CPA Guidelines IT PAYS TO KNOW

Getting Ready for a Payroll Audit Best Practices Guidelines™

THE CANADIAN PAYROLL ASSOCIATION CPA ACP L'ASSOCIATION CANADIENNE DE LA PAIE

payroll.ca

The Canadian Payroll Association's mission statement is Payroll Leadership through Advocacy and Education. The Association is committed to providing the payroll-related services payroll professionals and their employers need to ensure compliance with over 200 legislative requirements that impact payroll.

All references to legislative requirements are current at the time of publication; however government legislation shall prevail if there are any discrepancies between the guidelines and government statutes or regulations.

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TABLE OF CONTENTS

INTRODUCTION

As the authoritative source of Canadian payroll knowledge, one of the objectives of the Canadian Payroll Association (CPA) is to publish guidelines that can be referenced as Payroll Best Practice Guidelines for payroll practitioners and their employers.

A challenge for many payroll practitioners is having their employers understand that payroll is mission critical, and requires in-depth knowledge and skills to ensure compliance.

These Payroll Best Practices Guidelines can assist organizations with preparing for a payroll audit. They can also provide benchmarking tools for designing and/or implementing Payroll Best Practices.

These guidelines were created by a task force of CPA staff and subject matter expert payroll practitioners, ensuring both the accuracy of the information and the practicality of its application, based on real-life experiences within various organizations.

The CPA would like to thank the subject matter experts for their participation on the task force and their contributions to these guidelines.

CPA members should direct any legislative questions on these guidelines to:

THE CANADIAN PAYROLL ASSOCIATION CPA ACP L'ASSOCIATION CANADIENNE DE LA PAIE

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KEYWORD SEARCH AND HYPERLINKS

When viewing any of the CPA's guidelines online, readers can search for keywords appearing within the document. For example, if information is required on a certain word or phrase, type the word or phrase in the search window (activated by pressing the "Control" and "F" keys simultaneously on most applications).

These guidelines contain **hyperlinks** within the document itself. All government forms, guides and websites discussed within the guidelines can also be accessed using these hyperlinks, which were active at the time of publication. Up-to-date links to major government websites such as Canada Revenue Agency, Service Canada, Revenu Québec and employment/labour standards can be accessed through the **Compliance Resources ➜ Government Links** page on the CPA's website, **payroll.ca/paie.ca**.

There is a quiz at the end of the document to test your knowledge. You can also take the quiz online by visiting the guidelines section of our website (**payroll.ca/paie.ca ➜ Compliance Resources ➜ Payroll Guidelines**).

GETTING READY FOR A PAYROLL AUDIT PAYROLL BEST PRACTICES GUIDELINES

Getting ready for a payroll audit can be a daunting task. Federal and provincial/territorial governments have the authority to examine an organization's records or conduct payroll audits at any time. Payroll practitioners need to ensure their organizations are compliant and preventative measures are implemented, such as making sure:

- Employees are set up properly, e.g., tax brackets and pension contributions are set up.
- Reasonability test is complete by conducting a self-audit, e.g., all the taxable benefits and allowances on the payroll register are reported on the T4 in the appropriate boxes.
- All earnings are set up correctly, e.g., taxable benefits.
- All taxes are withheld and remitted on time, and balanced back to required financial reports, e.g., general ledger.
- Monthly or quarterly Pensionable and Insurable Earnings Review (PIER) testing is carried out.

If the organization has conducted its own internal or external audit, it may need to take necessary steps to change business processes to mitigate any further risk(s) of non-compliance.

Getting Ready for a Payroll Audit is intended for use as a Payroll Best Practices Guideline to prepare payroll practitioners for a successful audit and help them develop best practices.

Note:

These guidelines provide general information about selected issues concerning payroll legislative and compliance issues, and/or employment and taxation laws. It is not legal advice and should not be relied upon as a substitute for legal counsel. Every effort has been made to provide accurate information; however, we advise you to seek legal counsel and advice from a qualified lawyer regarding your specific situation. Legal obligations vary according to the facts and circumstances, as well as the jurisdiction.

WHAT IS AN AUDIT?

An audit is an independent examination of an organization's records and processes. A payroll audit is an inspection by a third party that validates compliance with either internal organizational processes or external legislative requirements as they relate to payroll activities.

TYPES OF AUDITS

There are typically three types of audits payroll professionals will encounter:

An **internal compliance audit** determines whether business activities are being performed in a manner that is in line with the strategic objectives of the organization, specifically related to managing risk. This type of audit can cover operational as well as financial matters.

An **external audit** determines whether the organization is operating in a manner that is compliant with legal requirements as they relate to reporting and accounting for business activities such as payroll.

A **government audit** is performed by an agency responsible for overseeing a specific area related to legislation. These types of audits are conducted to ensure businesses satisfy their obligations related to the employment of workers, payment of salaries and wages, collection and remittance of statutory withholdings, and accuracy of annual returns.

INTERNAL COMPLIANCE AUDIT

An internal compliance audit is a comprehensive review of an organization's adherence to established policies and procedures as well as regulatory guidelines, e.g. Sarbanes Oxley. These types of audits are performed to evaluate internal controls, examine routine operational activities, and detect administrative errors and fraudulent activities.

Prior to a formal compliance audit being conducted by a qualified auditor, the organization should ensure that it has well-documented workflow processes in place. This involves examining various administrative functions, establishing segregation of duties, identifying required quality checks for completeness and accuracy, and assigning responsibility to an authorized approver. See **Appendix 1** for a list of effective internal controls.

Once the appropriate compliance workflows have been documented, they should be handed over to a qualified auditor to review and audit to ensure business activities are being carried out in compliance with the documented organizational processes.

An organization may have its own internal audit department or may contract the services of independent accounting, security or information technology (IT) consultants to evaluate the strength and thoroughness of their compliance measures. Auditors review security policies, user access controls and risk management procedures over the course of a compliance audit.

Some of the tools that can be used in a payroll compliance audit are located in the various software programs. These software programs enable the organization to quickly show auditors (and CEOs) that the organization is in compliance and will not be subject to costly fines or sanctions.

Upon completion of the internal review, the auditor prepares an audit summary, identifies any areas of concern and may make recommendations such as:

- Additional compliance workflows required.
- Inaccurate or incorrectly documented workflows.
- Corrective action where workflows are not being followed.

The audit results are presented to the responsible management representative, for example, the CEO, for review.

If an organization is proactive, it will conduct ongoing internal audits on all of its processes and stay on top of any legislative changes that could alter current procedures.

Maintaining accurate and current workflows benefits the organization by ensuring it is compliance ready in the event of any applicable government audit and avoiding fines or penalties as a result of non-compliance

EXTERNAL AUDITS

The most common type of external audit is an accounting audit. It is performed to provide an independent opinion on the accuracy of an organization's financial statements (i.e., the financial statements present fairly, in all material respects, the financial position of the organization). All publicly-traded companies in Canada are required to undergo a financial audit, and many private companies choose to do so to satisfy banking requirements, by-laws or other regulations. Some private organizations undergo a review, which involves a smaller amount of testing.

Financial audits are always conducted by a third party accounting firm specifically licenced for this purpose. The firm is usually appointed by the Board of Directors and does not change year to year unless special circumstances arise.

Auditors audit financial information to assess the accuracy of the financial statements. Payroll information is audited for its impact on the financial statements, not for compliance with payroll legislation and regulations; however, if the auditor comes across improprieties, they will report on it. Similarly, they do not audit for fraud but will report on it if they come across any evidence.

The auditors send a list of the types of documents they wish to review ahead of the scheduled engagement. Once the information is provided, they select samples to audit in more detail. For example, the auditor may ask for the general ledger listing of salaries expense or all payroll registers, and then select specific transactions to review. They look at calculations, approvals and evidence of internal controls performed, as well as payroll analytics, i.e. significant variances in amounts for the same accounts (or groupings of accounts) year over year. Anything affecting financial statements may be audited. The auditors also ask about payroll processes and internal controls. Generally, the easier it is to verify the internal controls in place, the fewer samples selected for audit.

If an organization is subject to an accounting audit, it will be audited at least every year. Since this is a standing engagement, the auditors come at standard intervals. The exact timing of an audit is agreed upon by the organization's financial officer and the auditing firm.

Upon completion of a successful audit, the auditors issue an opinion stating that the financial statements, present fairly, in all material respects, the financial position of the organization. This opinion is included in the organization's annual report and/or official financial statements.

