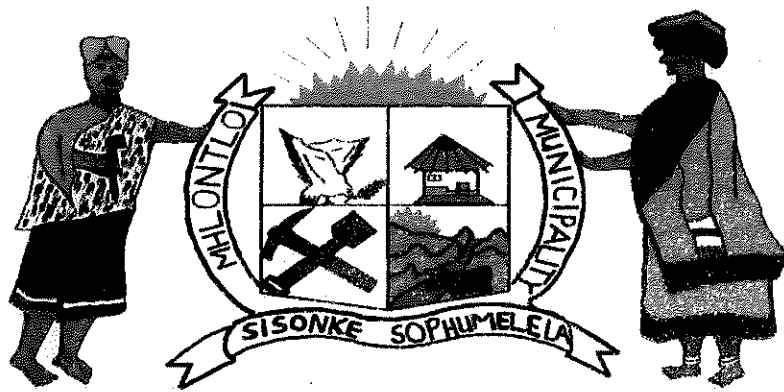


# Mhlontlo Local Municipality



## PAYROLL MANAGEMENT AND ADMINISTRATION POLICY/PROCEDURE

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## 1. PURPOSE

- 1.1. The purpose of the policy is to provide a standard framework and basic internal controls and procedures, which must be followed in the preparation, submission and processing of payroll-related transactions and the distribution of payroll results in the municipality

## 2. OBJECTIVE AND SCOPE

- 2.1. This policy is applicable to all payroll-related transactions for employees, pensioners, recipients of disability benefits in terms of the Compensation for Occupational Injuries and Diseases Act, 1993 (Act 130 of 1993), and Councillors falling within designated scope of the scope of the municipality.
- 2.2. The policy describes the key features of a payroll management system and payroll administration processes, payroll schedule and payment methods, including the administration of appointments, promotions/demotions, advancements, service benefits and allowances and the processing of ad hoc claims
- 2.3. The policy also provides for the recovery of overpayments arising from payroll errors and non-payroll related errors.

## 3. DEFINITION

**“Collective Agreements”** Agreements as defined in the labour Relations Act, 1995 (Act 66 of 1995) and conducted at the South African local Government Bargaining Council (SALGBC) or Eastern Cape Division

**“Councillor”** A member of a municipal council.

**“Debt”** an amount to money owed and payable to the Municipality arising out of a liability or obligation to pay.

**“Employee”** Any person, excluding and independent contractor, who works for the Municipality and who receives any remuneration; any other person who in any manner assists in carrying on or conducting the business of the Municipality.

**“Overpayment”** Any payment made to an employee in error, where a payment in error is one where there is no legal basis for such payment irrespective of the nature or source of the error.

**“Underpayment”** Any payment not made to an employee where there exists a legal obligation on the part of the Municipality to make the payment.

**“Payroll Administration”** Transactions arising from the application of statutory provisions, collective agreements, conditions of service, arbitration awards, court orders and approved policy directives.

**“Payroll Calendar”** The annual calendar, which informs the monthly payroll cycle and which sets out the key dates on the payroll cycle and process.

**“Payroll System”** The Promun system used to administer or process and personnel administration-related transactions.

**“Authorised Deductions”** Deductions required or permitted in terms of the law, arbitration award, collective agreement, any other agreement with the employee or court order or as defined in the Employment Contract Policies of the Municipality and the Conditions of Service.

**“Unauthorised Absence”** Refers to instances where an employee's absence is not authorised before it occurs or where it is not authorised afterwards.

**“Legal Interest Rate”** The rate of interest prescribed in terms of Sections 1 of the Prescribed Rate of Interest Act, 1975 (Act 55 of 1975), as amended.

**“Line Manager”** The person with direct authority and/or responsibility over subordinates in their respective directorates, departments, business units, etc.

#### **4. LEGAL FRAMEWORK**

This policy/procedure manual is established within the framework for the following legislation and policies:

Basic Conditions of Employment Act, 1997 (Act 75 of 1997)

Income Tax Act, 1962 (Act 58 of 1962)

Municipal Finance Management Act, 2003 (Act 56 of 2003)

Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)

Unemployment Insurance Contributions Act, 2002 (Act 4 of 2002)

Prescribed Rate of Interest Act, 1975 ( Act 55 of 1975)

#### **5. POLICY PROCEDURE/TARGET AUDIENCE**

All municipal employees

#### **6. GENERAL POLICY PROVISIONS**

The following provisions are applicable to this policy.

