Audit Check List for Gratuity and Earned Leave Valuation as per AS15 Employee Benefits

Background

Data and assumptions are the basis of all actuarial valuations. Collecting good quality data and having appropriate assumptions, therefore, plays a vital role in carrying out correct valuation of liabilities and expenses associated with employee benefit schemes (e.g. gratuity, leave encashment, pensions etc).

It is, however, worth noting that when it comes to valuation of employee benefits (such as gratuity, etc), *actuaries (have to) rely on the information provided by the management* in carrying out the actuarial valuation. Information here relates to both *data* and *assumptions*.

In such a situation, we believe it is advisable for both management and the auditor to ensure its comfort on the data provided for valuation and assumptions used in the valuation.

We have therefore prepared an *audit check list*, which we believe can help the management and the auditor in ensuring that correct inputs are going into the valuation. Certain items have been highlighted in blue; these are the items which we believe are more crucial than others.

Also, in the below table, we are highlighting what we feel is the role of various parties in actuarial valuations:

Aspect	Actuary	Management	Auditor
Data	Check	Provide	Check
Assumptions	Advise	Decide	Concur
Results	Provide	Rely	Rely (Can question)
Disclosures	Provide	Disclose	Concur

To share your views on the checklist r for any further information, you may kindly get in touch with:

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Particulars	Checked?
DATA CHECKS	
1. Data Completeness	
• Is the ***total number of employees*** given for actuarial valuation matching with the number of employees in the latest month's payroll data?	
• Is the ***total of basic salary for all employees*** given for actuarial valuation matching with total basic salary for all employees in the latest month's payroll data?	
• Is the ***total of Cost To Company (CTC) for all employees*** given for actuarial valuation matching with total basic salary for all employees in the latest month's payroll data?	
• Are there any ***missing dates of births?***	
• Are there any ***missing dates of joining?***	
• Is there any ***employee with salary information missing?***	
• Are there ***any duplicate entries?*** Can be checked based on employee ID and name.	
• Are all the management persons and directors on the rolls of the company included in the data?	
2. Data Accuracy	
• ***Minimum and maximum age as on date of valuation*** within reasonable bounds?	
• ***Minimum and maximum age as on date of joining*** within reasonable bounds?	
• ***Minimum and maximum number of completed years*** as on the date of valuation within reasonable bounds?	
• ***Minimum and maximum number of leaves outstanding for each completed year of service*** as on the date of valuation within reasonable bounds?	
• **Sample check** of all data items (e.g. date of birth, salary etc) of a few employees. Choice of employees can be based upon: → Employees with highest salaries → Employees with highest designations → Oldest employees in the organisation → Oldest employees in terms of age → Employees with maximum number of leave balance	

3. Data Consistency

- Bridge opening and closing data as:
  - **Number of employees at beginning (Opening Data)**   **XXX**
    - → New employees joined during the year (Closing vs Opening)   (+)   XXX
    - → Employee exits / deaths during the year (Opening vs Closing)   (-)   XXX
  - **Number of employees at the end (Closing Data)**   **XXX**

- For common employees (i.e. employees both at beginning and end), is the **date of birth consistent**?

- For common employees, is the date of joining consistent?

- For common employees, is the **salary growth reasonable**?
  - → Are there any employees with negative salary growth?
  - → What is the minimum and maximum salary growth?

- For common employees (i.e. employees both at beginning and end), is the **number of outstanding leaves consistent**?
  - → Have the number of leaves grown for all employees?
  - → At an employee level, what is the minimum and maximum number of change in leaves outstanding?

CHECK / VALIDATE ASSUMPTIONS

1. Salary Growth rate (most important assumption)

- Is salary growth over the last 3 / 5 years consistent with assumption used?

- Is salary growth rate assumption kept constant as discount rate fluctuates?

- Are all three components of salary growth (viz compensation for inflation, productivity increase as well as merit) covered in the assumption?

2. Attrition

- Is the attrition rate consistent with actual experience? Can be analysed in terms of age and salary.

3. Mortality (Typically – IALM 94-96 or IALM 2006-08 used, can be left to the actuary)

Must Analyse In Case Of Pension And Medical Scheme

4. **Discount Rate**

- Is this consistent with the yields on government securities as on the date of valuation?

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VALIDATE RESULTS	
1. Gratuity	
• Is the overall value of liability in line with expectations? Considered this based on: → Growth in employee base of the Company → Total number of completed years of service at the beginning and end of the period? → Change in assumptions (e.g. fall in discount rate or change in salary growth rate)	
• Gratuity liability / accrued liability (assuming no vesting period) – is the ratio increasing?	
• Experience gain / (loss) – is significant experience gain / (loss) arising on consistent basis (i.e. year on year), including the last year?	
• Are the results for various components of movement (e.g. current service cost, interest cost, etc) broadly consistent with previous year? And if not, is the inconsistency explainable?	
• Consider sensitivity of liability to assumptions – is the valuation on current assumptions reflecting a true and fair view?	
2. Earned Leave valuation	
• Is the overall value of liability in line with expectations? Considered this based on: → Growth in employee base of the Company → Total number of outstanding leaves at the beginning and end of the period? → Change in assumptions (e.g. fall in discount rate or change in salary growth rate)	
• Earned leave liability / accrued liability (assuming no vesting period) – is the ratio increasing?	
• Experience gain / (loss) – is significant experience gain / (loss) arising on consistent basis (i.e. year on year), including the last year?	
• Are the results for various components of movement (e.g. current service cost, interest cost, etc) broadly consistent with previous year? And if not, is the inconsistency explainable?	
• Consider sensitivity of liability to assumptions – is the valuation on current assumptions reflecting a true and fair view?	