

# PAYROLL MANAGEMENT



## POLICY, PROCESSES AND PROCEDURES

RECOMMENDED

THAT the **Payroll Management Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

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**Adopted by the Mayoral Committee**

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CHAIRPERSON

Date: \_\_\_\_\_

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## **1. Policy**

### **1.1 Overview**

Sedibeng District Municipality has developed its payroll management policy to include activities at all departments at which municipality business is conducted. This in recognizing its:

- i. community orientation; and
- ii. the need for good governance.

The payroll management policy is a transparent and codified internal control system aimed at promoting its core District Objectives to maximize the limited human resource capacity at the disposal of Sedibeng District Municipality so as to focus the capacity towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and congruent to approved budgets and broader financial policies of Sedibeng District Municipality, whilst minimizing the temptation of misuse of municipality funds.

The policy is applicable to all Sedibeng District Municipality staff charged with discharging municipality related activities. It seeks to institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

- i. A guideline for all stakeholders;
- ii. An internal dynamic document detailing the processes required for the efficient discharge of duties to ensure the efficient administration of the Sedibeng District Municipality budgets

The policy is intended to provide a framework and should be read in conjunction with the policies as devised by the Human Resources Directorate.

### **1.2 Purpose**

In many organisations, payroll and other employee-related expenditure is the major component of the total financial resources consumed. The financial position of an organisation can be strongly linked to whether payroll expenditure is effectively

planned, processed and managed. Effective payroll management plays a major role in maintaining a productive and motivated work force and is therefore, a key aspect of the overall human resource management process.

### **1.3 Objectives**

To ensure procedures and internal controls are in place to drive the payroll management process by subscribing to best practice procedures. SDM thus wishes to:

- i. Infuse business processes into internal control which complies with all legislation and statutory requirements;
- ii. Safeguard cash resources and optimising cash flow via effective, efficient and economical use of the Sedibeng District Municipality cash resources;
- iii. Drive a culture of accountability over Sedibeng District Municipality by skilling staff and stakeholders alike;
- iv. Ensure the budgetary process is not compromised;
- v. Ensure that staff assigned to payroll management should be appropriately trained and be aware of relevant policies and procedures.

### **1.4 Business Process Framework**

#### **1.4.1 Legislative Framework**

***Section 66 of the Municipal Finance Management Act, 2003***, specifies the expenditure on staff benefits that must be followed by the Municipality

#### **1.4.2 Accounting Framework**

The responsibility of making provision for funding and that adequate reserves be maintained lies with the Accounting Officer and Chief Financial Officer, or delegated official, who has to ensure that reasonable controls exist to support the implementation of policies. In delegating this function to subordinates, it does not alleviate the responsibility of the Chief Financial Officer. The HOD has to ensure all policies and procedures are communicated to and implemented by the responsible individual(s).

*The accounting officer of a municipality must, in a format and for periods as may be prescribed, report to the council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits, and in a manner that discloses such expenditure per type of expenditure, namely-*

- *salaries and wages;*
- *contributions for pensions and medical aid;*
- *travel, motor car, accommodation, subsistence and other allowances;*
- *housing benefits and allowances;*
- *overtime payments;*
- *loans and advances; and*
- *any other type of employee benefit or allowance related to staff*
- *Retirement Funds*

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## **1.5 Recommendations**

- i. This policy, processes and procedures document supersedes all previously issued references to payroll management;
- ii. This policy, processes and procedures document be recognised as providing the framework of operation and internal control mechanisms for all staff members of the municipality charged with payroll management in a particular vote;
- iii. This policy document be adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for Payroll Management.

## **2. Processes**

### **2.1 The Human Resources Function**

#### **2.2.1 Mandate**

The payroll management process is generally considered to begin in the Municipality's human resources department. It is the human resources department that authorises the formal transactions to hire new employees, adjust salaries or wages, establish payroll deductions, and promote, transfer or terminate employees through retirement or otherwise.

