**Employee Benefit Expenses – AS**

*Every area will have 4 aspects:*

1. *Tailoring Questions*
2. *ROMMs*
3. *Controls*
4. *Substantive Procedures*

*Tailoring questions will be similar to the kind we used to keep in planning phase. RoMMs are going to be the main workflow where the user will have to link controls that they create. Controls will be of a fixed format which the user can create in the software using the* ***‘Add’*** *Option. Substantive procedures is where most of our automation comes into the picture.*

1. **Tailoring Questions**
2. Does the entity have any accounting estimates relating to payroll? (for eg. gratuity, other employee benefits, etc.) [Yes/no – if **Yes,** Does the management use an expert for these estimates? – Yes/no]
3. Has the entity capitalized any portion of its salary for ongoing/completed projects? [Yes/no]
4. **ROMMs**
5. Payroll expenses is recorded that did not occur (Occurrence).
6. Payroll expenses is incomplete (Completeness).
7. Payroll expenses is recorded in incorrect period (Cutoff).
8. Payroll expenses in not recorded at proper amount (Accuracy).
9. Payroll expenses in not recorded in proper account (Classification).
10. **Controls** *(standard template across all areas – will be given by me)*
11. **Substantive Procedures**

*The entire substantive procedures for payroll are to be divided into the following parts:*

1. IPE Testing
2. Exceptions Testing
3. Headcount Reconciliation
4. Analytical procedures
5. Actuary Testing *(if answer to* ***1(i)*** *is* ***Yes & Yes****)*
6. Managerial Remuneration *(this one to come only if at the time of engagement creation user selects type of company as public unlisted company or listed company and ownership as other than Government)*
7. **IPE Testing**

*In this area user will upload all relevant files and some minimum automated testing is to be performed on the respective areas.*

*Documents to be uploaded by user to be given as options for uploading (none of the documents to be uploaded are mandatory, how much ever user uploads those many features he will be able to use for any area for that matter)*

* Payroll Register *(User to have option to upload a consolidated file or individual files. User can upload a single consolidated file or multiple files – either way in excel format, if user uploads multiple files, to consolidate them based on columns, the multiple files to be uploaded will be for different months of the year, therefore we will ask user to name all the files in fixed format, eg. April-2024, to consolidate the different months pay register, one column to be added in the very beginning in the consolidated excel file having the name of the file in it. If user uploads a single file, there need not be any name format).*
* CTC Master (or Payroll Master) as at period end *(for initial audit engagement this has to be uploaded for both previous and current year, for subsequent engagement, only CY is needed as our system will already have previous year’s).*
* Additions Listing *(this will be an excel list of all employees hired during the year, our software to ask which is the column for the date of joining of the employee of the columns present in the excel file)*
* Deletions Listing *(this will be an excel of all employees who left during the year, our software to ask which is the column for the date of leaving of the employee of the columns present in the excel file).*
* Employee cost dump *(this will be an excel of the dump for the total employee cost; if the client uses Tally then there should be option for user to import the dump from Tally, in this case all ledgers which are mapped as ‘Employee Benefit Expenses’ in FS Sub Line should be extracted from tally, user to still have option to upload).*

1. **Exception Testing**

*This testing is going to be fully automated based on parameters given by the user. User to select which of the following exceptions to be tested* ***(multiple choice)****:*

|  |  |  |
| --- | --- | --- |
| **Exception no.** | **Exception** | **Tickbox** |
| 1. | One employee code does not have more than one employee name. | *Checkbox option.* |
| 2. | One employee code does not have two lines with the same month of pay. |  |
| 3. | One employee code does not have more than 2 designations. |  |
| 4. | One employee code is not paid for months subsequent to month of resignation. |  |
| 5. | One employee code is not paid for months before joining date. |  |
| 6. | Two different employees do not have the same PAN. |  |
| 7. | Employees having blank designation. |  |
| 8. | Gross pay is lesser than net pay. |  |
| 9. | Employees having no employee code. |  |
| 10. | Instances where gross pay less total deductions is not equal to net pay. |  |
| 11. | Employee IDs where net pay is negative. |  |
| 12. | Employee IDs where PF was not there in one month but there in other months. |  |
| 13. | Employee IDs where ESI is not there in one month but there in previous months. |  |
| 14. | Employee IDs with different dates of joining |  |
| 15. | Employee IDs with different dates of leaving |  |

