be a separate department with their personnel not involved with receipts or payments functions.

(vi) The duties of the wages staff should preferably be rotated during the year, and ensure that no employee is responsible for all the functions in respect of any particular department.

(vii) The employee making up the pay packets should not be the employee who prepares the payroll.

(viii) A surprise attendance at the pay-out should be made periodically by an independent official.

(ix) Unclaimed wages should be recorded in a register and held by someone outside the wages department until claimed or until a predefined period after which the money should be rebanked. An official should investigate the reason for unclaimed wages as soon as possible.

**Tests of Controls - Wages and Salaries**

A suggested program of tests of control is set out below. This can, of course, be modified to suit the particular circumstances of the client.

(a) Test sample of time sheets, clock cards or other records, for approval by responsible official. Pay particular attention to the approval of overtime where relevant.

(b) Test authority for payment of casual labor, particularly if in cash.

(c) Observe wages distribution for adherence to procedures ensuring employees sign for wages, that unclaimed wages are re-banked etc.

(d) Test authorization for payroll amendments by reference to personnel records.

(e) Test control over payroll amendments.

(f) Examine evidence of checking of payroll calculations (e.g. a signature of the financial

controller).

(g) Examine evidence of approval of payrolls by a responsible official.

(h) Examine evidence of independent checks of payrolls (e.g. by internal audit).

(i) Inspect payroll reconciliations.

(j) Examine explanations for payroll expense variances.

(k) Test authorities for payroll deductions.

(l) Test controls over unclaimed wages.