##### **6.1 Values and principles**

6.1.1. This policy and related procedures are underpinned by the following values and principles:

6.1.2. Good governance, which imposes a duty to apply the policy and procedures in a consistent and a fair manner.

6.1.3. Honesty and integrity which require all involved to report unauthorised transactions, including administrative and system errors once identified

6.1.4. The values and principles contained in various pieces of legislation, especially the Code of Conduct for Municipal Staff Members and the Code of Conduct for Councillors.

## **6.2. Policy Statement**

- 6.2.1. Given the significant financial impact of payroll costs, it is critical that the Municipality determines administrative and procedural arrangements to appropriately manage and control pay roll related risks and ensure good governance.
- 6.2.2. Line managers must ensure that the internal controls and procedures specified in this policy and procedures are adhered to and, if necessary, advise on the need to modify them to meet the changing organizational and business needs and to eliminate errors and any form of or opportunity for fraudulent activities.

## **6.3. Payroll System**

- 6.3.1. The municipality uses Promun as its payroll system to process all payroll-related transactions.

## **6.4. Payroll Calendar**

The payroll calendar must be communicated to all departments.

- 6.4.1. Line managers must ensure that all documents authorising payroll-related transactions that add employees to the payroll, inform changes in an employee's pay and effect other key payroll-related transactions are submitted before the appointed first pay run date.
- 6.4.2. Documents received after the closing date in a specific payroll cycle will be processed for the next payroll cycle unless otherwise authorised, in writing, by the Director: Corporate Services
- 6.4.3. Request for electronic fund transfer (EFTs) outside of the specific payroll cycle must be duly authorised by Director: Corporate Services.

## **6.5. Personnel and Payroll Administration**

- 6.5.1. This relates to a centralized role and responsibility for processing formal transactions, which should be followed within the application and operation of the Municipality's conditions of service and human resources policies.
- 6.5.2. The responsibility entails the critical need to establish and maintain a credible data base on an employee's employment history records.
- 6.5.3. Line managers must ensure that all source documents authorizing payroll and related administrative actions affected in terms of the above and other relevant documents relating to an employee's employment history are filed in accordance with the approved document management system(s) and procedures.

## **6.6. Payroll Deductions**

Authorised deductions only may be processed and deducted from remuneration

- 6.6.1. Authorised deductions include, but is not necessarily limited to, deductions in respect of an employee's PAYE and UIF obligations, contributions in respect of membership fees to accredited pension funds, medical aid and group life schemes, repayment agreements on the housing allowance scheme, garnishee orders, union membership and any other approved scheme or deductions authorised in terms of a collective agreement or legislation.
- 6.6.2. Deductions authorised by any legislation do not require an agreement with the employee for such deductions to be made.

## **6.7. Administrative Errors**

- 6.7.1. Errors may occur during administrative processes mentioned above.
- 6.7.2. Errors may lead to overpayments or underpayments and may result in a strain on the relationship between the employee and the Municipality as the employer and result in non-compliance with the Municipal statutory or contractual obligations.
- 6.7.3. It is, therefore, important that these errors are reduced and addressed expeditiously.
- 6.7.4. Procedures as defined hereunder are aimed at limiting the error margin to a minimum and must be used as control measures as control measures in this regard.
  - 6.7.4.1. Any error occurring despite the application of predetermined control measures must be investigated to ascertain whether or not there are elements of negligence and corrective action taken to avoid such occurrences.

## **6.8. Over and Underpayments**

- 6.8.1. Any over or underpayments once identified must be reported to the Payroll Office immediately so as to ensure there is no delay in addressing it.
- 6.8.2. The line manager of the employee whose action resulted in the error must investigate the reasons for and/or root cause of the error and take corrective action within a reasonable period of time, but in any event not exceeding 30 (Thirty) days from the date of discovery of the error.
- 6.8.3. In instances where there is evidence that an error emanated from the affected employee's department, e.g. through incomplete documents, incorrect data provided, etc., the relevant supervisor or line manager must investigate and advise payroll office accordingly.