***A Municipality's human resources department is also the customary repository for all employment history records.***

#### **2.2.2 New Appointments**

One of human resources department important functions, is the adding new staff to the payroll, this is a critical control point in the payroll management process. Internal controls must be established to ensure that new hires and other payroll transactions have been approved by the Municipality's *[relevant]* management or other authorised individuals in compliance with internal Municipal procedures, and other legislative and regulatory requirements including funding and budgetary restrictions.

#### **2.2.3 Monitoring**

Because the Municipality's human resources department authorises the transactions that add employees to the payroll, change pay, and effect other key transactions, this department must not have access to the timekeeping, payroll, or pay cheque distribution functions. Personnel must be organisationally separate and distinct from the payroll office, must not have access to or exercise control over the primary timekeeping records, and must not be authorised to enter or change timekeeping or payroll data.

### **3. Procedures**

#### **3.1 The Time Keeping Function**

Timekeeping is the aspect of the payroll management process that creates the primary time records that are used to determine the salary or wages payable to employees. As such, it is one of the most important links in the Municipality's internal control structure for the payroll process. Timekeeping activities should take place at the unit or section where employee attendance data is collected and recorded and at the central timekeeping office where timekeeping data is reviewed, coordinated and assembled. Timekeepers must be adequately trained, must have a working knowledge of the Municipality's payroll policies and practices, and must have access to the written rules and procedures that describe their functions and responsibilities. The Human Resources Directorate is the custodian of the timekeeping function.

##### **3.1.1 Recording Time – General**

A fundamental timekeeping principle is that attendance, absence and tardiness be recorded promptly on a daily basis. Time and attendance must be recorded for all employees, including managerial and non-managerial salaried staff, and those who are paid on a daily or hourly basis. In most cases, employees record their own arrival and departure times and leaves taken, however, in many situations timekeepers are given this responsibility.

##### **3.1.2 Salaried Employees**

The time records for salaried employees must record the hours of arrival and departure for each day of work, the charges against vacation, sick or personal leave credits, and any excused leave taken for events such as death in family.

##### **3.1.3 Daily or Hourly Wage Employees**

The time records for employees paid on an hourly or daily rate basis must capture the details necessary to establish total time worked, because employees in this class are paid only for the time at work. Timekeeping for these employees, typically skilled workers or labourers, may be complicated by the fact that their work locations frequently change, requiring time records to be maintained at various locations. In



these situations, the Municipality must ensure that the information entered on time records at each location is correct and complete in every detail and that the several records are co-ordinated and accurately combined to obtain the aggregate time worked

### **3.1.4 Daily Attendance Reports**

3.1.4.1 The primary timekeeping document for recording hours and computing total time worked is the daily attendance report. Daily attendance reports may also be used to record and control late arrivals and early departures. Time clocks, sign-in sheets and managerial time sheets are typical daily attendance reports; however, this record may take a variety of forms, particularly as the Municipality makes greater use of electronic and other technologies to record timekeeping data.

3.1.4.2 Regardless of the daily attendance report's format, it must reliably capture all information necessary to track an employee's attendance.

3.1.4.3 All daily attendance reports must be signed by the employee and approved by his or her immediate supervisor.

### **3.1.5 Special Procedures for Sign-in Sheets**

3.1.5.1 Where sign-in sheets are used, they should be prepared in advance by the Municipality's human resources department. Sign-in sheets must cover each day of the week or payroll period and, when possible, should pre-list, in alphabetical order, the name of the employees who are required to sign-in.

3.1.5.2 Any changes to sign-in sheet entries must be in ink and initialled by the appropriate supervisor

3.1.5.3 Sign-in sheets must always be under the physical control of the supervisor. This is especially important at normal work start and end times so that the arrival and departure times can be verified as they are entered by employees

3.1.5.4 Where sign-in sheets do not pre-list employee's names, a "late line" should be drawn across the sheet at five minutes after the scheduled reporting

time. This action creates a clear tardiness record since employees signing below the line were late.

3.1.5.5 Where sign-in sheets do pre-list employee's names, an "X" or late line should be drawn, at five minutes after the scheduled reporting time, in the space adjacent to the name where arrival time is recorded.