Some types of business may also be required to undergo an external compliance audit. These audits are conducted to assure stakeholders, such as investors, that the company has adequate controls in place and is accurately reporting their financial position.

Compliance auditors must be separate from the company's regular auditors. If the same auditors conduct both audits, it may be viewed as a conflict of interest.

What precisely is examined in a compliance audit varies depending upon several factors, such as whether an organization is a public or private business, what kind of data it handles and whether it transmits or stores sensitive financial data. For instance, in each case, the organization must be able to demonstrate compliance by producing an audit trail, often generated by data from the financial software (e.g., payroll system).

Payroll compliance auditors generally ask financial services and human resources executives a series of pointed questions over the course of a compliance audit. These questions may be related to payroll administration, accounts payable and receivable, the accurate recording of taxable benefits, and ensuring the organization is operating in compliance with regulations established by agencies such as the Canada Revenue Agency, Revenu Québec, Workers' Compensation and Employment/Labour Standards.

Failing a compliance audit may result in a remedial audit, which tests any areas the organization failed during the initial audit. The auditor ensures that appropriate corrective action was taken and accurate processes have been put in place to safeguard both the organization and its stakeholders.

GOVERNMENT AUDITS

Any organization operating a business in Canada that employs workers can expect that at some point during their business cycle they will be subject to an audit. Specific to payroll, government regulatory agencies such as the Canada Revenue Agency, Workers' Compensation, Ministry of Finance and Ministry of Labour may conduct audits on a regular basis. For organizations operating in Quebec, agencies such as Revenu Québec, the CNESST (*Commission des normes, de l'équité, de la santé et de la sécurité du travail*) may also conduct audits at any time.

CANADA REVENUE AGENCY

The Canada Revenue Agency (CRA) administers tax and benefits programs on behalf of all Canadians. As such, the CRA is responsible for ensuring that Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, federal income tax and provincial/territorial income tax for all jurisdictions except Quebec are deducted, remitted and reported as required by legislation.

To ensure organizations are fulfilling their obligations and to keep the tax system fair for everyone, the CRA selects organizations for tax audits to verify they are properly withholding and remitting payroll taxes. They also provide for any refunds when applicable.

The CRA audits are also referred to as a trust account examination (TAE) or employer compliance audit (ECA).

During a TAE audit, the CRA examines the books and records of the organization to ensure its obligations are being met for withholding, remitting and reporting payroll taxes, CPP contributions, EI premiums and employer-provided benefits; tax laws are being applied properly; and the business receives any refunds to which they are entitled.

During an ECA audit, the CRA conducts a detailed examination of the organization's books and records for two calendar years (or more) to determine whether it has unreported income or taxable benefits. They may also review the status of a worker to determine if they are self-employed or an employee. During the ECA audit, the CRA also looks at the information it has on file and may compare that information to similar files or consider information from previous audits or investigations.

Note:

Using the services of a tax professional or third party payroll provider does not relieve an organization of its responsibilities. Organizations should ensure that all payments are withheld and remitted accordingly.

There are various reasons why the CRA will audit an organization. Most audits are based on numerous occurrences of non-compliance with tax obligations, such as not meeting remittance and filing deadlines. For example, if an organization's remittances are constantly late, the more likely it is that the organization will be subject to an audit of payroll records.

The CRA also conducts targeted audits on specific industries regardless of an organization's compliance record.

PENSIONABLE AND INSURABLE EARNING REVIEW (PIER)

The CRA conducts an examination of T4 slips and summaries filed each year to make sure the pensionable and insurable earnings reported agree with the deductions withheld and remitted.

A check of the calculations is done by matching the pensionable and insurable earnings reported with the required CPP contributions or EI premiums. These calculations are then compared with the CPP contributions and EI premiums reported on the T4 slips.

If there is a difference between the CPP contributions or EI premiums required and those reported, the CRA will generate a PIER listing. This listing will show any deficiencies in reporting and remitting for affected employees.

An employer in receipt of a PIER audit needs to review each discrepancy and either report back that it is a false discrepancy or pay any outstanding remittances.

TOP 10 AUDIT ADJUSTMENTS BY THE CRA

Each year, the CRA provides a list of commonly requested adjustments to an employer's payroll as a result of wages and benefits not being correctly reported by the employer. Here is the Top 10 list for the 2014 reporting year:

1. **Unreported payments for services to an independent worker (T4A):** Employers are not reporting payments for services to sub-contractors on the prescribed T4A form.

2. **Automobile standby and operating expense:** Employees are not maintaining proper logbooks to separate personal and business driving, so employers are not calculating the benefit correctly. Incorrect perception that if a vehicle doesn't meet the definition of an "automobile," there is no benefit to be reported.

3. **Salary expenses:** Includes unreported salary and wages, such as bonuses, commissions, cash payments, etc.

4. **Shareholder benefits not reported:** Interest on shareholder loans and other benefits is being calculated incorrectly or not being reported.

5. **Security/Stock options:** Security/Stock options have become a common method of compensating officers and employees in a way that minimizes the tax consequences to the officer or employee. Taxable benefits are not being reported when stocks options are exercised.

6. **Reclassification of employment status:** Individuals operating as self-employed contractors when they should be treated as employees or vice versa.

7. **Vehicle allowances:** Employers are giving flat-rate vehicle allowances to their employees and not reporting the benefits as income.

8. **Parking:** Employers are not reporting the value of this benefit, or when they do, they report a minimum amount and not the true fair market value (FMV).

9. **Personal and living expenses (employees or shareholders):** Many corporate owners look at this type of expense as personal drawings and are therefore not reporting it as taxable income. These include appropriations of corporate assets for personal use. Some employees as part of their compensation agreement may have personal living expenses paid for by the employer. Unless these fall under a specific exemption, this is considered taxable income.

10. **Director fees:** Fees paid to corporate directors are treated as employment income subject to CPP contributions and income tax, and reported on a T4 slip. This applies to both resident and non-resident directors for services rendered within Canada.

REVENU QUÉBEC

Similar to the CRA, Revenu Québec (RQ) wants to ensure that employers doing business in the province of Quebec are contributing to that province's tax system appropriately and are compliant with respect to proper withholding, remitting and reporting.

RQ is responsible for matters related to the administration and enforcement of the Québec Taxation Act; which include the collection and reporting of:

- Quebec provincial income tax
- Quebec Pension Plan (QPP) contributions

- Quebec Parental Insurance Plan (QPIP) premiums
- Quebec Health Services Fund (QHSF) premiums
- 1.5% compensation tax (financial institutions)
- Commission de la santé et de la sécurité du travail du Québec (CSST) premiums
- contributions to the Workforce Skills Development and Recognition Fund (WSDRF); and
- contributions for the administration of the Commission des normes du travail (CNT).

RQ preforms an audit similar to the CRA PIER to validate amounts withheld and remitted for QPP and QPIP. If discrepancies are detected, the employer is sent a report indicating the amounts RQ has determined are under reported and under remitted.

WORKERS' COMPENSATION

The provincial/territorial workers' compensation (WC) boards provide compensation to workers injured in work-related accidents. They are funded through employer assessments, which are calculated, based on an employer's accident and cost experience rating. Workers' compensation assessment rates are calculated on assessable earnings, which are normally representative of the amounts reported in Box 14 of the T4 and Box A of the RL-1. Each jurisdiction sets its own maximum assessable amount on an annual basis.

All jurisdictions require employers to complete annual returns at the end of the calendar year.

Employers can be randomly selected for a WC audit. Due to information sharing with the CRA, it is also important to ensure that employers are compliant with the respective jurisdictional WC Act, contribute the correct premiums and comply with the Workers' Compensation (WC) audit. Employers should make every effort to also ensure that records are easily accessible.

During the audit, WC may validate the status of executive officers, review the operational activities and verify the status of unreported contractors.

See **Appendix 2** for a listing of WC assessable earnings by jurisdiction.

MINISTER OF FINANCE

There are four jurisdictions that administer employer-paid health taxes/levies: Manitoba, Newfoundland and Labrador, Ontario, and Quebec. The Northwest Territories and Nunavut impose a payroll tax paid by employees through payroll deductions.

Specific to a health tax/levy audit, some of the items auditors will look at are as follows:

- Was the organization operating partially for the year or for the entire calendar year?
- Similar to the CRA, does an employee/employer relationship exist or does the organization contract out services?
- What are the types of remuneration?
- Are there associated cooperation's or corporate partnerships?

