

FREE PRACTICAL GUIDE

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PAYROLL

How to Audit Payroll

A practical guide to employee master data, payroll changes, approvals, payments and anomaly testing

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This guide is designed for internal auditors who need a concise, practical way to apply audit payroll in real engagements. It focuses on decisions, evidence and common failure points rather than theory.

THE OUTCOME YOU WANT

A practical guide to employee master data, payroll changes, approvals, payments and anomaly testing.

The six-step approach

- 1 Map employee creation/change, time data, payroll calculation and payment.
- 2 Review HR/payroll access and segregation of duties.
- 3 Test joiners, leavers, salary changes and one-off payments.
- 4 Reconcile payroll output to payment and general ledger.
- 5 Analyze duplicates, unusual overtime, ghost-employee indicators and repeated manual adjustments.
- 6 Review management monitoring and exception handling.

Steps 1-3: Build the foundation

How to Audit Payroll

1

Map employee creation/change, time data, payroll calculation and payment.

Define the decision, risk or process question before collecting evidence. Write down what a good outcome would look like.

2

Review HR/payroll access and segregation of duties.

Use actual transactions, system evidence, data and accountable owners to confirm how the process operates in practice.

3

Test joiners, leavers, salary changes and one-off payments.

Record assumptions, exceptions and boundaries early so later testing remains focused and reproducible.

AUDITOR PROMPT

Ask: "What evidence would convince another experienced auditor that this conclusion is reasonable?" If the answer is unclear, strengthen the planned work before moving on.

Steps 4-6: Turn work into assurance

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4

Reconcile payroll output to payment and general ledger.

Match the depth of work to the severity of the risk. High-risk conclusions need stronger evidence and clearer documentation.

5

Analyze duplicates, unusual overtime, ghost-employee indicators and repeated manual adjustments.

Challenge exceptions for frequency, impact, root cause and management awareness before deciding what they mean.

6

Review management monitoring and exception handling.

Finish with an explicit conclusion and next action: no issue, improvement opportunity, finding, escalation or follow-up.

QUALITY CHECK

Before you finalize, ask whether the work directly answers the original audit question, whether evidence is sufficient, and whether a reader can understand the reasoning without being in the audit team.

ANALYTICS

Duplicate bank accounts across employees, payments after termination, large manual adjustments, repeated round amounts, overtime spikes by manager or location.

FOLLOW-UP

Trace exceptions to HR authorization and payroll evidence.

OUTCOME

Differentiate legitimate complexity from weak change control.

What makes the example useful?

- It starts from a specific risk or audit question.
- It connects evidence and testing to a conclusion.
- It avoids treating process description as proof of control effectiveness.
- It leaves a clear path for management action or follow-up.

Five practical reminders

- Payroll errors often originate in master-data changes, not in the final calculation.
- Leaver controls and bank-account changes are high-value tests.
- Reconcile people, amounts and bank files across systems where possible.

Mini self-check

- ☐ Have I linked the work to a clear audit objective or business risk?
- ☐ Is the evidence strong enough for the importance of the conclusion?
- ☐ Have I distinguished facts, explanations and assumptions?
- ☐ Have I considered root cause and recurrence, not only the immediate exception?
- ☐ Can management understand what decision or action is required?

RESOURCE NOTE

This is a practical learning resource, not formal professional guidance. Adapt the approach to your organization, applicable standards, regulation and audit methodology.