*The software to ask the user as to which column from the consolidated pay register created are the below:*

1. Employee Code/ID
2. Month
3. Designation
4. Date of Leaving
5. Date of Joining
6. PAN *(if chosen respective exception)*
7. Gross Pay
8. Net Pay
9. Employee Name
10. Provident Fund
11. ESI
12. Total deductions

*Once the user has filled everything, give the option to run the test.*

*Based on the columns given by the user our software to perform the below tests and generate a consolidated excel sheet:*

***Exception (1):*** *All employee names for the same employee code should be same.*

***Exception (2):*** *For a single employee code, there should not be duplication of the months of pay.*

***Exception (3):*** *For a single employee code, there should not be more than 2 designations in the designation column.*

***Exception (4):*** *If for one employee code, there is a date given in the date of leaving column, then after the month of leaving, there should be no more months for the employee code.*

***Exception (5):*** *For one employee code, there should not be any payment rows before the month of joining.*

***Exception (6):*** *Two different employee codes should not have the same PAN.*

***Exception (7):*** *The designation should not be blank for any row.*

***Exception (8):*** *The amount of gross pay should not be lesser than net pay for any row.*

***Exception (9):*** *There should be no employee name for which there is no employee code.*

***Exception (10):*** *Gross pay – total deductions for any row should not be lower than net pay.*

***Exception (11):*** *Net pay should not be negative in any row.*

***Exception (12):*** *For one employee code, there should be no line item where there is PF amount in one month but not in other months.*

***Exception (13):*** *For one employee code, there should be no line item where there is ESI amount in one month but not in other months.*

***Exception (14):*** *For one employee code, there should be same date of joining for each row (month).*

***Exception (15):*** *One employee code should not have two different dates of leaving (if any).*

*Once the exception is run, the summary to be displayed in the same table above where the user has chosen which exceptions to run in an additional column as below:*

|  |  |  |  |
| --- | --- | --- | --- |
| **Exception no.** | **Exception** | **Tickbox** | **Result** |
| 1. | One employee code does not have more than one employee name. | *Checkbox option.* | *If exception found, then give count of exceptions found as* “xx exceptions found”; *else give statement* “No exception found”. *If user didn’t choose the exception, then show “*Not applicable”*.* |

*The first sheet in the excel generated for the results of the payroll exception to be the consolidated pay register. The second sheet of the same excel. to be a summary of all the exceptions having exception number and exception details and whether user chose to run the exception or not, and a conclusion column after these three columns which will be entered by the user.*

1. **Headcount Reconciliation**

*A reco to be prepared in the below format:*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Month** | **Opening (A)** | **Joiners (B)** | **Leavers (C)** | **Closing** |
| Apr-24 *(if the period is for 2025-26, it will change to Apr-25 and so on)* | *If initial audit engagement to be entered by user, if subsequent then previous year’s closing will be this year’s opening)* | *To come from additions listing (count of employees joined in the month of April based on date of joining column)* | *To come from deletions listing (count of employees who left in the month of April)* | **(A+B-C)** |
| May-24 | *Apr-24 closing = May-24 opening* |  |  |  |
| Jun-24 |  |  |  |  |
| Jul-24 |  |  |  |  |
| Aug-24 |  |  |  |  |
| Sep-24 |  |  |  |  |
| Oct-24 |  |  |  |  |
| Nov-24 |  |  |  |  |
| Dec-24 |  |  |  |  |
| Jan-25 |  |  |  |  |
| Feb-25 |  |  |  |  |
| Mar-25 |  |  |  |  |

