

## Motor Dealer Services

### Dealership Payroll Internal Controls Checklist

Payroll fraud is the most common type of fraud in business today, and the nature of a dealership business with high turnover and low margin increases the risk. To minimise a dealership's exposure to fraud an effective internal control system is imperative.

This checklist is designed as a tool to evaluate and consider the effectiveness of the Dealership Payroll Internal Control System. While the checklist is comprehensive, we appreciate not all dealerships will have the resources to ensure all these internal control procedures are addressed. However, certain elements should be present in all dealerships in order to safeguard its assets against fraud and error.

*BDO Kendalls specialise in the provision of compliance and consulting services to the motor industry.*

Starters		Tick
1	Has a new employee information pack been completed for each new employee appointed during the year?	
2	Are the details such as required hours of work, annual leave entitlements, award classifications, base rates, allowances and non-standard deductions as entered in the new employee information pack, reviewed and authorised by an independent member of management?	
3	Are terms of employment confirmed in formal contracts for all employees? (Including work hours, leave entitlements, pay rates, other benefits and nature of duties).	
4	Does a system warning prompt the payroll officer to review the completeness of all details entered into the payroll system for a new employee?	
5	Is an algorithm check of TFN built into the payroll system?	
6	Is the payroll system set up in such a manner so as not to allow for an employee number and details to be deleted from the system once saved?	
7	Have all new employee forms been submitted to the pay office by a specified deadline?	
8	Is there segregation of duties between the officer entering a new employee's pay rates and other pay details into the system, and the officer reviewing such data for accuracy?	
9	Is there an independent review of all changes to standing data in relation to new employee details entered into the system (validity of new employees)?	
10	Are system/manual controls in place to ensure that no "ghost" (non-existent) employees are created, e.g. through the automatic creation of a unique new employee number by the system/error messages generated for any duplicate employees?	

<b>Leavers</b>		Tick
1	Are procedures in place to ensure that HR/Admin is notified immediately of any employee's resignation?	
2	Is a standard "leaver's checklist" in place to assist HR/Admin in ensuring that, once a resignation has been received, company policy is followed to ensure the timely and complete processing of the resignation?	
3	Is the checklist mentioned under (2) above, fully completed for all employees who terminate their employment and is this checklist then checked and signed by an independent member of management?	

<b>Maintenance of payroll data</b>		Tick
1	Are changes to standing payroll data only processed upon receipt of a maintenance request authorised by an appropriate member of management?	
2	Are controls in place within the payroll system to ensure that all changes to payroll details are recorded in the audit maintenance log (exception reports) and that manual changes cannot be made to such reports?	
3	Is an audit maintenance log produced on a regular basis and is there a regular review of this log by an independent member of management to identify and validate the integrity of any changes to payroll standing data?	
4	Are standard deductions such as withholding tax and superannuation hard coded in the payroll system (i.e. does the system automatically calculate these amounts from pay)?	
5	Are procedures in place to identify and implement any changes to standard deductions e.g. changes in tax legislation?	
6	Does the payroll system prevent allowance and deduction entries to be totally deleted from the system for any given financial year i.e. if changes are required only units and amounts can be "zeroed" out but the line will still be there for the trail?	
7	Is a full maintenance history available in the payroll system i.e. is it possible to identify the owner of all changes?	
8	Is there an appropriate segregation of master file duties i.e. pay officers who are responsible for the pay run should not have access to maintain the payroll master file?	
9	Is payroll system access restricted in accordance with segregation of duties?	

<b>Payroll processing</b>		Tick
1	Are adequate systems/procedures in place to allow all employees to capture their time worked, leave days etc accurately and completely?	
2	Are adequate systems/procedures in place to identify employees who have not submitted time sheets/have not captured (as a minimum) the standard number of hours required per day/week/month?	
3	If required, are procedures in place to ensure that all timesheets are appropriately authorised by the relevant department manager/other officer, prior to entry in the payroll system?	
4	In relation to point (2) above, is evidence retained of all checks and authorisations carried out?	

5	If there is not an interface between the time-capturing system (e.g. time sheets or clock cards) and the payroll system, is the accuracy of the capture of time data into the payroll system checked by an independent officer before the payrun is processed?	
6	Is a check performed by the payroll department for any employee for whom (as a minimum) the standard number of hours have not been entered in the system?	
7	Is all overtime worked and captured in the payroll system authorised by an appropriate member of management and is evidence retained of such authorisation?	

Payroll review processes		Tick
1	Are payroll reconciliations performed on at least a month by month basis, for all payroll control accounts (including clearing accounts) in the general ledger?	
2	Are the reconciliations mentioned in (1) above, reviewed by an independent member of management (segregations of duties) and is evidence retained of such reviews?	
3	If calculations for items such as leave accruals, payroll tax, superannuation, long service leave, sick leave, payroll tax, etc are not built in the payroll system, are these calculations manually prepared and then reviewed by an independent member of management?	
4	If calculations as per (3) above are prepared manually, are these reviewed and signed as evidence of review by an independent member of management?	
5	Are procedures in place to ensure that leave forms (annual / sick leave) are completed, authorised and retained on file for all leave days taken? Is a check done to ensure that details per leave forms correspond with leave as captured in the payroll system?	
6	Where applicable (and if calculations are not inbuilt in the system), are calculations for commission and bonus payments reviewed by an independent member of management for mathematical accuracy and eligibility in accordance with a commission scheme, prior to being captured in the system?	

EFT payroll files		Tick
1	Is there a direct interface between the payroll system and the EFT payroll files?	
2	Are the EFT bank files automatically produced as part of the payrun?	
3	Are adequate system / manual controls in place to ensure that, once the payrun has been completed for the period, the EFT bank files are locked and no further changes can be made?	
4	Is a copy of the relevant payroll reconciliation and a detailed online listing reviewed and checked by an independent member of management?	
5	Are at least two authorised signatories to the bank account required to authorise the EFT payroll payment prior to it being processed?	
6	Is there adequate segregation of duties between the officers processing the payroll, authorising the payroll, and authorising payment?	

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Payroll journal entries		Tick
1	Are all manual payroll journals recorded on a prescribed journal requisition and appropriately authorised by an independent member of management before being posted?	
2	Is a journal log generated from the payroll system on a regular basis and are all payroll journals per this log checked against authorised journal requisition forms? (This should be performed by an independent member of management).	

Completeness of payroll records		Tick
1	Are adequate systems / procedures in place to ensure the retention of all relevant payroll data (summaries, payroll reports etc), either electronically or on paper files?	
2	Are adequate systems / procedures in place to ensure the retention of all leave and superannuation documentation, including requests by employees for e.g. salary sacrifices, voluntary contributions etc?	
3	Are adequate systems / procedures in place to ensure the retention of all payroll reconciliations?	

Other payroll records		Tick
1	Is the delegation of authority to payroll officers documented and up to date?	
2	Are all payroll policies and procedures accurately documented in appropriate detail?	
3	Are excessive leave balances / negative leave balances monitored on an ongoing basis and appropriate action taken to ensure that such issues are resolved?	

We hope this checklist has been a useful and practical tool to evaluate the internal control environment your dealership's payroll system operates within. As mentioned above, a complete internal control system requires resources, however, there are many practical and inexpensive internal controls that can be implemented in any dealership.

*Should you have any queries, or require BDO Kendalls Motor Dealer Services assistance with the completion of this checklist, or your payroll system, please contact us.*

## More information

Phone 1300 138 991 or visit [www.bdo.com.au](http://www.bdo.com.au)

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