



Internal Audit Report

Payroll Management  
September 2016

**FINAL REPORT**

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### ***Status of our reports***

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## SECTION A: EXECUTIVE SUMMARY

### 1. Introduction

- 1.1. As part of the Internal Audit Plan for 2016/17, we have undertaken a review of the Finance's Payroll Management processes. This area was included in the annual plan due to the significance of risks (compliance, legal, operational, financial reputational) associated with payroll and the level of audit findings identified in prior audit engagements.
- 1.2. This report is for the use of the Audit Committee and management. The report summarises the results of the internal audit work and all matters that came to our attention during the review.
- 1.3. Such matters have been discussed with the relevant staff.

### 2. Background

- 2.1. Finance unit is responsible for devising and implementing procedures to effectively and efficiently manage the components of the payroll function. Proper internal controls support compliance with administrative requirements, reduce the risk of fraud, minimize costly processing errors, and protect the assets of the state.
- 2.2. Payroll function covers payroll, allowances and expense payments for employees and third parties.
- 2.3. Payroll represents the largest proportion of the organisation's expenditure, and is an area where good controls are essential to prevent fraud and corruption.
- 2.4. Payroll systems incorporate payments that are made direct from employees' payroll such as personnel income tax and pension contributions. The accuracy of these payments is therefore also covered by internal audit work on payroll systems.
- 2.5. The system objective with respect to payroll and expenses is to ensure that current employees are paid accurately and promptly.
- 2.6. Payroll function's objective is to ensure is accurate, efficient and it complies with all the regulations imposed on it at local and national level.
- 2.7. Payroll function offer an overall solution for control, reporting and compliance with Department of Labour legislative requirements.
- 2.8. The payroll management's overall responsibility includes:
  - Processing of payroll information;
  - Calculation of remuneration upon receipt of data (including bonus, subsistence and travel claims; overtime claims; fringe benefits);
  - Disbursement and administration of funds to employees;
  - Preparation of annual payment summaries (IRP 5 certificates) for employees,
  - Deductions to external bodies, e.g. PAYE tax, provident fund, health funds, union fees, garnishee debts;
  - Processing and payment of statutory payments to third parties;
  - Creation of new employees on the Payroll system; and
  - Deleting of terminated officials from the Payroll system.
- 2.9. It is noted that work is underway to migrate payroll management from Pastel Payroll system to SAGE VIP Payroll. The anticipated migration date of completion is the 15<sup>th</sup> September 2016.

### 3. Audit Objective and Scope

- 3.1. The overall audit objective was to test the completeness, occurrence, measurement/evaluation, regularity and disclosure of all payments for employees, evaluate the effectiveness and adequacy of system of internal control that ensured:
  - Integrity and reliability of reporting information;

- Effective and efficient use of the organisation's resources;
- Safeguarding of assets; and
- Compliance with policies, laws and regulations.

Verify adequate internal controls are in place to reasonably ensure that employee master file data and payroll information is complete and accurate, and proper segregation of duties has been attained;

3.2. Our risk review included payroll transactions between April 1, 2016 and June 30, 2016. We completed:

- In-person interviews with personnel responsible for the employee master file and for payroll setup to gain an understanding of inputting/updating employee data into the Payroll system.
- In-person interviews with payroll administrative staff to gain an understanding of delegation of authority thresholds; segregation of duties throughout the payroll process; and, approval and disbursement controls in place over payroll payments from Pastel.
- Review for the existence of any abnormal payroll disbursements.
- Review of payroll registers to determine if employee gross salaries appear reasonable; and, fictitious employees or other 'red flags' are present.
- Our audit considered the following risks relating to the area under review:
  - ❑ High error rate and recurring errors
  - ❑ Inaccurate data;
  - ❑ Penalties for late payments of third parties;
  - ❑ Fraud risk;
  - ❑ Failure to maintain an accurate and complete payroll Masterfile.

3.3. In reviewing the above risks, our audit considered the following areas:

- Follow-up on prior audit issues
- Setting up of the payroll master file - verify adequate internal controls are in place to reasonably ensure that employee master file data and payroll information is complete and accurate, and proper segregation of duties has been attained;;
- Tests of payroll transactions;
- Calculation of salaries and related transactions;
- Payment of salaries and statutory deductions;
- Procedures after payment of salaries/ month end cessation procedures, and
- Compliance management.