### **3.1.6 Timekeeping for Field Employees**

Employees, whose duty assignments require them to work in the field at different locations or at locations other than their central office, must maintain a record of their daily activities. The starting and ending times, location, description of the work performed, and time spent in the field or alternate location must be entered for each day's work, showing for employees such as inspectors who visit multiple sites each day, the details for each stop. Any deviations from regular hours, and the reason, must be clearly indicated. At a minimum, this record must be submitted to the employee's central office on a weekly basis.

*Properly designed and maintained time records are an important component of good internal controls over payroll and fringe benefits expenditures. Employees should maintain daily records of their hours worked and/or absences. These records help supervisors and those individuals processing payroll determine employees' regular and overtime (if applicable) hours, as well as update employees' accumulated leave balances. Time records should contain the information necessary to account for an employee's entire workday, including starting and ending times, leave charges and meal periods. Erroneous or incomplete entries and omissions on these records can cause delays or errors in pay, and inhibit supervisors in fulfilling their oversight responsibilities.*

### **3.1.7 Excessive Lateness**

The timekeeping process can be used to help control employee lateness by having the timekeeper bring cases of excessive lateness to the attention of the supervisor or by having supervisors monitor the time records.

### **3.1.8 Prior Notice for Absenteeism**

Where possible, the supervisor must ensure that employee's planned absence requests are submitted in advance. Absenteeism due to illness or emergency should be reported within one hour after the employee's scheduled starting time.

## **3.2 Monitoring And Review**

3.2.1 An effective organisational control structure should have robust monitoring and review processes in place which involve overseeing the operational objectives and control activities. Monitoring and review should be undertaken on an on-going basis and be built into the day-to-day activities of the system.

3.2.2 It can, however, also be carried out as a separate activity on a periodic basis. The responsibility for carrying out monitoring and review should be clearly defined.

3.2.3 On an ongoing basis payroll transactions and processes should be monitored by payroll managers and supervisors. Payroll monitoring and review processes should also incorporate the following:

- i. internal and external audit scrutiny;
- ii. budget monitoring of payroll balances;
- iii. quality control processes;
- iv. performance indicators

3.2.4 Benefits of effective payroll monitoring and review

Effective monitoring and review provides the organisation with assurance that payroll controls are operating, transactions are being appropriately processed and standards of service are being maintained.

Periodic monitoring and review is often aligned with sharing ideas, both across the organization and externally. In-built monitoring and review mechanisms, such as control self-assessment, encourages ownership of controls as well as enhancing the control structure

### ***Best Practice for Monitoring and Review***

- i. implementation of a range of performance indicators to monitor the efficiency and timeliness of payroll processing;*
- ii. regular meetings of user groups to identify issues and provide suggestions for improvements to processes;*
- iii. inclusion of feedback on the payroll process as part of performance review meetings with individual staff;*
- iv. benchmarking with other Municipalities; and*
- v. regular certification by business unit management of the accuracy of payroll details.*

### **3.3 Preparing The Employee Time Report (ETR)**

The Employee Time Report is a key document in the payroll process; it captures the time employees worked, as well as charges to annual and sick leave or other balances such as compensatory time. Individual ETRs must be prepared for each employee every week.

#### **3.3.1 ETR Preparation Procedures**

3.3.1.1 Completing the ETR requires a review of the accuracy of the daily attendance reports, the transfer of the information from the daily attendance reports to the ETR, and signing as preparer.

3.3.1.2 ETRs should be prepared by an employee other than the departmental timekeeper who supervises the daily attendance reports. If the organisational structure does not permit this segregation and the timekeeper also prepares and submits the ETRs, the ETRs must be verified and approved by the departmental supervisor or be submitted to the Municipality's human resources office, along with the daily attendance reports, for independent validation

- 3.3.1.3 Absences for daily and hourly wage employees are coded and recorded on the daily attendance reports in the same manner as for salaried employees, however, when completing ETRs for daily and hourly wage employees, only paid absences along with the actual hours worked must be entered
- 3.3.1.4 Additional annual leave that is credited to an employee whose unused time balance is already at the maximum allowance must be handled in accordance with Leave Regulations and applicable Municipal procedures
- 3.3.1.5 To insure that proper salary reductions are made when salaried employees take time in excess of their leave balances, as may be permitted by the Municipality;

Incidents must be reflected on the ETRs in exact hours and fractional hours for each day an absence occurs. All such adjustments must be certified by the timekeeper and approved by the appropriate manager or supervisor.

