**XYZ LIMITED-PAYROLL AUDIT ASSIGNMENT**

XYZ organization employees are over 2,500 spread across the Republic of Kenya. Some 500 staff are deployed at the factory level and thus are paid on an hourly basis based on number of hours worked of which at times, overtime payments do arise from time to time. The payroll processing is undertaken for two categories of employees as follows; Executive Management and other employees. The Payroll Unit resides within the Human Resources Division and is responsible for processing and calculating salaries and benefits related to XYZ employees. The Finance Division is responsible for paying salaries and benefits, while the ICT system that supports the payroll processing is maintained by the ICT Division. There are processes which are automated while some are manual in nature. Salary payment files are extracted/printed from the payroll system into an excel spreadsheet that is then sent to the bank for processing EFT payments to employees bank accounts.

For staff paid on an hourly basis, payroll source documents are received by the Manager HR from their respective HoDs and other parties. The Manager HR then forwards the documents to the HR Assistant for input. Upon approval, the data capture begins from 1st to the 15th of each month. Draft reports are produced and then validated by the Manager, Finance. The payroll is then forwarded to Heads of Human Resource and Finance respectively for approval. Upon approval by them, a copy of the payroll net pay list is forwarded to the bank together with EFT instructions for disbursement of salary amounts to staff bank accounts by the 25th of every month. After approval is obtained from Head of Finance, the period is closed and a system back up is done with appropriate journals done to update the General Ledger. Payslips are then printed and distributed to staff members vide their personal emails. On a quarterly basis, the Manager, Finance will reconcile the payroll accounts and then update the General ledger.

Previous audit findings/control weaknesses have noted the following;

1. No linkage between payroll system and payment system since manual intervention, extraction of information from payroll system on excel spread sheet that is then sent to the bank).
2. No payroll reconciliation are done on a monthly basis.
3. Poor controls exist around the addition, removal or adjustments on payroll items.
4. Information pertaining to employees leaving the company was not communicated to the ICT Division (who support the payroll system), resulting in extended delays before those employees’ systems rights were terminated.
5. Hours paid to factory employees were not supported by approved timesheets.
6. Amounts withheld for employees were not consistent with elections made by employees.
7. Hourly based staff are paid through mobile money to their individual mobile money accounts. There were instances where the recipient’s names, as reported on the mobile money platform confirming that the money was successfully sent, did not match the employee names as captured on the payroll or the wrong amounts were sent.

Recently, an allegation was reported on the organization’s whistleblower hotline providing details of ghost employees, double payments, overpayments still being made to certain staff members or some staff not receiving payments especially the hourly based staff.

**Case Study Output**

You are the internal auditor responsible for conducting an assurance engagement of the XYZ Company payroll process. You are required to:

1. Develop an engagement plan highlighting the audit objectives, scope, resources.
2. Develop an audit program in order to achieve the objectives developed above.
3. Perform the audit tests as documented within the audit program and summarize your findings in an audit finding sheet.
4. Report the audit findings to Management during the exit meeting and also in a formal audit report for action.