#### **4. Management Responsibility**

4.1. Management is responsible for the establishment and maintenance of effective systems of governance, internal control and risk management to:

- Promote appropriate ethics and values within the department;
- Ensure effective organisational performance management and accountability;
- Communicate risk and control information to appropriate areas in the department;
- Coordinate the activities and communication of information; and
- Safeguard against fraud, misstatement and irregularities.

#### **5. Source of Information**

5.1. The audit work was conducted on the basis of enquiry with personnel, observation, confirmation and verification of supporting documentation and identified processes.

## 6. Fraud and Internal Control

- 6.1. Internal audit work is planned with a reasonable expectation of detecting significant control weaknesses in the specific areas reviewed. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- 6.2. Accordingly, our reviews and investigations as internal auditors should not be relied upon solely to disclose fraud, defalcation or other irregularities that may exist.

## 7. Summary of Findings

### 7.1. Areas where controls are operating effectively

The Payroll process has several internal controls in place and operation. Based on our review, the following internal controls are in place and, in our opinion, represent a best practice:

1. Payroll function only allow a change to an employee's information if the employee has submitted a written request for the Finance to do so.
2. There is restricted access payroll records at all times when they are not in use, to prevent unauthorized access.
3. Separation of duties – ELRC is a smaller organisation where there are not enough personnel for a proper separation of duties. Therefore the Finance Officer prepares and process payroll information and the Chief Financial Officer review and authorize the payroll before payments are sent to employees.
4. The Finance Officer manually calculates payroll, then have a second person (CFO) verify all calculations.
5. Match payroll register to supporting documents. The payroll register shows gross wages, deductions, and net pay, and so is a good summary document from which to trace back to the supporting documents for verification purposes.
6. Monitoring compliance with Basic Conditions of Employment Act is at a satisfactory level.

### 7.2. Areas requiring management corrective action

We identified certain areas where there is scope for further improvement in the control environment or there are no/inadequate control measures. The matters arising have been discussed with management, to whom we have made recommendations and comment below:

No.	Audit Observation	Assurance on Effectiveness of Internal Controls	Recommendation Grading
1.	Maintaining an effective control over employee overtime	Limited	Priority 1
2.	Having written payroll procedures in place	Limited	Priority 1
3.	Reimbursement of a claim with possible fraudulent transactions	Adequate	Priority 1
4.	Improper authorisation of payment authorisation form	Adequate	Priority 1
5.	Maintaining a payroll processing checklist	Limited	Priority 1
6.	Establish discipline and manage expectations	Limited	Priority 1
7.	Interest incurred on late payment of a third party	Adequate	Priority 1
8.	April payroll reconciliation not done	Adequate	Priority 1

### 7.3. Issues of non-compliance

It is noted that there is a need the payroll function to improve its business compliance. While a policies is in place for business processes, there are breaches of compliance with some provisions

of the policy and requires management strengthening the monitoring activities. The following relates to issues non-compliance with business policies:

1. Payroll reconciliation not performed.
2. Interest incurred due to late payment of a third party.

## 8. Overall Conclusion on Effectiveness and Application of Internal Controls

Taking account of the issues identified in paragraphs 7 above, the control framework for the Payroll Function area, as operated at the time of the audit, provides **Adequate Assurance**, that is, generally a sound control system exists but there are weaknesses which put the system at risk. Not having a comprehensive payroll standard operating procedure guidelines and paying attention to detail are seen in a serious light and an attributing factor to the high errors in the payroll processing.

Comments by management would be noted and the steps taken to rectify deficiencies will be evaluated during the next audit or a follow-up audit.

## 9. Appendix 1 – Definitions of Assurance Levels and Recommendations

We use the following levels of assurance and recommendations in our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose, ELRC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose, ELRC to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

## 10. Acknowledgement

- 10.1. We are grateful to the Payroll function for their assistance during the course of the audit.
- 10.2. Detailed issues requiring management corrective action are tabled in **Section B** of the report.