*A test to be displayed as below:*

|  |  |
| --- | --- |
| **Particulars** | **Employees** |
| As per Above Headcount (A) | *Closing headcount figure of Mar-25* |
| As per CTC Report (B) | *Count of no. of employees as per CTC report uploaded by user in* ***IPE Testing*** |
| Difference (C) | (A)-(B) |
| *Option for user to add rows to reconcile the difference* | *Numbers to be entered by user* |
| Net Difference | *(C)-reconciliation numbers added by user.* |

*The following analysis to be done for headcount:*

1. ***Quarterly Weighted Average Headcount,*** *this will be calculated as follows:*

|  |  |  |  |
| --- | --- | --- | --- |
| **Quarter** | **Weighted Figure (A)** | **Total Weight (B)** | **Weighted Average** |
| Q1 | (Apr closing headcount \*3+ may closing head count\*2+June closing headcount\*1) | 6 | **C=A/B** |
| Q2 |  | 6 |  |
| Q3 |  | 6 |  |
| Q4 |  | 6 |  |

1. ***Annual Weighted Average Headcount***

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Weighted Figure (A)** | **Total Weight (B)** | **Weighted Average** |
| FYXX | Apr-Mar to have weights 12 to 1, and to take a sum of the (weight\*closing headcount of the month) | 78 | **C=A/B** |
| FYXX |  | 78 |  |
| FYXX |  | 78 |  |
| FYXX |  | 78 |  |

1. ***Average Gross Pay – Quarterly***

*To show the below table:*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **Q4FYXX** | **Q3FYXX** | **Q2FYXX** | **Q1FYXX** | **Q4FYXX** |
| Gross Pay (A) | To take total gross pay from pay register as per column selected by user on a quarterly basis. | | | | |
| Weighted Average Headcount (B) | To take for each quarter as calculated in (i) above. | | | | |
| Average Pay | **C=A/B** | | | | |

*To show a graph of* ***Average Gross Pay – Quarterly*** *and* ***Quarterly Weighted Average Headcount*** *as below (in better colors and all). (this graph to come at the starting of* ***Headcount Reconciliation*** *section)*

*After the graph, give as below:*

Our analysis of the above data and trend is as below:

[Document]

1. **Analytical Procedures**

* **MoM Analysis**

*In this analysis, we have to auto-compute the MoM trend for each employee on the basis of employee code. The user has already entered the column for employee code in Exception testing. The columns to be used in testing from the consolidated pay register has to be mentioned by the user at this stage. There can be more than 1 column so this has to be a multiple choice dropdown (basically a drop-down for all the columns with a checkbox against each item in the dropdown). When the user has chosen, his choices to be displayed below the dropdown option.*

*The software to then ask the user which is the month of increment for the company, here a dropdown of the month column created by us for the consolidated pay register to be given where the user can only choose one. The calculation is done at a breakup level, basically if the user chooses Oct-24 as the month of increment, then apr-sep to have one calculation and oct-mar to have a separate calculation, format for both will remain the same as in the attached excel.*

*Then for the columns selected by the user, a MoM analysis is to be done by the software as below:*

*Let’s say user has selected a total of 3 columns, then for each employee, a MoM trend to be performed for the sum of all columns selected by the user.*

*Refer the attached excel for an example.*

**

*In the remarks column, the remark should be autofilled for those employees who joined/left in the current year as:* The variance is due to fresh hiring of the employee in the current year/The variance is due to resignation of the employee in the current year. *The others to be left empty, can be filled by user.*

* **Increment**

*Here first the software to ask the user to upload the CTC register for a month before the month of increment.*

*Once the user has uploaded the same, the software to ask the user which columns to be considered for the purpose of increment calculation as a dropdown with a checkbox against each item (similar to MoM analysis).*

