

Audit of salaries

Inspectors have noted that some firms do not apply the required audit procedures when auditing salaries. Instead, they base their audit on items that provide little, if any, assurance concerning the various assertions they are attempting to substantiate.

Indeed, some mistakenly consider that reconciling salaries with T4s and reconciling deductions at source provides the audit evidence necessary for auditing salaries. It is also not sufficient to assume that the tax authorities audit T4s or that the CSST regularly audits its clients since the audit report does not state “they audited” or, worse still, “they will audit”, but rather “I have audited”. Therefore, auditors cannot wait for someone else to do the work for them.

Moreover, comparing the payroll journal to T4s (two internal documents generally issued by the same department) does not prove much, apart from the fact that the auditor knows how to add and transcribe figures. Would this auditor perform an audit of accounts receivable by comparing the summary of accounts receivable to the related ledger? The quality of the evidence would be more or less the same as that obtained by comparing T4s with the payroll journal.

Lastly, even if the tax authorities discovered material errors, the auditor’s report would probably have already been issued and signed by the time the auditor was informed of the errors.

Another problem with auditing salaries involves comparing payroll from year to year. Although this comparison is indispensable, it alone does not provide the necessary audit evidence. Analytical procedures such as comparison only provide the required assurance when the results can be anticipated with relative accuracy. For instance, if management remains unchanged and everyone receives a 4% raise, the results may be reasonably anticipated by comparing the two years. However, simply comparing the client’s total payroll from one year to the next and adding the comment “reasonable variation” does not provide the auditor with the necessary audit evidence.

In conclusion, if you decide not to conduct traditional samplings for salaries, you should ensure that the compensating procedures are well documented and that they provide the sufficient appropriate audit evidence required to express your audit opinion.