11. Distribution List

Name	Designation	For Action	For Information
Foca C	General Secretary		√
Shadung N	Chief Financial Officer	√	
Molosi F	Senior Manager CBS		√
Moela M	Senior Manager DMS		√
Makofane O	Senior Manager CS	√	
Nemavhoini D	Manager ICT		√
Loxton B	Manager Media & Research		√
Baninzi Y	Manager SCM		√
Milne M	Manager CBS National		√
Mogotsi L	Manager DMS		√
Singh D	Manager CBS Provincial		√
Ndlazi C	Manager CBS Provincial		√
Neewat G	Manager CBS Provincial		√
Sefothelo R	Manager CBS Provincial		√
Ubisi P	Manager CBS Provincial		√
Thindisa S	Manager CBS Provincial		√
Kediutlwile S	Manager CBS Provincial		√
Monaise W	Acting Manager CBS National		√
Mhlungu N	Acting Manager HR		√

**SECTION B: ISSUES REQUIRING MANAGEMENT CORRECTIVE ACTION**

**1. Maintaining an effective control over employee overtime**

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p><b>Criteria</b> Documents provide a financial record of each event or activity, and therefore ensure the accuracy and completeness of transactions. Proper documentation provides evidence of what has transpired as well as provides information for researching discrepancies.</p> <p><b>Observation</b> 1.1. There is no overtime claim form for claiming overtime payments. 1.2. As a result of the above, two employees were paid overtime in April without sufficient evidence indicating the exact worked overtime. Furthermore an attendance register is not attached. The only documentation attached in the payroll file is the motivation and requisition documents.</p>	<p><b>Root Cause</b> Management oversight and inadequate knowledge of payroll and HR requirements regarding overtime.</p> <p><b>Impact/Risk</b></p> <ul style="list-style-type: none"> <li>▪ Possible falsification of overtime worked could occur.</li> <li>▪ Possible under/over payment of worked overtime.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Management should develop an 'Overtime Claim Form.'</li> <li>▪ Employees who have worked approved additional hours should complete an 'Overtime Claim Form' and have it certified by their line manager.</li> <li>▪ Once the claim has been approved by the appropriate line manager, it should be submitted to Payroll function for payment.</li> <li>▪ The workflow process should stress timely authorizations as well as timely processing of transactions following approval.</li> </ul>	<p><b>1</b></p>	<p>We agree with the finding.</p> <p>The Finance unit must receive from HR in support of overtime, daily time and attendance register and overtime claim form.</p> <p>No claims will be processed and paid for payroll without relevant supporting documents. This will be effected immediately.</p>	<p><i>Payroll Administrator/ Finance Officer</i></p> <p>Target date for completion: <i>Immediately</i></p>	<p>Action plan accepted as it addresses the identified weakness and it will improve performance.</p> <p>Internal audit will follow-up on the implementation of the action plan.</p>

2. Having written payroll procedures in place

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p><b>Criteria</b> The benefits of having written procedures in place includes helping payroll personnel perform each task consistently and optimally every time. The accuracy of the payroll procedure will never be in the slightest disarray.</p> <p>The procedure manual can act as a great device to train new or backup personnel. It helps to streamline processes, helps the supervisor to monitor the level of payroll procedures being implemented.</p> <p>A comprehensive set of payroll policy and procedures including definition of respective roles and responsibilities be developed and implemented to emphasise key activities of the internal control framework and critical roles, as well as to promote uniformity in the process.</p> <p><b>Observation</b> Although we found a few payroll guides, payroll does not have a set of comprehensive policy and standard operating procedure manual for administration. IA acknowledges that work of revising the current payroll guideline into a comprehensive SOP is underway.</p>	<p><b>Root Cause</b> Operational interruptions that resulted from external audit and change in management.</p> <p><b>Impact/Risk</b></p> <ul style="list-style-type: none"> <li>▪ Lack of up to date and formally documented payroll procedures could result in errors and overpayments.</li> <li>▪ Increased the risk that errors may not be promptly noted and addressed.</li> <li>▪ This gap is likely a contributing factor leading to the inconsistent practices observed during the audit.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Finalisation and implementation of the SOP.</li> <li>▪ Training /workshopping of payroll personnel.</li> <li>▪ Management conduct periodic reviews of payroll policy and procedures and tools to assess their relevance and identify control gaps.</li> </ul>	<p>1</p>	<p>We agree with the finding.</p> <p>Payroll standard operating procedures and policy is being drafted and will be complete by end of second quarter of 2016/17 financial year.</p>	<p><i>Chief Financial Officer and Senior Manager Corporate Services</i></p> <p>Target date for completion: 30 September 2016</p>	<p>Action plan accepted as it addresses the identified weakness and it will improve performance.</p> <p>Internal audit will follow-up on the implementation of the action plan</p>