Below is a brief summary of each one and the responsibilities of an organization during an audit process.

Manitoba

Employers are required to pay *The Health and Post Secondary Education Tax Levy* (HE Levy) on remuneration paid to employees who:

- report to work at a permanent establishment in Manitoba; and
- are not required to report to work at any permanent establishment of the employer (either outside or inside Manitoba) but who are paid through or from a permanent establishment of the employer in Manitoba.

The tax rates for the Manitoba HE levy are based on the total Manitoba payroll and are as follows:

Total Manitoba payroll	Rate type	Rate payable
Less than $1.25M	Exempt	N/A
$1.25 – 2.5 million	Notch tax	4.3% on the amount exceeding 1.25 million
Over $2.5 million	Basic tax	2.15%

Remittances are made on the 15th of every month based on the payroll for the previous month. The annual return (based on the payroll for the previous year) must be submitted by the end of March of the following year, along with any monies owing and copies of the T4 and T4A summaries.

For details on remuneration subject to the Manitoba HE levy, refer to **Bulletin HE002**.

Newfoundland and Labrador

Newfoundland and Labrador Health and Post-Secondary Education Tax (HAPSET) is a payroll tax payable by the employer with respect to remuneration paid to employees who report for work in Newfoundland and Labrador.

Remuneration includes those salaries, wages, bonuses, commissions and allowances or benefits that are paid or credited to an employee, officer or director of an employer. By reason of section 5(1) or section 6 or 7 of the *Income Tax Act*, those amounts paid or credited are required to be included as income earned from office or employment by that employee, officer or director for purposes of the Act.

Employers with payrolls less than $1.2 million are exempt from paying the payroll tax. A 2% tax rate is applied to all payrolls in excess of $1.2 million.

For additional details on an employer's obligations to remit Newfoundland and Labrador HAPSET, refer to **Newfoundland Department of Finance**.

Ontario

Employers are required to pay the Employer Health Tax (EHT) on remuneration paid to employees who:

- report to work at a permanent establishment in Ontario; and
- do not report for work at any permanent establishment of the employer, but are paid from the employer's permanent establishment in Ontario

An annual $450,000 exemption may be applied by eligible employers, who are defined as:

- private-sector employers (with annual Ontario payrolls of less than $5,000,000);
- organizations that are considered part of the Ontario public sector for the purposes of the Social Contract Act, which are funded by the Ontario government but are not controlled by it; and
- Crown corporations subject to tax under part 1 of the federal Income Tax Act.

Employers not eligible for the exemption are public sector employers, including federal, provincial and municipal governments, universities, colleges, school boards and hospitals. This also includes associated companies.

EHT is calculated at a rate of 1.95% of total Ontario payroll less the $450,000 for eligible employers. Non-eligible employers are subject to rates ranging from 0.98% to 1.95%. The EHT rate of a multiple account employers is based on the combined total annual Ontario remuneration of all accounts held by the legal entity.

For additional details on the Ontario EHT, refer to the **EHT Guide for Employers**.

Quebec

The following three employer-paid payroll taxes are administered through Revenu Québec.

Quebec Health Services Fund

Employers must contribute to the Quebec Health Services Fund (QHSF). Contributions are based on the total wages paid to employees who report to an establishment in Quebec or employees who do not report to any establishment but are paid from an establishment in Quebec. The employer contribution rate ranges from 1.6% to 4.26% and is determined based on the employer's **total worldwide** payroll. Any employer with a total annual worldwide payroll of $5 million or more automatically pays the rate of 4.26%. Once the appropriate rate is determined, it is calculated on the Quebec payroll only.

The QHSF remittances are made along with an employer's regular remittances based on their remittance threshold. The amounts are reconciled by the last day of February of the following year on the RL-1 summary.

Quebec Labour Standards Contribution – Commission des normes du travail

All employers who have employees working in Quebec must contribute to the financing of the Commission des normes du travail (CNT).

The contribution is calculated at a rate of 0.08% (80 cents per $1,000) of the total wages paid by the employer during the calendar year, to an annual maximum per employee.

The maximum is established on the same basis as the workers' compensation assessable earnings (in Quebec, workers' compensation is the responsibility of the Commission de la santé et de la sécurité du travail). The Quebec Labour Standards Contribution must be remitted to Revenu Québec by the last day of February of the following year. The form LE-39.0.2-V, *Calculation of the Employer Contribution to the Financing of the Commission des normes du travail*, is used to calculate the amount the employer must remit to Revenu Québec. The amount is then reported on the form RLZ-1.S-V, *Summary of Source Deductions and Employee Contribution*.

Workforce Skills Development and Recognition Fund (WSDRF)

Employers whose total payroll exceeds $2,000,000 are subject to Quebec`s *Act to promote workforce skills development and recognition*.

Under the Act, employers must allot a minimum of 1% of their total annual Quebec payroll for eligible training expenditures. Employers must indicate their participation on the form RLZ-1.S-V, *Summary of Source Deductions and Employer Contributions*. The payment must be remitted along with the form RLZ-1.S-V, Summary of Source Deductions and Employer Contributions by the last day of February of the following year.

In the event that the employer's eligible training expenditures are lower than the amount corresponding to the minimum requirement, the employer is required to make a contribution to the WSDRF. The contribution is equal to the difference between the 1% of the employer's total Quebec payroll and the amount of the employer's eligible training expenditures. Eligible training expenditures are defined in the regulations.

Note:

Effective January 1, 2016, the Commission de la santé et de la sécurité du travail (CSST), the Commission des normes du travail (CNT) and the Commission de l'équité salariale (CES) merged to become the Commission des droits, de la santé et de la sécurité du travail (CDSST), providing employers and workers with an integrated source of labour-related expertise.

Also effective January 1, 2016, the Régie des rentes du Québec (RRQ) and the Commission administrative des régimes de retraite et d'assurances (CARRA) merged to become Retraite Québec, creating a hub of expertise regarding retirement within the public sector and enhancing the delivery of services.

NORTHWEST TERRITORIES AND NUNAVUT

The Governments of the Northwest Territories and Nunavut impose a 2% payroll tax on employees' remuneration.

The payroll tax is deducted at source from employees' remuneration, as defined by subsection 5(1) or sections 6 and 7 of the Income Tax Act. This includes all payments and the value of all benefits and allowances received by an individual from an office of employment while employed in the Northwest Territories/Nunavut.

EMPLOYMENT/LABOUR STANDARDS

Employment/Labour standards legislation establishes the minimum standards of employment for all workers in Canada, with the exception of those covered under a collective agreement.

Legislative provisions related to employment/labour standards are generally the most complex to administer. Complexities can be compounded for organizations that operate in multiple jurisdictions across Canada.

These legislative provisions are extremely important, as they deal with areas such as statutory holidays, vacations, terminations and overtime calculations, which vary significantly between jurisdictions.

In practice, many employers operating in multiple jurisdictions have company policies or collective agreements that incorporate the most feasible provisions from each jurisdiction. This not only helps employers avoid the administrative inconsistencies resulting from a variety of provisions but also enables them to provide equality in the workplace across Canada.

Employment/labour standards generally have more regulations attached to their statutes than other areas of provincial/territorial legislation. These rules and regulations are normally drafted to implement and enforce changes to standards, such as revised minimum wage and termination of employment requirements, and illustrate legislative provisions designed to meet the requirements of specific professions (e.g., the construction industry).

Payroll and human resources practitioners need to be familiar with the employment/labour standards that apply to their employees to help ensure fair treatment for the employees and compliance for the employer. They must also be aware of the various administrative positions that may be applicable to their employees.

An **administrative position** is defined as a process used by the government to further augment regulations regarding the "how to" of applying legislative policy and regulation. For example, an act may not include details on an employer's right to recover an overpayment of wages, but employment standards officers may have an interpretation of how they would instruct an employer to proceed in such cases.

Each jurisdiction's *Employment Standards Act* (ESA) gives inspectors wide ranging powers related to inspections, including:

- Enter and investigate without a warrant
- Examine records
- Require production of relevant documents
- Take records or any other relevant documents
- Question any person including employees

The most common records that inspectors investigate include:

- Time records
- Vacation records
- The different employee positions in the workplace
- Payroll records

Given the possible ramifications if an officer finds a contravention of the ESA, employers need to be on alert and take proactive steps now to ensure compliance with the ESA.

