

# LA 4: HR and Payroll

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# **COMPLIANCE AUDIT PROCEDURES**

# Compliance Audits

- What are the general compliance audit objectives?
  - To evaluate adequacy and effectiveness of the internal controls
  - To test compliance to laws, regulations and policies
- What do internal auditors look for?
  - Laws and regulations
  - Policies
  - Contracts

<b>RISKS</b>	<b>WEAKNESSES</b>	<b>CONTROLS</b>	<b>PROCEDURES</b>
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# Compliance audits: Methodology

- Determine engagement objective
- Understand cycle by doing a systems description
- Identify risks
- Identify controls
  - NO/INADEQUATE = IC WEAKNESS = FINDING
- Perform audit procedures on ADEQUATE controls to determine the EFFECTIVENESS
  - Compliance, Financial OR Operational
- Outcome of procedures can result in finding

# Example: Compliance audits

## PERSONNEL EMPLOYMENT AND ADMINISTRATION

RISKS	CONTROLS	AUDIT PROCEDURE
Recruiting &/or employing unqualified personnel	Background checks on potential employees before employment	Obtain the personnel file to scrutinise and confirm whether applicable background checks were done on employees employed
Unauthorised changes and additions to employee records for example: Changes in salary scales or wage rates	Changes to employee records should be properly documented and authorised by a senior manager	Examine payroll adjustment forms for signatures of approval from a senior manager as well as the respective employee of salary/wage adjustments

# Exercise: Compliance audits

Internal Auditor X is planning a compliance audit engagement on the human resources and payroll processes of a furniture retailer. The following risks were identified for the payment of salaries and wages process:

- **Theft of cash needed for payment of wages**
- **Overpayment of salaries and wages**
- **Invalid payments (fictitious employees)**

For each of the above risks, **describe an appropriate control activity that could mitigate the risk** as well as **a compliance procedure the internal auditor can perform.**

RISK	CONTROL ACTIVITY	COMPLIANCE PROCEDURE
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# Exercise: Compliance audits

## **Risk:**

Theft of cash needed for the payment of wages

## **Control:**

Cash should be placed in a safe where only authorised personnel has access

## **Procedure:**

- Inspect the safe to determine if cash is kept in the safe for payment of wages
- Enquire from management who has keys to the safe to ensure that only limited senior personnel has access to the safe

# Exercise: Compliance audits

## **Risk:**

Overpayment of salaries and wages

## **Control:**

Internal verification should be performed of the payroll expenses by an independent member

## **Procedure:**

Inspect the monthly payroll accounts for proof of internal verification performed by an independent person.



# Exercise: Compliance audits

## **Risk:**

Invalid payments made

## **Control:**

- Reconciliation of payroll transactions with master file of individuals employed
- Authorisation of payments should be made by senior personnel
- Independent verification should be performed of payments

## **Procedure:**

Inspect monthly reconciliation to determine that the reconciliation is performed and authorised by senior personnel