### 3. Reimbursement of a claim with possible fraudulent transactions

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p><b>Criteria</b> Documents provide a record of each event or activity, and therefore ensure the accuracy and completeness of transactions. This includes personnel and other types of transactions. Proper documentation provides evidence of what has transpired as well as provides information for researching discrepancies.</p> <p>In order to ensure that the spending of Council funds are properly monitored and controlled, officials charged with the responsibility of checking, authorising and controlling reimbursement of claims are required to exercise such functions efficiently.</p> <p>All claims should be supported by authentic and verifiable source documents.</p> <p><b>Observation</b> 3.1. <b>Reimbursement of a claim of R570.01</b> The concerning issues regarding this claim are that:</p> <ul style="list-style-type: none"> <li>▪ Claim of R274.84 for a meeting held on the 9th March 2016</li> <li>▪ According to the attached attendance register, only seven people (including the claimant) attended the meeting.</li> <li>▪ However the amount spent and claimed for refreshments vs. the number of people attended the meeting is exorbitant.</li> </ul>	<p><b>Root Cause</b> Lack of proper review of claim documents submitted for reimbursement.</p> <p><b>Impact/Risk</b></p> <ul style="list-style-type: none"> <li>▪ Possible misappropriation of funds / fraudulent or inflated expense claims.</li> <li>▪ Payment of claims without verifying the authenticity of the supporting documentation might result in payment of fraudulent claims.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Payroll Administrator should only process and pay claims supported by authentic receipts.</li> <li>▪ Supervisory review controls should be strengthened to timely detect and address such issues.</li> <li>▪ Payroll function should pay attention to detail when reviewing supporting documentation for reimbursement to check the reasonableness of the claimed transactions before processing a payment</li> </ul>	<p style="text-align: center;"><b>1</b></p>	<p>We agree with the finding.</p> <p>The spending on meetings should be limited though the budget per person is regulated to R150 per person for meetings.</p> <p>Management will in addition to the current budget regulations tailor or recommend the quantities of purchases to make.</p>	<p><i>Payroll Administrator/ Finance Officer and Chief Financial Officer</i></p> <p>Target date for completion: 31 October 2016</p>	<p>Action plan accepted as it addresses the identified weakness and it will improve performance.</p> <p>Internal audit will follow-up on the implementation of the action plan</p>

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<ul style="list-style-type: none"><li>▪ The receipt submitted for the claim includes the following refreshment items: 2litre liquid fruit; 2litre Tab; 2litre Coke.</li><li>▪ It is impossible that seven people may consume so much in a single meeting.</li></ul>						
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#### 4. Improper authorisation of payment authorisation form

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p><b>Criteria</b> Best practice requires that all transactions and activities should be carried out and approved by employees acting within their range of knowledge and proper span of control. Proper authorization practices serve as a proactive approach for preventing invalid transactions from occurring.</p> <p><b>Observation</b> It was noted that the payment authorisation form for the claim of R1 640 by the Chief Financial Officer was signed by the claimant (CFO)</p>	<p><b>Root Cause</b> Management lack of understanding and oversight of the delegation of authority.</p> <p><b>Impact/Risk</b></p> <ul style="list-style-type: none"> <li>▪ Controls over delegation of authority are not adhered to.</li> <li>▪ If the claim has errors of overpayment, it will be unlikely that the claimant/authoriser will identify and correct such.</li> </ul>	<p>Controls over delegation of authorisation should be properly administered and complied with.</p>	<p><b>1</b></p>	<p>We agree with the finding.</p> <p>Management will ensure that the claimant does not authorise the payment</p>	<p><i>Chief Financial Officer</i></p> <p>Target date for completion: <i>Immediately</i></p>	<p>Action plan accepted as it addresses the identified weakness and it will improve performance.</p> <p>Internal audit will follow-up on the implementation of the action plan</p>