GOVERNMENT AUDIT PROCESS

NOTIFICATION OF AUDIT

Government agencies will contact an organization by telephone or in writing to schedule an audit. The type and scope of the audit will be explained and a listing of the required documentation under review will be made available to the organization prior to the audit date.

RESCHEDULING AN AUDIT

If there is a scheduling conflict or the organization cannot meet the initial deadline in gathering documents, it is important to contact the agency requiring the audit as soon as possible, in writing, to request an extension.

REPORTING YEARS UNDER REVIEW

The written notification sent to a business by the agency performing the audit indicates the tax years under review.

As organizations are required to keep records for specified amounts of time, the government agency can choose to review any period within the record retention period.

DOCUMENTS

Depending on which agency is conducting the audit, any of the following records may be requested for examination.

- Payroll records, registers and supporting documents (e.g., time & attendance)
- Financial statements
- General Ledger
- Payment records, including cancelled cheques
- Accounts payable records, including payments to contractors
- Records of any independent operator rulings issued by the CRA, RQ or a WC Board
- T4 or T4A slips and summaries, and other information returns filed with the CRA
- RL slips and summaries filed with Revenu Québec
- Clearance Certificates for the year(s) under review in a WC audit

- Company meeting minutes and other ownership records
- Files and working papers used to calculate payroll remittances

WHERE DOES AUDIT TAKE PLACE

The government agency conducting the audit decides if the actual audit takes places at the organization's premises or at their office. If the audit is scheduled at a government office, arrangements will be made to deliver the requested records to the auditor. If the audit is scheduled at the organization's establishment, plan for time when the auditor's arrival to discuss the business and tour the premises. It is also important to have an office or desk reserved for the auditor to be able to work.

DURATION OF AUDIT

The time it takes to complete a business audit varies depending on the scope of the audit. There are several elements that influence the duration of an audit, including the availability and accuracy of the records, the size and complexity of the business, and potential delays for missing documents.

Orderly documentation and cooperation with the auditor reduces the time it takes to complete an audit.

Delays can occur if the requested records are not produced. In a situation where the organization no longer has certain records, they should attempt to obtain copies from any third parties involved in the transaction (for example, financial institutions or suppliers). If this is not possible, speak with the auditor or the auditor's team leader to find alternative methods to confirm the amounts reported.

In certain situations, the auditor may need to consult other individuals within their agency, for example, a CRA tax specialist. These consultations may cause the audit to take longer than anticipated.

REQUESTS FOR ADDITIONAL DOCUMENTS

An auditor may request access to additional documents in the course of an audit. Where the auditor concludes that the evidence is insufficient, additional audit procedures may be performed. For example, an auditor may request access to records for a year not originally in the scope of the audit request.

AUDIT ISSUES IDENTIFIED

During the audit, the auditor identifies any areas of concern and will discuss them with the representative(s) of the organization. For example, the auditor may believe a reimbursement to an employee through accounts payable should have been reflected as a taxable benefit and included in employment income.

The organization must ensure that the auditor understands all the facts and has the appropriate information before the audit results in a reassessment. Dissuading an auditor from a position is much more difficult once it is written in a proposed reassessment, so the organization should present all valid arguments and evidence during the course of the audit process.

The organization should also ask to be advised if referrals are made by the auditor to other areas, such as Rulings, Valuations or their Headquarter functions, so it can have input into the facts and representations provided to these areas.

Sometimes issues arise because the facts do not support the organization's position, which could put the organization at risk. The organization should be prepared to negotiate the best outcome based on the facts, legislation and documents supporting the tax position, as well as assistance from any advisers.

Many disputes are caused by a lack of clear information or miscommunication. If there is a misunderstandings of facts delaying the proceedings, it would be advisable to provide the key facts in writing and agree on the statement of facts. This makes resolving the real issues much easier.

ADVANCED TAX RULINGS DISALLOWED

In some cases, Advanced Tax Rulings may be out of date due to changes in legislation or administrative positions. If this is the case and the Advance Ruling is no longer valid, the organization needs to adhere to the auditor's recommendations and/or assessment of the situation. However, it is important to discuss and understand the auditor's concerns before they propose a reassessment.

GOVERNMENT AUDIT RESULTS

At the conclusion of the audit, the auditor will present their findings to the organization in a written proposal letter. Next steps are determined as a result of the audit findings. These may include:

NO ASSESSMENT

If the auditor finds that the amounts withheld, remitted and reported are correct, no further action is required. A completion letter is issued and the audit is closed.

REFUND

If it is determined the organization has over remitted any amounts, these are identified and a refund is processed. This may be applied as a credit on the account, which can be allocated against future remittances or as a refund payment.

Note:

Credits will be applied to any other program account under the organization's registration number prior to any credits or refunds being released.

OUTSTANDING PAYMENTS

If the auditor determines that there are errors or omissions in the amounts withheld, remitted and reported, a reassessment is issued. The auditor is generally able to provide an estimate of any amounts payable prior to the official assessment notice. If the organization is in agreement, payment may be made immediately to avoid further interest.

A formal proposal letter is issued indicating the reason for the reassessment and the amount due. This document indicates the period of time the organization has to either agree or disagree with the assessment—typically 30 days.

PENALTIES OR FINES

When outstanding payments have been identified in the audit, additional penalties or fines may be imposed in addition to these amounts.

The CRA and RQ may impose penalties when:

- The amounts are deducted but not remitted.
- The amounts are deducted but are remitted late.

For details on CRA remittances deadlines and penalties, see **Appendix 3** or go to **CRA Penalties, Interest and Other Consequences**.

For details on Revenue Québec remittance deadlines and penalties see **Appendix 4** or go to **RQ Penalties**.

Under Employment/Labour Standards legislation, an organization may be penalized for failure to comply with the Act or Regulations. Each jurisdiction has authority to apply fines. These range from a couple hundred dollars for a minor violation to several thousand dollars, or possibly imprisonment, for more serious violations, such as failure to comply with an order to pay.

WC Boards may impose penalties for:

- Late filing of annual reports
- Late remittances
- Underestimating assessable earnings

A penalty structure is in place to support compliance and equity among organizations in relation to workers' compensation premiums:

- Penalties may be charged on a sliding scale, based on the amount of an employer's assessment.
- Failure to make payment, arrange a payment plan or follow through with a payment plan may result in collection action including legal action.
- An employer who fails to register when required will be charged retroactive assessments as well as the total cost of injuries that occurred prior to registration.

An organization that under reports their payroll or under remits their assessment may be subject to a penalty.

AMENDED TAX SLIPS

The CRA and RQ may amend T4 and RL-1 slips as a result of a payroll audit. These agencies will send the employer a copy of the amended slip.

For those employees who receive amended tax slips, notices of assessment may be issued, which may result in retroactive taxes and interest owing.

APPEALING AN AUDIT

Organizations have the right to pay no more tax, interest and penalties than required by law. If the CRA, RQ or any other government body arrives at a different interpretation than the employer; the employer must challenge the auditor's interpretation and application of the facts and law to ensure that they are not paying more than they are required to.

Notices of reassessment and tax disputes are not necessarily an indication that the organization has been non-compliant. An organization that disagrees with an auditor's findings or assessment must file a notice of objection in order to dispute a notice of reassessment.

The general rule is that an organization must file a notice of objection within 90 days of the date that the government agency mailed the notice of reassessment. If the organization does not deliver a proper notice of objection within the 90-day period, they may apply for an extension of time to object.

The CRA will consider applications for an extension of time to object if the application meets all relevant conditions and if it is filed within one year of the 90-day period. However, the CRA may deny an employer's application for an extension of time. Therefore, it important to file a proper notice of objection within the 90-day period.

Generally speaking, the normal reassessment period is four years for employers. If the CRA issues a notice of (re)assessment within the normal reassessment period, the onus is on the employer to prove that the assessment is incorrect.

Employers should be prepared to present factual and legal support for their position that the reassessment is wrong. If the CRA issues a notice of reassessment outside the normal reassessment period, employers should understand the impact of this shift in the burden of proof and make strategic decisions to take advantage of the shift.

The CRA will not likely compromise based on the amount in dispute or the cost of litigation or other related factors.

In most cases, tax disputes are won or lost based on more than accounting or the terminology used in the ***Income Tax Act***.

