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# Payroll Audit—The Duties of the Auditor

BY GRAFTON WHITING

In examining the books of a modern manufacturing plant, it will be found that the amount represented by the payroll is a large if not the largest current expenditure and, by comparison, the one that is susceptible to the most irregularity.

The accuracy of cash expenditures for the purchase of material may be readily audited through examination of the records and vouchers. The proof of the accuracy of the payroll itself is, however, an entirely different matter and should be treated as a separate task.

The benefits to be obtained from the payroll audit are those in common with any audit or verification of bookkeeping; viz., that it establishes a confidence in the mind of the executive that the work is being properly done and that the results after a professional investigation are as they should be.

The special purposes of a payroll audit may be briefly described under the following headings:

- Verification of the payroll figures.
- Process of paying off.
- Discovery of opportunity for padding.
- Suggestions for improvement.

There can be no fixed procedure, nor can there be any fixed statement of the benefits to be derived, as each audit has its peculiarities and the results must be based upon the findings when the work is completed.

But, in general, it may be stated that the operators seeing the auditors at work appreciate that the accuracy of the clerical work in compiling the payroll and the general procedure is being proved by outside and unbiased investigators. When two or more audits are conducted during a year at times unknown to the office and payroll staff, the moral effect obtained is worthy of note.

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### VERIFICATION OF THE PAYROLL FIGURES

The main object in verifying the figures is to ascertain that they are correctly compiled from the records. The supporting records of the payroll must next be investigated and the time records and piece records proved to be properly made out and systematically recorded, to ascertain that the records are justified by the conditions found.

#### *Time records*

There is considerable variety in methods of time-keeping in different plants, but in the main the auditor should find a distinct proof that the operators were in the plant and at work during the periods shown on the time record.

Irregularities in the time recording should be followed through to ascertain whether they are purposely inaccurate or through error incorrect figures are used. Time-keeping is apt to be regulated according to past custom, and this past custom in many instances is based on old-fashioned methods which have outgrown their usefulness.

#### *Piece work*

The process of checking piece rates consists of two parts: first verifying the accuracy of the rates and that these rates are properly established; and, second, ascertaining that the quantities represented by the production so reported are justified by the output of the department. It is necessary to trace back the origin of the production records and to ascertain what opportunity there is for overstating production through false weights or count or tampering with mechanical recording devices.

#### *Payroll figures*

The extensions on the payroll should be verified as far as practicable. This may be accomplished by certain tests or may be carried through in detail. Experience has shown that errors in extensions are largely due to carelessness, and that there seldom is an attempt at falsification in carrying out the extensions on the payroll itself.

The footings of the payroll, however, should be verified throughout and the total should be in agreement with the amount of money withdrawn from the bank for payroll purposes.

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### PROCESS OF PAYING OFF

In the process of paying off, identification of the operator paid is an important feature of the audit, in that each item on the payroll should be found to be paid to the operator whose name or number appears opposite the entry.

It is not practicable in large plants always to have the operator's name called at the time of paying off, but there should be some system of pay slips or brass checks or at least identification by the foreman of the room or the paymaster as a check against paying the wrong person. Care should be exercised that one operator does not receive more than one envelope, unless the payroll is divided, as it is in some instances where an operator's name appears more than once on the roll. The unclaimed envelopes in the payroll should be collected by the auditor and be brought by him to the office for proper accounting.

The recording and checking of these unclaimed envelopes and their care in the office should form a part of the auditor's report. In ordinary circumstances, the unpaid envelopes should be registered as a part of the office system and care should be exercised to see that they are properly checked off as payment is made. It is preferable that a double check be instituted and that each payment be initialed by the clerks in charge. After lapse of a month the unpaid envelopes should be opened and the currency should be deposited in the bank, a proper liability being set up on the ledger.

### DISCOVERY OF OPPORTUNITY FOR PADDING

Opportunity for padding the payroll, it will be found, frequently exists. This padding may be the increasing of hours or piece work performed or may take the form of carrying dummies on the payroll itself.

It is one of the objects of the audit to discover such instances, the possibilities for them and a means of prevention. An experienced auditor will find this one of the most interesting parts of his work, as the opportunities for padding are so varied and alluring to the wrong-doer.

### SUGGESTIONS FOR IMPROVEMENT

Suggestions for improvement are necessarily governed by the conditions found, but may be generally classified as follows:

- I. Accuracy.