5. Maintaining a payroll processing checklist

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p><b>Criteria</b> Payroll processing requires performing many tasks to ensure accurately processed salaries and payroll tax and benefits compliance. A simple, yet powerful best practice is to keep a checklist of items to be completed, so that at the completion of every task, a tick is all that is needed to stop worrying about the item. Also a checklist helps the payroll staff to stay on schedule and ensure no chore is undone.</p> <p><b>Observation</b> The audit noted that the monthly payroll processing for the months April, May and June was never error free. Although some of these errors were detected and corrected in the subsequent month, however the critical point is that payroll contains errors ranging from miscalculations, capturing of incorrect information, late payments of third parties, etc.</p> <p>This is as a result of not having a payroll checklist that can help personnel avoid oversights that can lead to legal penalties and embarrassing hassles fixing mistakes on salaries.</p>	<p><b>Root Cause</b> Management oversight.</p> <p><b>Impact/Risk</b></p> <ul style="list-style-type: none"> <li>▪ High error payroll processing rate.</li> <li>▪ Possible legal penalties.</li> <li>▪ Possible payroll fraud could occur.</li> <li>▪ Integrity of payroll information could affect decision makers.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Development and implementation of a monthly payroll processing checklist will assist the Finance Officer to plan and organize all aspects of month-end processing and obligations.</li> <li>▪ Management should strengthen the preventive controls such as, calculation verification; supervisory review and approval of payroll information before disbursement.</li> </ul>	<p>1</p>	<p>We agree with the finding.</p> <p>Management has developed a checklist which is attached to payroll files.</p> <p>Calculation verification and supervisory review are performed monthly on all payroll and signed off by the Finance Manager and CFO.</p>	<p><i>Chief Financial Officer</i></p> <p>Target date for completion: <i>Immediately</i></p>	<p>Action plan accepted as it addresses the identified weakness and it will improve performance.</p> <p>Internal audit will follow-up on the implementation of the action plan</p>

6. Establish discipline and manage expectations

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p><b>Criteria</b> Payroll goals entails error free, efficient and effective payroll unit. Therefore establishing strict deadlines for when employees' inputs should be turned in is important for the sake of efficiency and cost control.</p> <p>Sound and best practise includes having rules that, for example, forbid accepting payroll inputs after a cut-off date.</p> <p><b>Observation</b> 6.1. IA noted that there are no effective timeframes communicated to employees for accepting payroll inputs from employees, this is just an open ended process. 6.2. There is not centralised mechanism for submission of monthly inputs to payroll for processing, which is, finance received data inputs from individual employees instead of such data being submitted to HR then collectively to finance by HR.</p>	<p><b>Root Cause</b> Lack of a comprehensive procedure manual.</p> <p><b>Impact/Risk</b></p> <ul style="list-style-type: none"> <li>▪ Efficiencies in payroll processing is always affected, leading to delays in finalisation of payroll.</li> <li>▪ Last minute review of payroll might result in errors not timely detected and corrected before the run.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The finalisation and implementation of the payroll SOP should be prioritised by CFO and Senior Manager Corporate Services.</li> <li>▪ Management needs to carefully manage expectations about how payroll works, and what the rules are, for example, should make sure that employees know what is expected of them, in terms of, submission of monthly inputs to payroll changes, setting monthly cut-off dates.</li> <li>▪ Any monthly payroll inputs should be submitted to HR, then HR submit to payroll personnel as per the agreed timeframe.</li> </ul>	<p>1</p>	<p>We agree with the finding.</p> <p>Management has since communicated payroll input change dates with staff members. We will also create a central document register for all payroll inputs and transfer of documents to Finance.</p>	<p><i>Chief Financial Officer and Senior Manager Corporate Services</i></p> <p>Target date for completion: <i>Immediately</i></p>	<p>Action plan accepted as it addresses the identified weakness and it will improve performance.</p> <p>Internal audit will follow-up on the implementation of the action plan</p>

