PAYROLL AUDIT PRIMER

Resource



The **Declaration** *for* **Payroll**

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NATIONAL PAYROLL INSTITUTE

AUDITS



So, what exactly is a payroll audit?

Payroll audits, which can randomly target any business at any time, differ from the traditional business tax audits, which most employers anticipate. A payroll audit is an inspection by a third party to confirm compliance with payroll administration, accounts payable and receivable, and the recording of taxable benefits.

As a small business, you should pay attention. Each year, the government levies tens of millions of dollars in penalties on businesses through payroll audits.

More than half of all business owners in Canada don't know how to prepare for a payroll audit, but don't worry, we've got you covered. Our member resource **Getting Ready for a Payroll Audit Guideline** offers a comprehensive rundown of what you need to know.

RESOURCE: PAYROLL AUDIT PRIMER

If you receive notice that your payroll is going to be audited, knowing the facts should ease your anxiety.

1. YOU'LL RECEIVE A WRITTEN NOTICE OF AUDIT IN ADVANCE

There will be NO surprise knock at your door. If selected for a payroll audit, you'll be notified in writing by the government. The written notice will include a proposed date and time of audit, and a listing of what documents you'll be required to produce.

2. IF THE PROPOSED TIME DOESN'T WORK, YOU CAN RESCHEDULE

Does your proposed time conflict with a big Board meeting? Not to worry. You can request that the auditor reschedule the payroll audit for a time that is more appropriate for you and your business (within reason).

3. YOUR AUDIT NOTICE WILL INCLUDE A LIST OF ALL THE INFORMATION YOUR AUDITOR EXPECTS TO SEE

You'll be given time to prepare and gather all requested documents. Sometimes, depending on the documents being requested, you might have to ask for additional time. For example, it may take longer to produce documents that are stored offsite or even out of country.

4. YOU DON'T NECESSARILY HAVE TO PRINT THE DOCUMENTS

The auditor may want to see a lot of information, some of which will be in digital form or come from a third party vendor (e.g., payroll software provider). Auditors can review digital as well as print documents, and can even be given temporary access to third-party information.

5. YOU SHOULD ASK THE AUDITOR TO PRODUCE THEIR ID

Because the auditor is being granted access to confidential information, you should ask them to officially identify themselves by producing valid identification. If they can't produce proper credentials, they should not be given access to your files.

6. IT'S UP TO YOU TO DETERMINE YOUR KEY STAKEHOLDERS

It is your responsibility to identify the person or persons best equipped to participate in the payroll audit. The auditor will delve into the payroll and accounting information, so everyone you identify as key stakeholders in the audit should be prepared to speak to the information at hand.

7. THE AUDITOR WILL LIKELY PINPOINT CERTAIN ISSUES THEY WANT TO FOCUS ON

It is very likely that the auditor will take a deep dive into key issues they have identified as priorities. The National Payroll Institute's member resource **Payroll InfoLine** is available to discuss the most commonly requested audit issues that employers should be aware of, and prepare for, in advance.

8. AT THE END OF THE AUDIT, YOU WILL BE GIVEN A WRITTEN RECOMMENDATION REPORT

The report will likely contain one or more of the following outcomes:

- No assessment needed (compliant audit)
- Notice of over-remittance (they owe you money)
- Notice of outstanding payments (you owe them money)
- Penalties or fines applied

9. IF YOU ARE NON-COMPLIANT, YOU MAY BE GIVEN TIME TO FIX YOUR ERRORS

Even the most well-intentioned employers may be found non-compliant during an audit. Depending upon the severity of the infringement, the auditor will likely give you an opportunity to fix any issues without incurring penalties.

10. YOU CAN APPEAL THE AUDITOR'S RULING

If you don't agree with the auditor's ruling, you have the option to appeal (usually within a 90-day period).