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2. Clerical saving.
3. Method employed.
4. Changes in forms.

### 1. *Accuracy.*

Under accuracy may be mentioned more direct methods of compiling records; checking between time cards and mill records of attendance; elimination of copying a signed approval by the foreman of payroll for his department; the initialing of all deductions or increases showing authorization by the foreman.

### 2. *Clerical saving.*

Opportunity for clerical saving is abundant where old-fashioned methods govern payroll compilation. It will often be found that it is the custom to have prepared for the office a neatly written payroll record, usually a careful copy of some other preliminary report. Work of this character is largely duplication and open to error.

### 3. *Methods employed.*

The method of making up the payroll should be investigated in the office to ascertain whether or not records of rates, both time and piece, are in quickly available form for the payroll clerks to use.

The process of putting the currency in envelopes should be reviewed with the idea of simplifying the work.

In the method employed in paying off employees there is an opportunity for suggestion as to the routing of the paymaster and the rotation of paying off, particularly in arranging the employees and their numbers, to avoid delays in the departments.

### 4. *Changes in forms.*

In reviewing the forms used, it will often be found that the pay sheets themselves can be improved: first, to facilitate departmental divisions for summary purposes; second, to eliminate the re-writing of the names; third, to provide space for deductions and allowances; and, fourth, to provide a means for checking the sheet by column footings.

Time reports, where clock cards are not used, should be so arranged that the original entry comes to the office for use in making up the payroll. Piece record forms should be such that

direct proof may be obtained from production records, either as the product is delivered to the next department or through movement in the department itself.

A form should be provided for making or changing either piece rates or time rates and should be approved by the foreman or the executive who has this in charge.

There are many mechanical devices of assistance in payroll work, such as addressing machines for printing names on the payroll and envelopes, numbering machines, card indexes or visible indexes for rate records, computing tables or calculating machines for making extensions, denominator machines for determining the number of different coins necessary in making up the payroll and automatic change-making machines purposely made for payroll purposes.

#### TYPICAL PAYROLL AUDIT PROCEDURE

In planning a payroll audit, it should be arranged that at the time of the audit there will be one man to accompany each paymaster and one man to supervise the pay window. If there is only one paymaster, only one man need accompany him, but in the office there should be an auditor to take in charge any pay envelopes remaining and to supervise the paying off at the window.

The auditors should arrive at the plant early on the payroll day and plan their time so that no delay will be experienced by the paymaster in starting his work or in the actual process of paying off. The following is typical of a two-man audit in a plant employing 500 to 1500.

#### *The procedure.*

The first task is that of comparing the pay envelopes with the payroll and checking on the pay sheet.

One auditor will then accompany the paymaster on his round of paying off. It is this auditor's duty to note the identification of the employees. Where receipt forms are used, the names on the receipts should be compared with the envelopes. Where brass checks are distributed the number should be compared with the number on the envelope.

The auditor will note all irregularities and chances for introduction of dummies or for an employee to repeat or draw pay for another. The general route and method of paying in the plant

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should be observed, to form the basis for suggestions for improvement.

All unclaimed envelopes will be taken in charge by the auditor and later be listed as to number, name and amount.

The duty of the second auditor will be to remain in the office in the neighborhood of the pay window and observe the paying off of any employees calling for back pay envelopes. He will also check the pay envelopes against the payroll for the second trip through the plant, provided two or more trips are necessary. He will watch the process of paying off the office assistants and ascertain the methods employed for paying off the night force if it is not feasible to be present when this is done.

After the actual paying off has been accomplished, the auditors will verify the total of the payroll with the amount withdrawn from the bank. They will prove the footings on the payroll and will test the extensions.

The next task is to investigate the method of time-keeping to ascertain if there is a sufficient proof that each employee on day work was in attendance for the full time stated on the payroll. The rates paid to day employees should be verified and the procedure in establishing these rates and the computing of the rates on the payroll should be noted.

The piece records showing the amount produced by operators on piece work should next be reviewed, with such collateral proof as can be found to justify the production claim. The rates for piece work should be investigated and the methods of computing the payroll should be reviewed.

The extensions of the amounts on the payroll are then to be verified, either in detail or by random tests, in accord with the desires of the client.

Throughout the work the auditor will have in view the preparation of the report vouching for the accuracy of the payroll and also the inclusion of suggestions for improvements.