7. Interest incurred on late payment of a third party

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p><b>Criteria</b> The Finance (salaries) policy requires that the deductions for medical aid, annuity and provident fund be paid at the end of every month by means of a debit order or by EFT in terms of the HR policy.</p> <p>Best practice guides that an official:</p> <ul style="list-style-type: none"> <li>▪ Must ensure that systems of financial management and internal control established for that organisation is carried out within the area of responsibility of that official.</li> <li>▪ Is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility.</li> <li>▪ Must take effective and appropriate steps to prevent, within that official's area of responsibility, any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure.</li> </ul> <p><b>Observation</b> 7.1. We noted that the ELRC incurred interest to the total amount of R2 543.41 due to late payment of Liberty Provident Fund. 7.2. The interest charge could have been avoided had there been an effective monitoring control that ensures payments are made within the mandatory timeframes.</p>	<p><b>Root Cause</b> Failure by personnel to execute tasks with due care, paying attention to detail when executing tasks.</p> <p><b>Impact/Risk</b></p> <ul style="list-style-type: none"> <li>▪ Non-compliance with the mandatory requirements.</li> <li>▪ Wasteful expenditure.</li> <li>▪ Late payment of the employees' provident fund over to the scheme has a direct adverse effect on employees though premium was timely deducted from their salaries.</li> </ul>	<ul style="list-style-type: none"> <li>▪ General Secretary should determine official(s) that are liable for these transaction and take appropriate steps to recover the expenses from the official(s) found to be liable.</li> <li>▪ The ELRC fruitless and wasteful register must be updated throughout the investigation process until the case is finally closed.</li> </ul>	<p>1</p>	<p>A report for fruitless and wasteful expenditure has been prepared with recommendation for the General Secretary to recover the expenses from the responsible official(s).</p> <p>The ELRC fruitless and wasteful register has been prepared and updated after the first investigation.</p>	<p><i>Chief Financial Officer and Payroll Administrator/ Finance Officer</i></p> <p>Target date for completion: 31 October 2016</p>	<p>Action plan accepted as it addresses the identified weakness and it will improve performance.</p> <p>Internal audit will follow-up on the implementation of the action plan</p>

8. April payroll reconciliation not done

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p><b>Criteria</b> The Finance (salaries) policy requires a monthly reconciling of the amount of salaries recorded to the amount actually paid by the bank and investigate any discrepancies.</p> <p>Reconciliation is crucial to ensure accurate and comprehensive financial reporting, because it identifies errors and inconsistencies requiring correction by verifying the accuracy of each account.</p> <p>Best practices tool for reconciliation process is that reconciliations should be performed timely, documented, approved by management, accurate, complete (documentation supporting the account balance should be included with the reconciliation). Any reconciling items should be resolved in a timely manner as this will assist in the clearing of reconciling items as needed.</p> <p><b>Observation</b> The payroll reconciliation for the month of April 2016 was not done.</p>	<p><b>Root Cause</b> Inefficiency of responsible personnel.</p> <p><b>Impact/Risk</b></p> <ul style="list-style-type: none"> <li>▪ Non-compliance issue.</li> <li>▪ Concealed errors or irregularities might go undetected.</li> <li>▪ Increases risk of differences between the GL and the bank, risk of failure to promptly identify anomalies or items requiring further investigation.</li> <li>▪ Undetected errors might in a short/long run cost the company financial loss (wasteful expenditure).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Payroll reconciliation must be timely prepared, reviewed and signed by the delegated personnel.</li> <li>▪ CFO needs to enhance their oversight responsibilities to ensure that action to improve known internal control weaknesses are implemented and monitored.</li> </ul>	<p>1</p>	<p>Payroll recons will be timely prepared, reviewed and signed by the CFO monthly by 07th.</p>	<p><i>Chief Financial Officer and Payroll Administrator/ Finance Officer</i></p> <p>Target date for completion: 15 September 2016</p>	<p>Action plan accepted as it addresses the identified weakness and it will improve performance.</p> <p>Internal audit will follow-up on the implementation of the action plan</p>