

# *Best Practice*

for Payroll  
Administration in  
**Educational  
Institutions**

This is a  
publication of the  
Remuneration Association  
for Educational Institutions  
(RAEI)

• *S e c o n d   E d i t i o n* • *J u n e   2 0 1 0* •

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# Preface

## *Background to the first edition*

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The first edition of this publication was initiated at a national conference for payroll administrators from higher education institutions that was held in Pretoria in September 2001. Integrated Tertiary Software (Pty) Ltd. (now ITS Africa Technologies (Pty) Ltd.) presented the conference that was attended by thirty-eight delegates representing eighteen higher education institutions from Southern Africa.

At this conference a forum was created that was officially constituted as the Tertiary Institutions Remuneration Forum [TIRF]. The constitution of TIRF was approved at its first Annual General Meeting in September 2002 with its goal as formulated (in its constitution) as follows:

*To collectively address common problems and find common solutions within a network of colleagues from the remuneration administration function within tertiary institutions. To furthermore define general **best practice** for remuneration administration that will keep up-to-date with current and future developments in this function.*

During the 2001 conference a workshop was held during which the delegates identified **best practice** for the function of payroll administration. Delegates initially focused on five identified areas that covered the function. **Best practices** were identified which were formulated in a first draft document with the purpose of eventually being published as a TIRF publication.

The first draft document was reviewed and expanded upon at a workshop held during the September 2002 annual conference of TIRF held at the University of Natal (now the University of Kwa-Zulu Natal). Fifty-one delegates representing twenty-two tertiary institutions from Southern Africa participated in this review workshop, which means that twenty-four higher education institutions have made a contribution to the first published edition of this document.

## ***The concept of ‘best practice’ is defined as:***

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*The formulation of key process steps and/or events (strategies and tactics) and sub-steps in an organised, structured and chronological order as they take place in practice. The description of the events is clear and simple to understand by all ranks of staff working in the particular function.*

Defined and formulated, **best practice** must adhere to the following requirements:

- It must set benchmarks towards which institutions strive to accomplish
- It is about implemented practices that work, rather than theoretical models and prescribed text
- It is about the leading practice that works best for a particular individual process, rather than an overall performance at one institution
- It is dynamic and must be reviewed from time to time to incorporate the latest implemented **best practices**.

## ***The 2nd edition***

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In terms of the last mentioned requirement for the formulation of **best practice**, and due to many changes that took place in the higher education landscape and the applicable legislation, it became inevitable that the 1st edition of *‘Best practice for Payroll Administration in Tertiary Institutions’* needed to be revised and updated.

Therefore at the 2009 conference and annual general meeting of TIRF held in Port Shepstone, Kwazulu-Natal, the following actions occurred:

- Firstly, the initial 2002 publication was revised and re-formulated to align it to the latest **best practices** for payroll administration in educational institutions
- Secondly, at the 2009 AGM of TIRF, it was decided to change the name of the forum to align it with the commonly used terminology of educational institutions instead of ‘tertiary institutions’ and the name was changed to the Remuneration Association for Educational Institutions, abbreviated as RAEI
- Thirdly, it was confirmed that RAEI represents the collective function of remuneration administration, which includes payroll administration. This document would largely retain its initial focus of **best practice** for payroll administration, but due to the close links to remuneration administration, it also addresses **best practice** for this where necessary
- Fourthly, the initial programme provided for the revision of a draft publication on *‘Best practice for Human Resources Management in Higher Education’*, February 2004, as

RAEI's membership includes human resources practitioners who deal with remuneration administration. However, due to the very limited attendance of the human resources practitioners at the 2009 conference, it was decided to focus on only one of the focus areas of this document that deals with remuneration administration and personnel information. The draft document will be updated with the revision and will then serve at a future workshop of RAEI to revise the rest of the document for publication, provided that there is a wider representation of human resources practitioners.

## ***Contribution***

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The following institutions who were members of RAEI in 2009 are recognised for their contribution to the compilation of the 2nd edition of this publication:

- Cape Peninsula University of Technology
- Central University of Technology, FS
- Durban University of Technology
- Makerere University, Uganda
- National University of Lesotho
- Nelson Mandela Metropolitan University
- Northlink College for FET
- Polytechnic of Namibia
- Tshwane University of Technology
- University of Botswana
- University of Fort Hare
- University of Johannesburg
- University of Kwazulu-Natal
- University of Limpopo
- University of Stellenbosch
- University of Venda
- University of the Western Cape
- University of Witwatersrand
- University of Zululand
- Vaal University of Technology
- Walter Sisulu University
- ITS Evula (Pty) Ltd., the administrator of RAEI

# Glossary of Terms

The following glossary of terms is not presented as a comprehensive list of terminology used worldwide in salary offices of educational institutions, but rather an attempt to describe the general terms used in the compilation of this **best practice** document as is commonly used during the workshop that revised the first edition.