## **3.4 Employee Benefits**

### **3.4.1 Retirement Funds**

Sedibeng District Municipality contributes to Municipal Gratuity Fund contribution fund which are defined contribution plan in nature. Payments contribution to the benefit plans are charged as an expense when due.

Payments made to state based plans are seen as equivalent to defined contribution plans and accounted as such. If the employee has rendered a service to the municipality during the year, the necessary contribution to the defined contribution plan is raised as an expense immediately. The municipality provides retirement benefits to employees and councillors and the expense raised by the defined contribution is accounted for in that particular year.

Payments for defined benefit plans are calculated using the projected credit method and subject to actuarial valuations. Past service costs are recognized immediately. Gains or losses for a defined plan are accounted for at curtailment or settlement. Impact on future contributions based on surpluses or losses are subject to assessments. No change in contributions evolves from surpluses, but losses attract contribution increases.

### **3.4.2 Medical Aid**

The municipality will provide continued contributions to a medical aid fund post retirement as a benefit. This in accordance with the rules of the particular fund, and subject to the member choosing to stay on that particular medical aid scheme. Should the member choose to remain on the scheme, he needs to contribute his portion and the municipality their portion.

## **3.5 Exception Transactions**

Certain unusual and strongly discouraged payroll transactions may be necessary in exceptional circumstances. The Municipality must ensure that such transactions are authorised in advance, in writing by the supervisor/manager and the Municipality's human resources department, and in accordance with a Council Resolution.

### **3.5.1 Payroll Advances**

A salary advance is a privilege the municipality may advance a municipal employee with his / her salary or portion thereof upon written request by the party concerned to be recovered in full on the 25<sup>th</sup> of the same month, in which the request was made, or, the 25<sup>th</sup> of the following month if the request was made on or after the 25<sup>th</sup> of the month. For a transaction to qualify as an advance, the recoverability thereof has to be within a period of 31 days or shorter depending on the date of the application. A salary advance should not exceed one month's salary payable to staff on the 25<sup>th</sup> of the month following the advance.

#### **3.5.1.1 Conditions under which an advance can be granted**

A salary advance can be granted under the following circumstances:

- Death in the family
- Payment of school fees
- Instruction by court to meet an obligation
- Enough security exists to cover the advance; e.g. leave days available
- Proof exists for the application; e.g. certified death certificate which can be submitted at a later stage after the funeral
- In all other cases except death in the family, the advance will be paid directly to the relevant institution where feasible

#### 3.5.1.2 Conditions under which an advance cannot be granted

A salary advance cannot be granted under the following circumstances:

- If the repayment period will be longer than one month (31 days)
- No security exists to cover the advance (e.g. leave days due)
- No proof exists for the application (except in the case of death in the family)
- An advance based on future bonus payments as the entitlement thereof is one full year of uninterrupted service in terms of conditions of employment.

#### 3.5.1.3 Approval of salary advance

The salary advances will be recommended by the executive director under whom the applicant resides and final approval is by the municipal manager.

### 3.5.2 Leave Advances

Borrowing leave from future accruals is generally discouraged and should be allowed only in unusual circumstances and upon the discretion of the Municipal Manager. Advances should only be taken at times convenient to the Municipality, and based on the Municipality's level of affordability.

### 3.5.3 Salary Overpayments

The Municipality is responsible for detecting, correcting and recouping overpayments made to employees. The two most common causes of overpayments are delays in reporting terminations and leaves-without-pay

## **3.6 Recordkeeping Requirements**

### **3.6.1 Personnel Records**

The Municipality's human resources department must maintain records supporting and authorising documentation for all personnel actions including hiring new employees, changes in compensation or title, salary deductions, terminations, resignations, retirements and all intervening events. The human resources department must also maintain all employment history records.