In addition to knowledge of the relevant legislation, the tax dispute process is governed by case law, rules of procedure, the onus of proof, the standard of proof and the rules of evidence. As a result, the party with the greater understanding of the legislation, case law and rules often has a significant advantage.

The role of the Employers' Ombudsman is to review service-related complaints about the CRA that have not been resolved through the CRA's service related complaint process. Service-related complaints include, but are not limited to, CRA employee behaviour and poor information. In these cases, the Employers' Ombudsman may "provide advice to the Minister of National Revenue about service-related matters in the CRA." The Employers' Ombudsman does not have the power to review, comment or influence the correctness of any CRA audit, objection, assessment or decision to deny taxpayer relief.

Employers often choose not to challenge the merits of the assessment and, instead, simply ask the CRA to waive or cancel interest and penalties under the taxpayer relief provisions.

The taxpayer relief provisions can apply when a taxpayer has not been able to meet tax obligations due to extraordinary circumstances such as financial hardship, disruptions in service (e.g., a postal strike), an error in a CRA publication or a disaster (e.g., flood or fire). Although the provisions can be a powerful tool in a taxpayer's arsenal, it is the tax equivalent to approaching the Minister of National Revenue as opposed to disputing the reassessment on substantive basis as a matter of right. In most cases, if a taxpayer has an arguable case, the better route is to dispute the reassessment. If the taxpayer is unsuccessful, the provisions may be a valuable final option. To apply for waiver for penalties and interest from CRA Form **RC4288 Request for Taxpayer Relief - Cancel or Waive Penalties or Interest** is available on line to send in to CRA with supporting documentation.

With RQ, the organization can go through the objections and appeals process if they do not agree with an auditor's findings.

The first thing the employer should do is contact the auditor who performed the audit and request that they reconsider or revisit their findings. If, after contacting the auditor in charge of the file or their superior, the employer is still dissatisfied with the handling of their assessment, a Notice of Objection can be filed.

If the employer is still dissatisfied with the decision regarding the Notice of Objection, they can pursue the matter further before the courts by filing an appeal with the Court of Quebec. If they take this recourse, they must do so according to the prescribed procedure and within the allowed time limits. For more information, refer to publication **IN-106-V, Recourse for Your Tax-Related Problems**, available on the RQ's website.

If the employer feels that RQ has not given their file the attention it deserves, they can contact the **Direction du traitement des plaintes**. Its personnel ensure all complaints it receives are given the attention they deserve.

Finally, if the employer feels they have been wrongly treated in any tax-related matter, or are the victim of an injustice, they can file a complaint with the **Québec Ombudsman**. The Ombudsman receives complaints regarding all government administrative activities.

A very small portion of tax lawyers practice tax dispute resolution and litigation. As discussed, the initial phases of the process move quickly and, therefore, organizations often struggle to research and retain the right tax dispute lawyer. We recommend that clients take the time to understand their options in advance or speak to their accounting professional to ensure that they know, or have worked with, a suitable tax dispute lawyer should the need arise.

FAILURE TO COMPLY

The consequences of not paying any audit assessment, regardless of which branch of the government makes the assessment, results in additional penalties, interest and, in more serious cases, imprisonment or the seizure of the organization's bank accounts and/or other assets.

Fines for failure to comply range from $1,000 with $25,000. The business owner or directors of an organization can in some circumstances be held personally liable for outstanding amounts, penalties and fines. In some extreme instances, failure to comply could lead to imprisonment of these individuals for a term of up to 12 months.

RECORD RETENTION

Regardless of which type of audit is being conducted, there is a requirement to produce business documents for review. It is the responsibility of the organization to maintain and store accurate records of business activities.

It is important to understand that business records are made up of accounting and other financial information, and that these documents must be kept in an organized manner. According to the law, it is the responsibility of the organization to protect its records even if they are held by a third party.

All records must be reliable, complete and kept in either of the two official languages. When required by a government agency, for example the CRA, the organization must make the records available and permit the auditor to make copies, or give them copies, as requested.

Electronic records are allowed as long as they are supported and maintained by an accessible and readable format. All backup copies must be stored at a site other than the business location, preferably in Canada.

Note:

The CRA will not give permission to keep records outside of Canada to registered charities, registered Canadian amateur athletic associations, and Canadian municipalities, public bodies performing a function of government, or housing corporations resident in Canada and exempt from tax under Part 1 of the *Income Tax Act*.

There are various factors that drive the type of records that must be kept, such as:

- Business type
- Electronic or paper records
- If the paper records have been converted to an electronic format for storage
- If there is an e-commerce portion
- If there is a GST/HST component
- If the organization is an employer

Records also include *supporting* documents such as, but not limited to:

- Working papers
- Emails
- All correspondence supporting transactions
- Cancelled cheques

If the organization deducts C/QPP contributions, EI and QPIP premiums, and income tax from remuneration or other paid amounts, its records must include the following:

- Hours worked by employees
- Amounts withheld for C/QPP contributions, EI/QPIP premiums and taxes
- TD1/TP1015.3-V forms
- CRA letters of authority to reduce tax deductions for certain employees for a specific year
- All issued information slips
- All filed returns
- Registered pension information

CRA AND REVENU QUÉBEC

Records of an employee's gross earnings, C/QPP contributions, EI and QPIP premiums, and income tax (payroll register) must be kept for six tax years plus the current year. Records must also be kept of the remittances paid to the CRA and RQ for the same period of time, as well as T4 and RL-1 filing.

For more information, refer to **Keeping records** for CRA requirements and **RQ Keeping Business Records** for Quebec requirements.

Provincial and Territorial

Each jurisdiction sets its own rules regarding employee record retention. Written permission is required for destruction any earlier.

A detailed listing of required documents for each Employment/Labour Standards jurisdiction is located in **Appendix 5**. The following is a summary of the retention periods.

Canada Labour Code, *Part III*	36 months after work is performed and after termination
Alberta	3 years from date record made
British Columbia	2 years after termination of employment
Manitoba – general	3 years from date record made
New Brunswick	36 months after work is performed
Newfoundland and Labrador	4 years from date of last entry
Northwest Territories/Nunavut	2 years from date record made
Nova Scotia	3 years after work is performed
Ontario	3 years after work is performed
Prince Edward Island	36 months after work is performed
Quebec	3 years after work is performed
Saskatchewan	5 years after termination of employment
Yukon	12 months after the work is performed

PENSION LEGISLATION

Although existing legislation under the CRA or the *Provincial Pension and Benefits Standards Acts* (PBSAs) does not define a specific retention period for pension records, a payroll best practice is to ensure that any records affecting a plan member's calculation of benefits, pension adjustments (PA), past service pension adjustments (PSPA) or pension adjustment reversals (PAR) are kept indefinitely.

SUMMARY

If your organization is selected for an audit by any of the federal or provincial/territorial legislative authorities, there are several steps you need to take to ensure it goes smoothly. Some of these include:

- Being proactive by having planned for the possibility of an audit.
- Preparing all the required documents in advance of the audit date.
- Ensuring your payroll records and/or documentation is readily available either electronically or in hard copy.
- Determining who will be involved in the audit process; and
- Creating and using an audit checklist.

Your organization should also be conducting self-audits and reasonability tests on an ongoing basis to ensure that employees are set up correctly and in the right tax bracket. All payroll deductions and remittances should be remitted on time in order to avoid penalties and should be balanced back to the General Ledger. Conducting regular PIER audit tests, quarterly at minimum, will help to determine any C/QPP or EI/QPIP deficiencies.

Being prepared and having proper accounting procedures in place help to mitigate risks and penalties, and save time during the audit.