*Then for the columns selected by the user, we have to make an increment analysis – total of columns selected by user from the CTC report uploaded in IPE testing vs. total of columns selected by user from the CTC report uploaded above in increment testing, the difference and % of total from the CTC report uploaded here in increment testing.*

*An average of the increment & of all employees to be displayed in the software along with a trend of the increment with the annual weighted average headcount as a graph as below:*

*To make it colorful and everything. To display below statement after the graph:*

Conclude on the trend displayed above and assess if any unusual trends are seen. [Document]

* **Salary Analytical**

*This testing is performed on all ledger a/cs marked as* ***Salaries and Wages*** *in the TB Mapping by the user. In this testing, we develop an expectation of CY salary based on PY salary expense of the company and see if our expectation is almost matching the company’s actual expense.*

*First the user has to be asked which ledger a/cs have to be excluded when performing this testing (again a dropdown with a checkbox for all the ledger a/cs included in* ***Salaries and Wages****).*

*Then the software to ask the user below questions:*

1. Assessment of risk [Lower/Higher/Significant]
2. Control reliance approach [Relying on controls/Not relying on controls]*(If the answer to* ***Assessment of risk*** *is* ***Significant*** *then this can only be Relying on controls)*.

*Guide for threshold calculation based on the answers to above questions:*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Threshold not to exceed lower of** | **Lower risk without control reliance** | **Higher Risk with control reliance** | **Lower risk with control reliance** | **Higher risk with control reliance** | **Significant risk with control reliance** |
| Percentage of population | 22% | 15% | 35% | 25% | 20% |
| Percentage of performance materiality | 65% | 45% | 95% | 90% | 50% |

*After this the calculation to be done as in the attached excel below:*

**

* **PF Analytical**

*This testing is comparatively easier. The user to choose which ledger a/cs from salaries and wages comprise of provident fund as below:*

1. Select the ledger accounts comprising of provident fund for substantive analytical procedures on provident fund.

[A dropdown to be given to user for all salaries and wages ledger a/cs with multiple choice options as usual].

1. Select the ledger accounts comprising balances such as basic salary, etc. on which the substantive analytical procedures are to be performed.

[A dropdown to be given to user for all salaries and wages ledger a/cs with multiple choice options as usual].

1. Mention the percentage to be used for the analytical procedure.

[a blank textbox for user to mention percentage] [Document]

*The testing to be performed as below:*

|  |  |
| --- | --- |
| **Particulars** | **Amount** |
| Recorded Amount | *Total of all the ledger a/cs chosen in (i) above* |
| Salary Amount | *Total of all ledger a/cs chosen in (ii) above* |
| Percentage | *Percentage mentioned above* |
| Expected PF | *Percentage\*Salary Amount* |
| Difference | *Expected PF – Recorded Amount* |
| Threshold | *The threshold to be calculated using the same guide and answers as for salary expectation.* |
| Within Threshold? | *If ABS(Difference)<=threshold,* **Yes,** *else* **No.** |

If the result above is **No**, then [Document].

1. **Actuary Testing**

* Data sent to Actuary testing

1. Upload the data sent to actuary by the entity. *(user will upload data)*

*On the data uploaded the following tests are to be performed, all tests to be in comparison to the* ***CTC Report*** *uploaded by the user in* ***IPE Testing****:*

1. **Completeness check** *(no. of employees as per data sent to actuary to match with the no. of employees as per CTC report)*

|  |  |
| --- | --- |
| **Particulars** | **Employees** |
| As per Data sent to Actuary (A) | *Count of no. of employees from data sent to actuary file uploaded by user.* |
| As per CTC Report (B) | *Count of no. of employees as per CTC report uploaded by user in* ***IPE Testing*** |
| Difference (C) | (A)-(B) |
| *Option for user to add rows to reconcile the difference* | *Numbers to be entered by user* |
| Net Difference | *(C)-reconciliation numbers added by user.* |