- Fixed-term appointment:** This refers to the appointment of an employee on contract for a fixed term, e.g. one semester, at a fixed monthly salary. In some cases also referred to as a contract appointment.
- Human Resources:** The section or department of an institution that is responsible for the functions of managing and administering all the institution's employment and staffing related matters, inter alia, the determination of staff remuneration. The department is normally headed up by a senior Human Resources executive.
- Intermittent appointment:** This refers to the appointment of a person whereas such a person will be paid by claim for hours worked or for a pre-agreed number of sessions. In some cases also referred to as part-time employees.
- Permanent appointment:** This refers to the appointment of an employee in a permanent position at a fixed monthly salary or remuneration package.
- Policy:** This is a document that defines the expected conduct of the university and its staff with regards to the performance of certain actions. Policies are by definition a guide of conduct for the entire institution and are therefore approved by the Council of the institution.
- Process:** A process is a defined course of actions that leads to a specific objective or outcome, according to a defined policy, i.e. process follows policy.

**Procedures:**

The break-down of a process into a chronological sequence of tasks, regulating in detail which task should be executed at which time and in what situations, by whom it should be performed, and what underlying documentation or forms are to be used in the completion thereof. Therefore, procedures follow policy and process.

**Salary office:**

The section or department of an institution that is responsible for the functions of payment of all salaries and staff benefits (earnings), as well as third party payments (deductions), through payroll or payrolls, based on the remuneration information received from Human Resources. The payroll office is usually part of Finance.

# Focus Area 1:

## Organisation and Policies

### *1.1 Organisational fit*

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- 1.1.1 The institution must recognise that there are two distinctly different processes in the organisation that require different skills from the functionaries. The first process is the negotiation of the remuneration package with a new appointee to the point of mutual agreement, and in terms of the institutional policies and regulating legislation. This negotiation includes salary, benefits and conditions of service. It is therefore required of the functionary to have a thorough understanding of these aspects, as well as the application of tax legislation. However, it also requires training in, and experience of, the human resources function, the wording of contracts, as well as the necessary people skills and communication skills. It is therefore deemed **best practice** that the remuneration function resorts under Human Resources.
- 1.1.2. The second process is the payment of remuneration exactly as was negotiated with the appointee in terms of salary, benefits and conditions of service in accordance with sound payroll administration practices. The functionary should therefore also have a basic understanding of the structuring of the remuneration package and a thorough understanding of payroll administration. It however also requires training in, and experience of, the financial accounting function and the legislation that applies to the remuneration of employees. It is therefore deemed **best practice** that the payroll function resorts under Finance.
- 1.1.3. The institution must recognise the distinct overlapping of the two functions addressed in 1.1.1 and 1.1.2 above and must therefore ensure that the responsibilities and accountability of each of the functions is clearly defined as formulated in the above-mentioned paragraphs. **Best practice** here is to clearly define and document the responsibilities and accountability of the remuneration function and the payroll function including the overlap between the two functions. These responsibilities should be defined in the job descriptions of the different functionaries and in the assigning of managerial responsibilities within the organisational structure.
- 1.1.4. Effective communication and cooperation between the Human Resources section and the Payroll office is essential. It is therefore **best practice** that regular and



effective communication occurs between the Human Resources staff and the Payroll staff to discuss and resolve common issues.

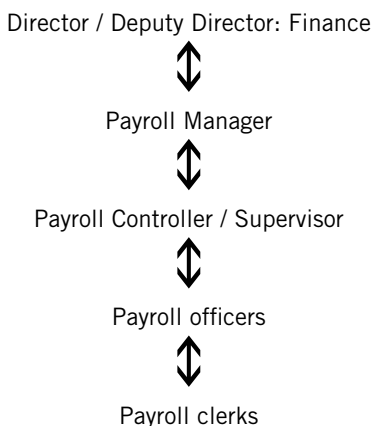
- 1.1.5. In order to ensure that staff of the Human Resources section are informed of changes in the tax legislation, it is **best practice** that the Payroll staff informs them (and any other relevant staff) of any germane changes. In turn the Human Resources section must also ensure to communicate applicable changes in legislation to the Payroll staff. Regular workshops between the two departments should take place to address all related legislation changes.

## ***1.2 Lines of reporting***

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- 1.2.1 The reporting lines within the payroll administration function depend primarily on the size of the institution, which in turn determines the number of staff members and post levels in payroll administration.
- 1.2.2 The business processes in the Salary office must also drive the structuring and the required capacity to execute the processes effectively.

The following structure and lines of reporting are applicable to a medium to large institution:



With reference to par. 1.1.2 regarding the organisational fit of the payroll function, the payroll manager reports to the Director/Deputy Director: Finance.

## ***1.3 Levels of authorisation***

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Levels of authorisation must be clearly defined and can best be addressed in the respective job descriptions of the various designations as indicated in par. 1.2.2 above. The following is identified as **best practice**:

- 1.3.1. The final checks (verification) and sign-off (authorisation) of the monthly payroll run must remain the responsibility of the payroll manager. He/she also has the responsibility of ensuring that all required internal controls and all reconciliations pertaining to the payroll administration function are implemented and adhered to, including the regular checking of the audit trails.
- 1.3.2. The data capturing and checking of the various validations must be assigned to the salary officers.
- 1.3.3. The next highest level of authority in the personnel structure must carry additional responsibilities and managerial functions.
- 1.3.4. The levels of the posts in the Salary function should be determined according to a recognised post grading system, e.g. Peromnes.

