

Payroll audit checklist for HR teams

Step 1: Gather data and define scope

- Determine which pay periods, departments, and jurisdictions the audit covers. Trying to audit everything at once is a recipe for doing nothing well.
- Pull payroll registers, employee files, HRIS data exports, tax filings, and bank records into one place. If your data lives in five different systems, this step alone will tell you a lot about where errors creep in.

Step 2: Employee data verification

- Confirm all employees are active and correctly classified. Check that leavers have been removed from payroll promptly.
- Reconcile HRIS termination dates against final payroll payments – ongoing payments to former employees are one of the most common sources of leakage at mid-to-large companies (no matter how happy it probably makes them).
- Verify that employees on leave (maternity, sick, sabbatical) have modified pay applied correctly.
- Check that new hires were onboarded with the correct pay grades and benefit elections.

Step 3: Classification review

- Verify exempt vs. non-exempt status against actual job duties, not just titles. A "Manager" label doesn't automatically mean someone meets the exemption criteria.
- Review contractor status against IR35 criteria across all business units – not just the ones that hired them.
- Check consistency of classification decisions across hiring managers and departments. Different managers making different calls on identical roles is one of the most common patterns we'll cover later in this article.
- Confirm the physical working jurisdiction of remote staff for local social security and tax compliance.

Step 4: Pay equity checks

- Define comparable work groups by role, level, and location.
- Calculate unadjusted pay gaps by worker category.
- Flag gaps exceeding 5% for joint assessment under the EU Pay Transparency Directive. That 5% threshold is the trigger for mandatory action – not a suggestion.
- Document your remediation planning. Figures' pay equity solution automates gap detection and remediation modelling, so you can see exactly what closing each gap would cost.

Step 5: Compliance verification

- Tax withholding rates match current codes, and NIC contributions are calculated correctly.
- Pension auto-enrolment has been applied to all eligible employees.
- Statutory payments (SSP, SMP) match entitlements.
- Current tax year regulatory changes are reflected in your payroll configuration.
- Confirm that benefit deductions – salary sacrifice pensions, cycle-to-work, childcare vouchers – do not push any employee's effective hourly rate below the National Minimum Wage. Employers must cap salary sacrifice deductions to maintain NMW rates.

Step 6: Process and documentation

- Payroll change authorisation requires dual sign-off. Single-approver systems are how fraudulent changes slip through.
- HRIS-to-payroll data flows are reconciled – flag any discrepancies between what HR records and what payroll actually processes.
- Duplicate payments across entities or pay periods are flagged automatically.
- Audit all manual and off-cycle payments. These commonly bypass standard HRIS-to-payroll syncs and are a frequent source of undetected errors.
- Record all findings and update procedures accordingly. An audit that doesn't change anything is just expensive box-ticking.