1. **Accuracy Check***:*

*To build an AI system which can compare the data sent to actuary with the CTC report in the following way: data sent to actuary will always have lesser number of columns as compared to the CTC report. There will be a basic pay column in both the files, employee code will be present, tests should be like date of joining in both files should match, date of birth in both files should match, amount columns should match (like basic pay, FDA, etc. for those columns which will be present in both the datasets). There can be columns in data sent to actuary which are not there in CTC report, no test should be done for such items. The results should be generated in an excel file having the data sent to actuary, in the same sheet next to it the data as per CTC report for respective columns and after that a comparison between the two, for eg. difference in amount of basic salary between data sent to actuary and CTC report should be displayed for each employee, difference in DOB, DOJ, etc.*

*The following table to be displayed to the user:*

|  |  |
| --- | --- |
| **CTC Report** | **Data sent to Actuary** |
| Unique Value for Testing | |
| *Dropdown of all column names from CTC report* | *Dropdown of all column names from Data sent to actuary* |
|  |  |
| Columns to be Tested | |
| *Dropdown of all column names from CTC report* | *Dropdown of all column names from Data sent to actuary* |
|  |  |

1. Document our conclusion on the performance of the following procedures with respect to the management’s expert:
2. Evaluate the competence, capabilities and objectivity of that expert;
3. Obtain an understanding of the work of that expert; and
4. Evaluate the appropriateness of that expert’s work as audit evidence for the relevant assertion.

[Document]

1. Document the actuary reports received for the current period and our testing on the same. [Document]
2. **Managerial Remuneration**

* Does the company have adequate profits to comply with the provisions of Section 197 of the Companies Act, 2013?

[Yes/no]

***If YES,***

**Calculation of net profit u/s 198 of the Companies Act, 2013 as below:**

|  |  |
| --- | --- |
| **Particulars** | **Amount** |
| **Profit Before Tax** | *Xxx* |
|  |  |
| **Add: bounties or subsidies received from the government not credited to profit & loss u/s 198(2)** | *XXX* |
|  |  |
| **Less: Items u/s 198(3) as listed below which have been given credit in profit and loss account** |  |
| Profits by way of premium on shares |  |
| Profits on sale of forfeited shares by the company |  |
| Profits of capital nature including sale of undertaking(s) or part thereof |  |
| Profits from sale of immovable property or fixed assets of capital nature unless the business consists of buying and selling of such property or assets (only in excess of original cost) |  |
| Any fair value changes in carrying amount of asset or liability |  |
| Any amount representing unrealized gains, notional gains or revaluation of assets |  |
|  |  |
| **Add: Director’s remuneration deducted from the profit and loss account** |  |
|  |  |
| **Add: Sums that should not be deducted u/s 198(5)** |  |
| Any compensation, damages or payments made voluntarily |  |
| Loss of a capital nature including loss on sale of the undertaking(s) (only upto the cost of the asset) |  |
| Any fair value changes in carrying amount of asset or liability |  |
|  |  |
| **Profit u/s 198** | **XXX** |
| **Maximum limit u/s 197** | *11%\*Profit u/s 198* |

* Add the names of managing directors, whole-time directors, managers and other directors of the company as per Section 197

***Table A***

|  |  |  |
| --- | --- | --- |
| **Name** | **Position** | **Remuneration u/s 2(78)** |
| *User to enter name and have option to enter more rows* | *User to choose position from drop-down having the following four options:*  *Managing Director*  *Whole-time Director*  *Manager*  *Other Director* |  |

*Below this table a note to be displayed to user as* **[Note:** 2(78) Remuneration means any money or its equivalent given or passed to any person for services rendered by him and includes perquisites as defined under the Income-tax Act, 1961 (43 of 1961)**]**

*If the number of Managing Director + Whole-time Director + Manager entered by the user exceeds 1, then to calculate 10% of net profit. If it does not exceed one to calculate 5% of profit u/s 198.*

