

You are an audit senior of Scarlet & Co and are in the process of reviewing the systems testing completed on the payroll cycle of Bronze Industries Co (Bronze), as well as preparing the audit programmes for the final audit.

Bronze operate several chemical processing factories across the country, it manufactures 24 hours a day, seven days a week and employees work a standard shift of eight hours and are paid for hours worked at an hourly rate. Factory employees are paid weekly, with approximately 80% being paid by bank transfer and 20% in cash; the different payment methods are due to employee preferences and Bronze has no plans to change these methods. The administration and sales teams are paid monthly by bank transfer.

Factory staff are each issued a sequentially numbered clock card which details their employee number and name. Employees swipe their cards at the beginning and end of the eight-hour shift and this process is not supervised. During the shift employees are entitled to a 30-minute paid break and employees do not need to clock out to access the dining area. Clock card data links into the payroll system, which automatically calculates gross and net pay along with any statutory deductions. The payroll supervisor for each payment run checks on a sample basis some of these calculations to ensure the system is operating effectively.

Bronze has a human resources department which is responsible for setting up new permanent employees and leavers. Appointments of temporary staff are made by factory production supervisors. Occasionally overtime is required of factory staff, usually to fill gaps caused by staff holidays. Overtime reports which detail the amount of overtime worked are sent out quarterly by the payroll department to production supervisors for their review.

To encourage staff to attend work on time for all shifts Bronze pays a discretionary bonus every six months to factory staff; the production supervisors determine the amounts to be paid. This is communicated in writing by the production supervisors to the payroll department and the bonus is input by a clerk into the system.

For employees paid by bank transfer, the payroll manager reviews the list of the payments and agrees to the payroll records prior to authorising the bank payment. If any changes are required, the payroll manager amends the records.

For employees paid in cash, the pay packets are prepared in the payroll department and a clerk distributes them to employees; as she knows most of these individuals she does not require proof of identity.

**Required:**

(a) Identify and explain FIVE internal control STRENGTHS in Bronze Industries Co's payroll system. (5 marks)

(b) Identify and explain SIX internal control DEFICIENCIES in Bronze Industries Co's payroll system and provide a RECOMMENDATION to address each of these deficiencies. (12 marks)

(c) Describe substantive ANALYTICAL PROCEDURES you should perform to confirm Bronze Industries Co's payroll expense. (3 marks)