### **3.6.2 Time keeping Records**

Time keeping records must be properly maintained. The daily attendance reports, consisting of time cards, sign-in sheets, or other records that record daily attendance, are the source documents for employee time.

Accurate record keeping is essential to ensure that employees are paid only the amounts due to them and the overall effectiveness of the payroll procedures and controls

The Municipality must observe the following basic guidelines for the proper management of time keeping records:

- 3.6.2.1 Maintain a complete and accurate record of daily attendance reports showing attendance for each day, hours worked, absenteeism by type and tardiness
- 3.6.2.2 Maintain all support documentation including doctors' notes and leave requests for each employee
- 3.6.2.3 All original time and attendance records must be adequately safeguarded, retained and organised in a manner that will ensure prompt retrieval

### **3.6.3 Payroll Records**

All payroll office records used for the review, reconciliation and adjustment of payrolls must be maintained and updated in secure, well defined files in accordance with the Municipality's records retention policies



### **3.7 Internal Audit and Pre-Audit Requirements**

The Municipality's internal audit and review of the various elements of the payroll process is an integral part of the internal controls over this function. Internal audits and reviews must be conducted on an ongoing basis by internal audit staff or others who are independent of the audited function.

❖ *The Importance of maintaining effective controls and processes*

*The existence of, and compliance with, detailed controls and processes for all aspects of payroll is of critical importance in ensuring the accuracy and completeness of payroll transactions. Failure to establish an effective control system increases exposure to a range of risks including*

- i. non-compliance with relevant legislative, award and policy requirements;*
- ii. inaccurate or inappropriate payments to employees;*
- iii. inaccurate calculation of taxation and other deductions;*
- iv. processing of transactions that have not been improved;*
- v. incorrect recording of leave entitlements;*
- vi. errors in the recording of payroll transactions in financial records;*
- vii. inappropriate access to payroll information; or*
- viii. potential fraud or misappropriation of funds*

***Appendix One of this policy provides examples of potential control procedures for all key aspects of the payroll management process***

### **3.8 Amendment and Review of the policy**

The Payroll Management Policy and Procedures shall be reviewed at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.

## APPENDIX ONE: Control Procedures

The following table outlines potential control procedures that could be implemented in a payroll management environment

<b><i>Area of Control</i></b>	<b><i>Examples of potential control procedures</i></b>
Management controls	<ul style="list-style-type: none"> <li>• Existence of detailed budgets for payroll expenditure and liabilities.</li> <li>• Regular monitoring of actual expenditure against budget including investigation of variances.</li> <li>• Performance targets are established for payroll and are regularly monitored by senior management.</li> <li>• Relevant business/operational units regularly check accuracy of payroll data.</li> <li>• Appropriate exception reports are produced and acted upon</li> </ul>
File Controls	<ul style="list-style-type: none"> <li>• Reconciliations are undertaken between payroll records and the general ledger.</li> <li>• Reconciliations of payroll bank accounts are undertaken and regularly reviewed.</li> <li>• Pay-to-pay or year-to-year reconciliations of payroll totals are undertaken.</li> <li>• Control totals on financial or other data elements are calculated and reconciled.</li> </ul>
Control over Records	<ul style="list-style-type: none"> <li>• Detailed payroll reports are reviewed and approved by operational unit management.</li> <li>• Error and rejections reports are produced from payroll systems and appropriately followed-up.</li> <li>• Variations to individual payroll records and amounts are independently reviewed and approved</li> </ul>
Input Controls	<ul style="list-style-type: none"> <li>• Staff appointments are approved in line with appropriate delegation schedules.</li> <li>• Time records are appropriately reviewed and approved.</li> <li>• All adjustments to pay rates and deductions are appropriately approved and reviewed before input.</li> <li>• Changes to standard data is appropriately reviewed and approved.</li> </ul>