*If (Managing Director + Whole time Director + Manager)=0, for other directors to calculate 3% of profit u/s 198, if it is not 0, then calculate 1% of profit u/s 198.*

*To display the result of above calculation as below:*

***Table B***

|  |  |
| --- | --- |
| **Particulars** | **Limit u/s 197** |
| Managing director, whole-time director and manager | *Limit as calculated as per condition above* |
| Other directors | *Limit as calculated as per condition above* |

*Post this our software to calculate totals of those persons who are designated as Managing Director, Whole-time Director and Manager in* ***Table A***  *and it should be within the limit mentioned in* ***Table B.***

*Totals of persons named as other directors should also be within their respective limit.*

*Then to display as below:*

|  |  |  |  |
| --- | --- | --- | --- |
| **Category** | **Limit u/s 197** | **Total at Actuals** | **Compliance** |
| Managing director, whole-time director and manager | *From Table B* | *From Table A* | *If B>=A, then mention “****Within Limit****”, else “****Exceeds Limit****”* |
| Other directors | *From Table B* | *From Table A* | *If B>=A, then mention “****Within Limit****”, else “****Exceeds Limit****”* |

*If even one of the above two is* ***Exceeds Limit*** *to display as below:*

The remuneration paid is in excess of limits specified u/s 197 of the Companies Act, 2013. Document the details of the resolution taken at a general meeting for the same or our testing on the compliance with other provisions as per the respective Section. [Document]

***If NO,***

**Calculation of effective capital as per Schedule V of the Companies Act, 2013**

|  |  |
| --- | --- |
| **Particulars** | **Amount** |
| Paid-up share capital (excluding share application money or advances against shares) [A] |  |
| Securities Premium Account [B] |  |
| Reserves and surplus (excluding revaluation reserve) [C] |  |
| Long term loans and deposits repayable after one year (excluding working capital loans, over drafts, interest due on loans unless funded, bank guarantee, etc., and other short-term arrangements) [D] |  |
| Less: Aggregate of any investments (except in case of investment by an investment company whose principal business is acquisition of shares, stock, debentures or other securities) [E] |  |
| Less: Accumulated losses [F] |  |
| Less: Preliminary expenses not written off [G] |  |
|  |  |
| **Effective Capital** | **A+B+C+D-E-F-G** |

*Then the limits to be displayed as per the below matrix:*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Effective Capital** | **<5cr** | **>=5cr, <100cr** | **>=100cr, <250cr** | **>=250cr** |
| Managing director, whole-time director, manager | 60 lakhs | 84 lakhs | 120 lakhs | 120 lakhs + (0.01%\*(effective capital as above – 250cr)) |
| Other director | 12 lakhs | 17 lakhs | 24 lakhs | 24 lakhs + (0.01%\*(effective capital as above – 250cr)) |

* Add the names of managing directors, whole-time directors, managers and other directors of the company as per Section 197

***Table A***

|  |  |  |
| --- | --- | --- |
| **Name** | **Position** | **Remuneration u/s 2(78)** |
| *User to enter name and have option to enter more rows* | *User to choose position from drop-down having the following four options:*  *Managing Director*  *Whole-time Director*  *Manager*  *Other Director* |  |

*Then to display as below:*

|  |  |  |  |
| --- | --- | --- | --- |
| **Category** | **Limit u/s 197** | **Total at Actuals** | **Compliance** |
| Managing director, whole-time director and manager | *As displayed from matrix* | *From Table A* | *If B>=A, then mention “****Within Limit****”, else “****Exceeds Limit****”* |
| Other directors | *As displayed from matrix* | *From Table A* | *If B>=A, then mention “****Within Limit****”, else “****Exceeds Limit****”* |

*If even one of the above two is* ***Exceeds Limit*** *to display as below:*

The remuneration paid is in excess of limits specified u/s 197 of the Companies Act, 2013. Document the details of the resolution taken at a general meeting for the same or our testing on the compliance with other provisions as per the respective Section. [Document]