FEEDBACK

The CPA appreciates your comments and welcomes your suggestions as we seek to continually improve our member resources. Please direct any feedback on these guidelines to:

Janet Spence, CPM
Manager, Compliance Services and Programs
The Canadian Payroll Association
Email: **guidelines@payroll.ca**

INTERNAL PAYROLL AUDIT CHECKLIST

Item	Action to be taken	Done
Set-up prior to first payroll of the year	Review payroll calendar for payroll processing / pay day conflicts (statutory holidays etc.)	❏
	Weekly or bi-weekly pay frequency watch for 53/27 pay year • how will C/QPP exemption be handled • are any taxable benefits or deductions affected	❏
	Distribute new payroll cut-off schedule to HR, timekeepers, managers & supervisors and union if necessary	❏
	Carry forward balances • vacation accruals • banked overtime • unused sick days (if carry forward allowed) • outstanding loans payable • garnishment balances	❏
	Update TD1 basic annual exemption	❏
	Test first pay programming changes prior to live input	❏
	Remind employees to file new TD1 for additional tax credits	❏
	Remind commission employees to file new TD1X/TP-1015.R.13.1-V	❏
	Communicate new year C/QPP, EI and QPIP statutory deductions rates and maximums	❏
Pre-Audit of Payroll	Create changes folder / files	❏
	Review changes and ensure changes have been authorized	❏
	Obtain authorized changes	❏
	Check previous audit reports i.e. total hours, earnings to compare	❏
	Establish cut-off times with Managers/Supervisors	❏
	Have payroll meeting with team (if needed)	❏

	PAYROLL AUDITING/PROCESSING	
Processing the Payroll	Upload payroll changes/hours/pay file or manually key entries	❏
	Balance and Audit changes **Note: this process should be completed by another team member/Manager for segregation of duties**	❏
	Update any manual or cancelled cheques to payroll (ensure taxes are updated correctly)	❏
	Run payroll test run or payroll preview reports to validate entries	❏
	Balance/audit new hire entries, employee changes report, earnings, hours, changes & benefit changes report	❏
	Ensure accurate social insurance numbers are entered	❏
	Review test reports or deductions not taken report to validate entries and check terminations report (specifically if terminated employees have hours)	❏
	Review deductions not taken report	❏

THE CANADIAN PAYROLL ASSOCIATION CPA ACP L'ASSOCIATION CANADIENNE DE LA PAIE

	PAYROLL AUDITING/PROCESSING	
Taxable Benefits	Taxable benefits reported each pay when received or as enjoyed	❑
	Process taxable benefit adjustments e.g. company car benefits	❑
Jurisdictional Reporting	Employer health tax returns	
	Workers compensation annual reconciliation / return	
	Northwest Territories / Nunavut Payroll Tax return	
	RQ annual summary • Commission des normes du travail (CNT) • Workforce Skills Development and Recognition Fund (WSDRF) • Complete Formulaire Déclaration des activités de formation (Quebec employers who pay WSDRF are required to complete)	

TEST YOUR KNOWLEDGE

Please read each scenario and select the best response. (The answers are provided and explained on the next page.)

1. An internal compliance audit is a comprehensive review of:
    a. The calculation of statutory remittances and other payroll taxes and levies
    b. An organization's adherence to established policies and procedures as well as regulatory guidelines
    c. Paid leaves such as vacation, sick leave, bereavement, personal development
    d. The organizational reporting structure

2. True or False? All publicly traded companies in Canada are required to undergo an annual financial audit?

3. Which government agencies commonly conduct payroll audits?
    a. Canada Revenue Agency
    b. Revenue Quebec
    c. Workers compensation boards
    d. Employment/Labour standards
    e. All of the above

4. True or False? If an auditor determines there are outstanding payments and also allocates penalties and interest the organization has no recourse except to pay the amount determined by the auditor.

5. True or False? Business documents, including payroll records, may be stored electronically.

ANSWERS

1. An internal compliance audit is a comprehensive review of:

    A. The calculation of statutory remittances and other payroll taxes and levies

    B. An organization's adherence to established policies and procedures as well as regulatory guidelines

    C. Paid leaves such as vacation, sick leave, bereavement, personal development

    D. The organizational reporting structure

    The correct answer is B. An internal compliance audit is a comprehensive review of an organization's adherence to established policies and procedures as well as regulatory guidelines, e.g. Sarbanes Oxley. These types of audits are performed to evaluate internal controls, examine routine operational activities, and detect administrative errors and fraudulent activities.

2. True or False? All publicly traded companies in Canada are required to undergo an annual financial audit?

    True: All publicly-traded companies in Canada are required to undergo a financial audit, and many private companies choose to do so to satisfy banking requirements, by-laws or other regulations. Some private organizations undergo a review, which involves a smaller amount of testing.

3. Which government agencies commonly conduct payroll audits?

    A. Canada Revenue Agency

    B. Revenue Quebec

    C. Workers compensation boards

    D. Employment/Labour standards

    E. All of the above

    The correct answer is E. Any organization operating a business in Canada that employs workers can expect that at some point during their business cycle they will be subject to an audit. Specific to payroll, government regulatory agencies such as the Canada Revenue Agency, Workers' Compensation, Ministry of Finance and Ministry of Labour may conduct audits on a regular basis.

4. True or False? If an auditor determines there are outstanding payments and also allocates penalties and interest the organization has no recourse except to pay the amount determined by the auditor.

    False: Organizations have the right to pay no more tax, interest and penalties than required by law. If the CRA, RQ or any other government body arrives at a different interpretation than the employer; the employer must challenge the auditor's interpretation and application of the facts and law to ensure that they are not paying more than they are required to.

    Notices of reassessment and tax disputes are not necessarily an indication that the organization has been non-compliant. An organization that disagrees with an auditor's findings or assessment must file a notice of objection in order to dispute a notice of reassessment.

The general rule is that an organization must file a notice of objection within 90 days of the date that the government agency mailed the notice of reassessment. If the organization does not deliver a proper notice of objection within the 90-day period, they may apply for an extension of time to object.

5. True or False? Business documents, including payroll records, may be stored electronically.

True: Electronic records are allowed as long as they are supported and maintained by an accessible and readable format. All backup copies must be stored at a site other than the business location, preferably in Canada.

APPENDIX 1

INTERNAL CONTROLS

The objective of most payroll audits is to provide reasonable assurance that adequate and effective controls are in place to establish the integrity of payroll transactions.

Following are samples of effective controls:

Segregation of duties	To reduce errors and risk of fraud, duties of payroll employees should be segregated. Duties should be identified in job descriptions. One individual should be responsible for processing payroll and a different individual should authorize payroll. In smaller organizations, the owner of the company or delegate can authorize payroll prior to the electronic funds or cheques being processed.
Signed authorizations for changes	Changes to employee data should only be processed from signed employee authorizations (changes to bank accounts, address, benefits, etc.). Changes to related fields, such as rate of pay, should be authorized by the appropriate delegated authority, such as human resources or management. A review of employee files should be performed to ensure the accuracy of salary amounts, including leaves without pay, transaction processing and any related employee recoveries.
Timesheet verification	Timesheets have been appropriately signed by a supervisor or manager. Payroll staff should verify the signature on the timesheet. All transactions on the timesheet, such as time worked, overtime or premium pay, should be verified prior to posting. Changes to approvers should be recorded and a sample signature kept on file.
Regular variance reporting	Reporting on payroll variances, such as gross/net pay, may identify irregularities in the processing of payroll. Reports on entitlements and deductions should be performed and analysed on a monthly basis to ensure that vacation, sick or other leaves are being recorded accurately.
System audit	Some payroll systems are able to report on system changes to track entries made by staff. Audits of changes should be performed each payroll cycle to ensure that changes are being recorded accurately and on a timely basis. Transactions should be traced back to source documents to maintain an effective audit trail. For systems that do not have an audit report, manual documentation of system changes can assist in ensuring that changes have been correctly entered.
Payroll processing approval	A complete list of documented tasks should be followed when payroll is processed to ensure no critical tasks are overlooked. The completed payroll processing checklist should be signed by a delegated approver. Electronic Funds Transfers should be processed by a signing officer or delegate. Confirmation of electronic funds transfers should be signed and filed numerically with supporting documentation for future audit review.
Password protection	Passwords should be used and regularly changed in order to access the payroll system. Controls and procedures should be in place to ensure that access to payroll is only provided to those individuals who are authorized to perform duties associated with the payroll function. Employees should not share passwords.
Privacy and Security	Confidentiality of employee data should be maintained by emphasising the importance of employee privacy. Payroll staff may be asked to sign a confidentiality agreement upon hire. Payroll staff should work in a secure location to help safeguard confidential information. Payroll cheques and Records of Employment should be locked and tracked by number. Payroll continuity plans should be secure and available only to those on the continuity team.
Bank accounts	Audits should be performed to ensure that no unauthorized banking has been set up within the payroll system. This audit should be performed by someone external to the payroll department. Authorization from an employee to deposit funds into a specific account should require a voided check or a confirmation of bank account number from the bank. Bank accounts should only be added or changed in the payroll system once it has been verified that the employee is the account holder or joint account holder on the bank account number provided. Changes to the organization's bank signing officers should be documented and those individuals who leave an organization should be removed from authorized banking authority list.