<p>Update Controls</p>	<ul style="list-style-type: none"> <li>• Appropriate authorisation and review processes are in place for nonstandard payments (e.g. pay in advance, long service leave, lump sum payments, and manual cheque payments).</li> <li>• Appropriate reports on changes to payroll data are produced and approved</li> <li>• Procedures are in place to ensure that all transactions have been processed.</li> <li>• Procedures are in place to ensure that correct versions of payroll data files are used (e.g. correct pay rates, tax deduction tables).</li> <li>• Reports of changes to payroll data are produced and reviewed.</li> <li>• Rejection and error reports are produced, reviewed and acted upon.</li> </ul>
<p>Segregation of duties</p>	<ul style="list-style-type: none"> <li>• The functions of payroll staff are clearly segregated from approval, authorisation and payment functions.</li> <li>• Regular rotation of duties occurs for the payroll function.</li> </ul>
<p>Access and security controls</p>	<ul style="list-style-type: none"> <li>• Appropriate physical security is maintained over payroll and personnel records and reports.</li> <li>• Appropriate access controls are in place for payroll systems (e.g. password security, regular changes to passwords, levels of access by payroll and other employees).</li> <li>• Reports of access to systems are produced and reviewed for unusual/unauthorised access.</li> </ul>

## APPENDIX TWO: Best Practices

The following list is indicative of best practice initiatives in payroll management

<b>Objective</b>	<b>Best Practice</b>
<b>Risk Management</b>	<ul style="list-style-type: none"><li>• The risk management plan should be revisited on an annual/ periodic basis and at the time of any major changes in the organisation's internal or external environments e.g. The outsourcing of functions.</li><li>• The risk assessment process should incorporate a protective security risk assessment for payroll data.</li><li>• The risk assessment process should involve relevant human resources, payroll and finance staff.</li></ul>

<b>Objective</b>	<b>Best Practice</b>
<b>Resource Management</b>	<ul style="list-style-type: none"><li>• Payroll staff should have ongoing training in legislative and policy requirements.</li><li>• Succession planning should be established for payroll staff functions and responsibilities.</li><li>• Arrangements should be in place so that access to HR experts can be readily obtained.</li><li>• Rotation of staff in the payroll processing area for improved control and cross-skilling.</li></ul>

Objective	Best Practice
	<ul style="list-style-type: none"> <li>• To include key controls with control duplication eliminated <b>through</b> the use of detective or compensating controls.</li> <li>• Conduct of control self-assessments by management.</li> <li>• Suite of exception reports to allow management to monitor and review with focus.</li> <li>• A HR Committee with responsibility for human resource (HR) policies including personnel management and development, and the driving of Certified Agreement processes.</li> <li>• Positive assurance of the accuracy of payroll reports by business areas on a sample basis. Payroll reconciliations to be subject to independent review.</li> <li>• Periodic internal audit testing of payroll transactions.</li> <li>• Complaints resolution process to be defined and documented.</li> <li>• Emphasis on monitoring and review controls including exception reporting rather than input controls.</li> </ul>

Objective	Best Practice
<b>Efficiency and Effectiveness</b>	<ul style="list-style-type: none"> <li>• Cost-benefit of payroll function to be reviewed periodically.</li> <li>• Development of KPIs and measurement and monitoring of performance.</li> <li>• Feedback on the quality of payroll reports to be sought periodically.</li> <li>• Benchmarking of the payroll function on a periodic basis.</li> <li>• Monthly payroll or four weekly payroll processing, as opposed to fortnightly payroll.</li> </ul>

<b>Objective</b>	<b>Best Practice</b>
<b>Technology Improvement</b>	<ul style="list-style-type: none"><li>• Implementation of fully integrated HR and finance systems.</li><li>• Utilisation of e-mail notification for ad hoc payments.</li><li>• Payslips provided through the web or e-mail subject to appropriate security arrangements being in place.</li><li>• Employee self service systems for leave processing.</li><li>• Electronic authorisation</li></ul>