- 6.8.4. Errors so identified, the reasons therefor and action taken must be logged in the payroll administration logbook for remedial and training purposes.
- 6.8.5. Any debt resulting from an overpayment must be dealt with in accordance with this policy and the relevant employee must be notified immediately in writing that a debt has been raised in respect of an overpayment, the total amount of the overpayment and the reasons therefore:
- 6.8.6. Advised of the approved Municipal policy and Procedure on debt management and recovery of overpayment
- 6.8.7. Requested to repay the total amount, by which he/she has been overpaid within 30 (Thirty) days from the date on which the debt has been raised or to make appropriate arrangements with the Payroll office to recover the relevant amount in instalments over a period not exceeding 12(Twelve) months: and
  - 6.8.7.1. Advised that should the employee fail to repay the debt, the provisions of clause 6.6.7 will apply.
  - 6.8.7.2. In the event of the employee electing to repay the debt, an agreement will be entered into setting out the terms and conditions of the repayment plan with no interest on the debt.
  - 6.8.7.3. In instances where agreement cannot be reached, the affected employee will be notified of the intention to implement the recovery of the debt and legal interest will be charged, all other costs of recovery will also be claimed.

#### **6.9. Other Staff Debts and Loss Control**

- 6.9.1. It is possible that some staff may from property loss or damage that may be ascribed to negligence and which cannot be recovered from the Municipality's insurance.
- 6.9.2. Incidents as described above must be reported immediately to Payroll office if the affected employee has been found liable for such loss or damage.
- 6.9.3. Implementation of a decision to recover debt resulting from property loss or damage must follow the process described above with the necessary changes to suit the context.

#### **6.10. Over or Underpayments Resulting from System Changes**

- 6.10.1. Over or underpayments may also occur during the implementation of the Municipality's transformational initiatives and bulk inputs/transactions, which are not the fault of the affected employee nor the administrator
- 6.10.2. Where errors as mentioned above occur, such errors must be investigated and addressed appropriately. These errors must be reported to the Municipal Manager or his/her nominee and corrected

from a current date with no retrospective recovery in the case of a debt, unless there is proof of any wrong doing

- 6.10.3. Decisions made in respect of the above, including the recovery of any unauthorised debt, shall be subject to the Municipal Manager's approval in consultation with Director Corporate Services and the Chief Financial Officer

### **6.11. Measures Relating to recovery of Overpayments and Underpayments**

- 6.11.1. If in the execution of any payroll and related administrative action, which results in an overpayment, any employee (including his/her supervisor or manager), after being given an opportunity to head in a disciplinary hearing, is found guilty of any unlawful or negligent conduct, the Municipality reserves the right to recover such loss or damages from the employee (including his/her supervisor or manager) after following due process.
- 6.11.2. In all cases where a debt is recovered by way of a deduction from the employee's monthly salary, a deduction can be up to 30% of the net monthly pay of the employee or higher only where an agreement is reached, which has been authorised by the Chief Financial Officer or his/her nominee(s).

### **6.12. Other Payments**

- 6.12.1. Overpayments resulting from authorised and unauthorised leave, short time worked and fines and awards imposed on employees.
- 6.12.2. In cases where overpayment arises from unauthorised leave, deductions must be made through the recovery of the overpayment in accordance with this policy
- 6.12.3. Where an employee has not worked the required hours provided for in the Main Collective Agreement of the SALGBC any payment made for time not worked is an overpayment and the recovery of such overpayments must be dealt with in accordance with this policy.
- 6.12.4. In respect of fines and awards in the SALGBC against an employee, deductions must immediately be attended in accordance with the above.

### **6.13. Segregation of Authority**

- 6.13.1. Good governance imperatives require that systems should be put in place to ensure opportunities for internal financial controls.
- 6.13.2. Payroll management in the Corporate Services Department must granted access to and be accountable for:
- 6.13.3. The review of completed payrolls on receipt from Payroll and HR Administration;



- 6.13.4. Reconciling generated payrolls to personnel and accounting records to ensure that generated transactions match authorised pay amounts; and
- 6.13.5. The distribution of payroll results once confirmed as correct
- 6.13.6. Payroll office is responsible for processing authorised transactions that add employees to the payroll, change pay, and effect other key transactions that affect employee's pay, and ad hoc claims as per the approved Municipal Policy.
- 6.13.7. Human Resources section have responsibilities distinct from those of the Payroll office in Corporate Services to ensure proper segregation of authority.

## **6.14. Roles and Responsibilities**

### **6.14.1. Line Managers**

Line Managers are responsible for:

- 6.14.1.1. Ensuring employee attendance and absence records are up to date in each pay period/cycle
- 6.14.1.2. Reporting all unauthorised absences that may lead to an overpayment in pay period/cycle to Human Resources section within 5 (Five) days of becoming aware of the unauthorised absence.
- 6.14.1.3. Advising Human Resource Section of all employees on extended sick/unpaid leave and actions taken to ensure that affected employees are not overpaid in the relevant pay period/cycle.
- 6.14.1.4. Checking that all payroll-related claims to be submitted for processing meet the minimum requirements of the approved policies and procedures, failing which the processing will be delayed or not be honoured; and
- 6.14.1.5. Establishing a system to record and ensure that all documents to inform payroll-related transactions are duly authorised and are submitted before the 10<sup>th</sup> of the month.