Salary expenses	Monthly payroll salary expense should be reviewed to ensure that there are no irregularities. Often departments do not have the ability to drill down into the payroll expense being charged to that department's budget. An audit of the distribution of salary costs should be performed each pay to ensure that an employee's salary expense is being charged to the correct budget. Reports can be run for each supervisor or department to ensure that correct employees are being paid from and charged to the correct area.
General Ledger accounts reconciliation	Processes and procedures should be in place within accounting to ensure that payroll errors are identified and corrected so accurate reconciliation between general ledger control accounts can be performed. Identification of any significant variances should be detected and any necessary adjusting entries made to accurately reflect fiscal year-end salary amounts. General ledger liability accounts should be reviewed regularly for accuracy of recorded transactions. This includes amounts being held in trust for the Canada Revenue Agency and Workers' Compensation Boards. Benefit liability accounts should be reconciled to the benefit carrier invoice.
Recovery of overpayments	The timing or accuracy of processing various compensation transactions may potentially lead to a salary overpayment to an employee. Common transactions where this may occur include leave without pay and maternity leave. Controls should be in place to periodically monitor and recover salary overpayments. Various account relating to overpayments or outstanding payroll receivables should be monitored on a monthly basis following legislated rules or collective agreement provisions.

APPENDIX 2

WCB ASSESSABLE EARNING CHART

Earning type	AB	BC	MB	NB	NL	NS	NT/ NU	ON	PE	QC	SK	YK
Regular salary/earnings												
Regular salary	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Call-in pay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Overtime	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Retroactive pay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Shift premium	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Sick pay (when still employed)	Y	Y	Y	Y	Y9	Y	Y	Y	Y	Y3	Y	Y
Standby pay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Statutory holiday pay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Vacation pay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Taxable cash allowances												
Car	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Clothing	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
C.O.L.A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Housing	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Meal	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Moving	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Tool	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Travel	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Awards/gifts (in cash)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Bonuses												
Discretionary	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Work related	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Commissions and draws												
Earned at employers premises	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Earned away from employer's premises	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Earned by a route salesperson	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y2	Y	Y
Director's fees												
Employee	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y
Non-employee	N	N[10]	Y[8]	Y	Y	Y	Y[8]	N	N	N	Y	Y

THE CANADIAN PAYROLL ASSOCIATION CPA ACP L'ASSOCIATION CANADIENNE DE LA PAIE

Earning type	AB	BC	MB	NB	NL	NS	NT/ NU	ON	PE	QC	SK	YK
Miscellaneous earnings												
Employer paid long-term disability	Y	Y	Y	Y	Y[9]	N	Y	Y	Y	Y[3]	Y	Y
Employer paid short-term disability	Y	Y	Y	Y	Y[9]	N	Y	Y	Y	Y[3]	Y	Y
Maternity leave top-ups	Y	Y	Y	Y	N	N	Y	N	Y	Y	Y	Y
Pay in lieu of benefits	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Profit sharing payments (non-registered plan)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Sub plan top-ups (employer paid)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Tips and gratuities (controlled by employer)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
WCB advances or awards	N	N	N	N	N	N	N	N	N	N	N	N
WCB top-ups	Y	Y	Y	Y	N[7]	N	Y	N	Y	Y	Y	Y
Termination payments												
Pay in lieu of notice (as required by employment standards)	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y
Retiring allowance (lump-sum)	N	N	N	N	N	N	N	N	N	N	N	N
Retiring allowance (in instalments)	N	N	N	N	N	N	N	N	N	N	N	N
Sick pay credits paid upon termination	N	N	Y	N	Y	N	N	N	N	N	N	N
Taxable benefits												
Awards/gifts (non-cash, near cash)	Y[1]	N	Y[1]	N	Y[1]	Y[1]	Y[1]	Y[1]	Y[1]	Y[1]	Y[1]	Y[1]
Board and lodging	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Company owned/ leased vehicle	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Group term life insurance	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y[6]	Y
Group RRSP plan payments	Y	Y[4]	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Interest free loans	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Parking	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Stock options	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y

[1]Only if taxable.

[2]If deemed to be an employee, not assessable if individual is self-employed. WCB rules apply when determining a worker's status.

[3]For the 1st 105 days of total sick pay, STD and LTD only. Considered non-assessable as of the 106th day.

[4]Unless locked-in until employee retires.

[6]When total premium is paid by employer.

[7]WCB top-ups not permitted in Newfoundland/Labrador.

[8]Only if coverage applied for and approved.

[9]Sick pay up to 13 continuous weeks is assessable. Sick pay paid for periods that exceed this time period are not assessable.

[10]Fees paid to a director of a publicly traded company are not assessable if the director only attends periodic meetings and is not an employee or officer of the company. Fees paid to directors of private companies are assessable.

Note:

This is a non-exhaustive list that was created for general reference only. Workers' Compensation Boards should be contacted for additional information and/or clarification.

APPENDIX 3

CRA REMITTANCE FREQUENCY AND PENALTIES

Remitter type	Average monthly remittance	Actual pay date	Remittance due date no later than…
Quarterly	Less than $3,000	January 1 – March 31 April 1 – June 30 July 1 – September 30 October 1 – December 31	April 15 July 15 October 15 January 15
Regular	$3,000 to $24,999.99	1st of the month to the end of the month	The 15th of the following month
Threshold 1	$25,000 to $99,999.99	1st to 15th of the month 16th to end of the month	The 25th of the same month The 10th of the following month
Threshold 2	$100,000 or more	1st to 7th of the month 8th to 14th of the month 15th to 21st of the month 22nd to the end of month	3 business days from the last day in each period (not counting Saturdays, Sundays and holidays).

Late payment penalties

The penalties for the first occurrence of late remittance are as follows:

- 3% if payment is 3 business days or less late
- 5% if payment is 4 or 5 business days late
- 7% if payment is 6 or 7 business days late
- 10% if payment is 8 or more business days late

For employers subjected to the penalty more than once per calendar year, the penalty may be increased to 20% on the second or later occurrences if they were made knowingly or under circumstances of gross neglect.

Normally the penalty is only applied to the part of the amount that the employer fails to remit that is more than $500.00; however, the CRA may apply the penalty to the total amount under certain circumstances.

Late filing penalties

The penalty for failing to file T4/T4A slips or for distributing slips to recipients late, past the due date, is the greater of $100 or a penalty determined as follows:

Number of information slips by type	Penalty per day (up to 100 days)	Maximum penalty
1 -5	Penalty not based on number of days	$100 flat penalty
6 – 10	$5	$500
11 - 50	$10	$1,000
51 – 500	$15	$1,500
501 – 2,500	$25	$2,500
2,501 – 10,000	$50	$5,000
10,001 or more	$75	$7,500

APPENDIX 4

REVENU QUÉBEC REMITTANCE FREQUENCY AND PENALTIES

Remittance frequency/Average monthly remittance	Actual pay cheque date	Remittance is due no later than….
Annually no more than $2,400 annually	Pay dates during reference year	The 15th day of the month following the last month of the year in which remuneration was paid
Quarterly no more than $3,000	January 1 – March 31 April 1 – June 30 July 1 – September 30 October 1 – December 31	April 15 July 15 October 15 January 15
Monthly $3,000.01 to less than $25,000	1st of the month to the end of the month	The 15th day of the following month
Twice-monthly $25,000 to less than $100,000	1st to 15th of the month 16th to end of the month	The 25th of the same month The 10th of the following month
Weekly $100,000 and over	1st to 7th of the month 8th to 14th of the month 15th to 21st of the month 22nd to the end of month	3 business days from the **last day** in each period

Note:

If a remittance falls due on a Saturday, Sunday or statutory holiday, the due date is extended to the next business day for all remittance frequencies. Any interest or penalties on accounts that remain unpaid or unsettled continue to accrue further interest charges which increase employer costs needlessly.

LATE PAYMENT PENALTIES

As a rule, organizations that collect consumption taxes on behalf of Revenu Québec but fail to remit the amounts owing within the time limit provided are liable to a penalty of:

- 7% of the amount to be paid or remitted, where the amount is no more than 7 days late;
- 11% of the amount to be paid or remitted, where the amount is late by more than 7 days but by no more than 14 days; or
- 15% in all other cases.