### **6.14.2. Human Resource Section**

Human Resource Section is responsible for:

- 6.14.2.1. Recording and verifying submissions received for compliance with the approved policies and procedures;
- 6.14.2.2. Preparing payroll data for processing, processing of submissions and ad hoc claims that meet the minimum requirements of the approved policies

- 6.14.2.3. Advising line managers of submissions that do not meet the minimum requirements of the approved policies and procedures;
- 6.14.2.4. Extracting payroll reports on the net pay variances, investigating the reasons for any variance and confirming appropriateness with line managers;
- 6.14.2.5. Advising the employee in instances where the employee's net pay does not allow all the compulsory and allowable deductions to go through; e.g. medical aid allowance.
- 6.14.2.6. Giving effect to the procedure defined for termination of the employment contract and advising the affected employee(s) of the status of the final pay; and
- 6.14.2.7. Running the necessary Payroll and/or Business Intelligence reports to monitor and evaluate the accuracy of all transactions processed.

### **6.14.3. Payroll Office**

- 6.14.3.1. Uploading all electronic interfaces into the payroll;
- 6.14.3.2. Processing all garnishee orders;
- 6.14.3.3. Verifying the accuracy of the tax calculation on the Payroll System and do the SARS reconciliations;
- 6.14.3.4. Checking and verifying all balances on payroll general ledger accounts;
- 6.14.3.5. Advising Human Resource Section of all systems rejections and returns for investigation and corrective action;
- 6.14.3.6. Preparing and running of all pay over schedule that balances to third-party payments; and
- 6.14.3.7. Processing and transmission of all third-party and net pay on behalf of employees

### **6.14.4. The Employees**

- 6.14.4.1. Ensuring full compliance with time management policies;
- 6.14.4.2. Advising of any change to the baseline information, e.g. marital status, number of dependents, address, and bank details, etc.;
- 6.14.4.3. Ensuring that all banking detail changes are submitted no later than the 10<sup>th</sup> of each month on a prescribed form with the relevant bank stamp;
- 6.14.4.4. Directly advising personnel in Human Resource Section of any changes to medical information and not relying on the medical aid scheme to do so;

- 6.14.4.5. Submitting updates on beneficiary nominations in respect of pension to Human Resource Section
- 6.14.4.6. Reporting deviations to normal monthly net pay to Human Resources Section for investigation and corrective action; and;
- 6.14.4.7. Checking their pay slips for any deviations from the previous month

#### **6.15. Record Keeping**

- 6.15.1. All payroll-related documents must be maintained as per the approved document management policy and procedures. The data must be collated and analysed to determine trends and to develop improvements. The data be externally benchmark to ensure the existing practice is aligned with relevant and emerging external trends

### **7. COMMENCEMENT**

- 7.1. This policy will come into effect on the date of adoption by the Council.

### **8. INTERPRETATION OF THIS POLICY**

- 8.1. All words contained in this policy shall have an ordinary meaning attached thereto, unless the definition or context indicates otherwise.
- 8.2. Any dispute on interpretation of this policy shall be declared in writing by any party concerned.
- 8.3. The Office of the Municipal Manager shall give a final interpretation of this policy in case of a written dispute.
- 8.4. If the party concerned is not satisfied with the interpretation, a dispute may then be pursued with the South African Local Government Bargaining Council or Arbitration

### **9. PERMANENT/TEMPORARY WAIVER OR SUSPENSION OF THIS POLICY**

- 9.1. This policy may be partly or wholly waived or suspended by the Municipal Council on a temporary or permanent basis after consultation between Management and Trade Unions.
- 9.2. Notwithstanding clause No. 20.1 the Municipal Manager may under circumstances of emergency temporarily waive or suspend this policy subject to reporting of such waiver or suspension to Council and Trade Unions.

### **10. AMENDMENT AND/OR ABOLITION OF THIS POLICY**

- 10.1. This policy may be amended or repealed by the Council after consultation between Management and Trade Unions.

## 11. COMPLIANCE AND ENFORCEMENT

11.1. Violation of or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

11.2. It will be the responsibility of all Directors, Deputy Directors, Supervisors, Executive Committee and Council to enforce compliance with this policy.

Signed on behalf of Council By:



D. Dywili

Hon. Mayor



S.G. Sotshongaye

Municipal Manager