LATE FILING OF RL-1 SLIPS

Organizations that do not file their returns, RL slips or summaries are liable under the Tax Administration Act to a penalty for failure to file of $25 per day (up to a maximum of $2,500), in addition to late payment penalties regarding income tax, consumption taxes and source deductions.

APPENDIX 5

EMPLOYMENT/LABOUR STANDARDS RECORD RETENTION

Record retention requirement by jurisdiction			
Jurisdiction	**Information required for each employee**		**Length of time**
Federal (*Canada Labour Code, Part III*)	• Name • Address • Dates of beginning and end of employment • SIN • Occupational classification • Gender • Age (if under 17) • Wage rate and basis for it • Daily hours of work • Actual earnings • Payments made after deductions and details of deductions • Information on annual vacation, legislated leaves or statutory holidays	• Information on averaging, if appropriate, employer pay periods • Information on notice of termination or intention to terminate, notice of work schedules that exceed either the standard or maximum hours of work • Information on absence due to work-related injury or illness in addition to any changes to the rate of pay and effective dates	36 months after the work is performed and after termination
Alberta	• Name • Address • Daily hours worked • Wages paid • Overtime pay or time off in place of overtime • Birth date • Date of beginning of employment • Wage rates including dates and particulars of all changes • Vacations granted showing dates of vacation and period of employment covered • Amount of vacation pay, statutory holiday pay and date holiday taken if not on the actual day of statutory holiday.	• All wage deductions • Copies of overtime agreements, call-backs after layoffs, notices of termination and amount of termination pay • Letters, documents and certificates relating to maternity and adoption benefits **Note:** On request, an employer must give to an employee a detailed statement of how the employee's earnings were calculated and the method of calculating any bonus living allowance paid, whether or not it forms part of wages.	3 years from the date the record is made

Record retention requirement by jurisdiction			
Jurisdiction	**Information required for each employee**		**Length of time**
British Columbia	• Name • Address • Birth date • Occupation • Telephone number • Date of beginning of employment • Hours of work • Hours per day • Overtime hours • Wage rate • Gross wages • Net wages • Nature and amount of deductions • Date wages were paid • Work period corresponding to the payment • Nature and amount of bonus, premiums, allowances, commissions and other payments	• Vacation reference year, dates and duration of vacation • Date and amount of vacation pay • Statutory holiday pay • Date of compensatory holiday • Date of notice of termination • Date employment ends • Amount in lieu of notice • Amount in lieu of vacation • Banked time, dates and remaining amounts in the bank • The benefits paid to the employee • Payroll records must be in English	2 years after termination of employment
Manitoba	• Name • Address • Birth date • Occupation • Date of beginning of employment • Regular wage rate and overtime wage rate when employment started and the date and particulars of any changes to either wage rate • Where hours vary, record of the hours of work and daily overtime • Date wages are paid, amount of wages paid on each date, deductions from wages and the reason for each deduction	• Banked time and time taken instead of overtime pay • The date each statutory holiday is taken and the wage rate paid for hours worked on the statutory holiday • Dates of each annual vacation and the period of employment in which it is earned • Date and amount of vacation allowance paid • Date and amount of vacation allowance owing and paid on termination • Documentation for maternity, parental and other leaves including the dates and number of days taken and the date of termination	3 years from the date the record is made

Record retention requirement by jurisdiction

Jurisdiction	Information required for each employee		Length of time
Newfoundland and Labrador	• Name • Address • Birth date • Wage rate • Daily hours worked, wages paid and deductions • Date employment began and terminated • Notice of termination • Notice of intention to terminate • Particulars of annual vacation and wages paid	• Date of rest periods • Date of expiry of contract and specific tasks for which employee was hired if applicable **Note:** The *Industrial Standards Act* indicates the need to keep the following records but does not state a required time period: name, address, age, duties performed, daily and weekly hours, wage rate, and any agreement relating to working conditions.	4 years from the date of the last entry
New Brunswick	• Name • Address • Birth date • SIN • Date employment began • Hours worked by day and by week • Wage rate and gross pay for each pay period	• Particulars of deductions, living allowance, vacation periods, vacation pay, statutory holiday pay due or paid, net payments • Documents relating to the leaves of absence, the reason for the leave and the dates of all dismissals, suspensions or layoffs and corresponding notices	36 months after work is performed
Northwest Territories/ Nunavut	• Name • Age • Address • Hours worked each day • Gross and actual payments • Date of beginning of employment and anniversary date	• Rate of wages and particulars of any changes, amount and particulars of deductions • Information on annual vacations and amount paid in lieu of notice on termination • Amounts paid for statutory holidays and a copy of any notice of termination	2 years from the date record was made
Nova Scotia	• Name • Age • Sex • Address • Wage rate • Hours of work • Vacation periods • Leaves of absence, pay and vacation pay	• Dates of beginning and termination of employment • Dates of all layoffs or discharges and corresponding notices and cumulative wages • A record of how much each employee has been paid	3 years after work is performed

Record retention requirement by jurisdiction			
Jurisdiction	**Information required for each employee**		**Length of time**
Ontario	• Name, • Address • Date of birth if employee is a student under 18 years of age • Date employment began • The number of hours worked each day and week • Wages in each pay • Statement of wages on termination and record of vacation time and vacation pay • A record of excess hours • Averaging agreements	• All documents relating to an employee's pregnancy, parental, family medical, personal emergency, declared emergency or reservist leave must be kept for 3 years after the day the leave expired. **Note:** Employers who employ "homeworkers" are also required to keep a register containing the name, address, and wage rate of the homeworker. This must be kept for 3 years after the homeworker stopped working for the employer.	3 years after work is performed
Prince Edward Island	• Name • Address • SIN • Date of birth • Wage rate and actual earnings • Daily and weekly hours worked • Gross earnings per pay period	• Deductions and their nature, date of beginning and termination of employment • Duties • Vacation periods • Vacation pay • Overtime hours accumulated and used	36 months after work is performed
Quebec	• Name • Address • SIN • Occupation • Date employment began and the following for each pay period: • Daily and weekly hours of work • Overtime hours • Number of overtime hours • Wage rate • Details of other monies paid	• Gross wages • Details of deductions • Net wages • Work period corresponding to payment • Date of payment • Reference year • Duration and departure date of annual vacation and details of statutory holidays • Dates of birth of employees under age 18	3 years after work is performed

Record retention requirement by jurisdiction			
Jurisdiction	**Information required for each employee**		**Length of time**
Saskatchewan	• Name • Address • Sex • Date of birth • Details of any unwritten contract and copies of written contracts relating to wages or monetary benefits • Wage rate • Total wages per pay period • Time of beginning and end of work and meal breaks • Total hours of work each day and week that employee is expected to be at the employer's disposal • Details of deductions • Date of each wage payment • Date employment began and terminated	• Details of annual holidays • Details of termination pay and details of every employee whose work is ordinarily performed at home, including the address where the work is performed and the portion of work performed at home **Note:** The *Wages Recovery Act* requires the following information to be kept for 24 months after an entry is made: details of any unwritten contract and copies of written contracts relating to wages or monetary benefits, name, sex, date of birth, address, job description, wage rate and details of changes, total wages paid per pay period, daily and weekly hours of work and details of deductions made.	5 years after termination of employment
Yukon	• Name • Address • Daily and weekly hours worked • Gross wages and details of deductions •Weekly overtime hours	• Paid time off in lieu of overtime accumulated and taken weekly • Annual vacation taken • Leaves of absence taken • Conditions of employment	12 months after the work is performed

COURT CASES

Pet Stores, Company Director Fined $65,000 For Failure to Comply with Orders to Pay Wages and Produce Records

Company, Director Fined $25,000 For Failure to Pay Worker As Ordered

Owner of Taxicab Business Fined $15,000 After Failing to Pay Employee

REFERENCE MATERIALS

Below are helpful guidelines that are available on **The Canadian Payroll Association's website:**

Pay Statement Payroll Best Practices Guidelines (public access)

Social Insurance Number Payroll Best Practices Guidelines (Member's Only)

New Hire Payroll Best Practices Guidelines (Member's Only)

Termination Payroll Best Practices Guidelines (Member's Only)

Canada Pension Plan Changes Payroll Best Practices Guidelines (Member's Only)

Province of Employment Payroll Best Practices Guidelines (Member's Only)

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