## ***1.4 Linkage of Payroll Administration to the Human Resources function***

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Due to the essential close cooperation between the two functions, the following points have been identified as **best practice**:

- 1.4.1 Respective access to the human resources and payroll information sub-systems, must be restricted to 'view only' access. In order to ensure data ownership for the different functions, access to data for manipulation is restricted to the specific functionaries, i.e. the Human Resources staff must have 'view only' access to payroll information, and vice versa.
- 1.4.2 Communication of input instructions from the Human Resources section to Payroll Administration regarding new appointees, resignations or changes to remuneration data, etc, should be done electronically. An automated system-generated e-mail advice will minimise human error and ensure timeous notification.

- 1.4.3 Where the information system does not provide such an e-mail functionality, pre-designed forms, providing for proper authorisation and sign-off for receipt must be in place for the communication of information. A register must be kept to control the flow of documents.
- 1.4.4 There must be a procedure in place that all instructions from the Human Resources section to the Payroll Office for changes to be made to remuneration and payroll data, reverts back to Human Resources for verification after such changes were done and is correct.
- 1.4.5 Cut-off dates for processing of data and payroll must be negotiated between Human Resources and Payroll functionaries. Once there is consensus, cut-off dates must be communicated to all staff of the institution and everybody must keep to these dates.

## ***1.5 Fixed Term and Intermittent (Claims) Appointments – Policy and practice***

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Due to the impact that the processing of payments to these appointees has on the workflow within the payroll function, this is identified as a key event and the following is deemed **best practice**:

- 1.5.1. Cut-off dates for the submission of new appointments/extension of fixed term employees, plus the submission of travel, overtime and salary claims, must be agreed upon by the Payroll and Human Resources managers. Cut-off dates must then be clearly communicated to all staff in the institution through the official communication channels.
  - a. The number of cut-off dates must be minimised, i.e. ideally there should be one cut-off date per month for submissions to the payroll(s)
  - b. Cut-off dates must be determined for as late as possible, but need to be carefully planned in order to provide sufficient time to obtain the necessary authorisations before the processing of the payroll.
  - c. In order to speed up the process e-mail authorisation must be utilised where possible.
- 1.5.2. As fixed term appointments may be processed during the course of a month or for short terms only, a facility to process a supplementary payroll after the main payroll to accommodate fixed term appointments is required.

- 1.5.3. An electronic method for the submission of appointments, travel, overtime and salary claim forms, plus electronic processing and approval should be instituted where such system functionality is available. This practice can minimise human error and the volume of queries.
- 1.5.4. In the case where the electronic system functionality is not available, there must be proper documentation-flow procedures in place, e.g. all documents should be recorded and date-stamped when received at the human resources and payroll offices.

## ***1.6 Formulation of institutional policy***

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- 1.6.1 It is **best practice** that the Human Resources and Payroll staff are consulted when policy decisions are considered at executive level that may impact on the remuneration and payroll functions.
- 1.6.2 The formulation and application of the salary structuring policy remains the responsibility of the remuneration function in the Human Resources section. It is, however, recommended as **best practice** that the staff from the payroll function are consulted regarding legal implications such as tax issues, practical implications and viability, as well as the impact on the payroll system.

## ***1.7. Staffing***

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The training and experience requirements for staff to establish **best practice** in the payroll function were defined as follows:

- 1.7.1 A relevant post-school qualification or equivalent RPL (Recognition of Prior Learning), or working towards such a qualification.
- 1.7.2 Payroll administration experience of approximately 4 to 5 years for the post of Payroll Manager and approximately 3 to 4 years for the post of Payroll Controller. Both incumbents will require management/supervisory skills training. Communication and customer service skills are also required for all payroll staff.
- 1.7.3 A workable and up-to-date knowledge of the legislation and statutory requirements applicable to the payroll administration function. This requirement is especially assigned to the managerial and supervisory staff in the payroll function, whose responsibility it is to ensure compliance with the relevant legislation.

- 1.7.4 Computer literacy is required and all incumbents must be formally trained on the payroll and human resources system in use at the institution.

## ***1.8 Staff development***

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In order to ensure that Payroll personnel stay up-to-date with the latest developments in their functional area and that continuous development of personnel takes place, it is **best practice** to define a plan that will address the identified development needs of Payroll personnel. Personnel should be granted opportunities to attend professional and other learning events.

# Focus area 2:

## Data and the salary system

### *2.1. Data ownership*

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In order to ensure the quality and integrity of data, the following is defined as **best practice**:

- 2.1.1 A clearly written and communicated definition of responsibilities within the payroll function, as well as of the remuneration administration function, will ensure that staff members take ownership of both the data and the quality and integrity thereof.
- 2.1.2 Where there is a persistent problem with inaccurate data input, the cause must be identified and corrective measures must be put in place. These measures must be communicated to staff members and they must acknowledge it.
- 2.1.3 Senior staff members must conduct regular data audits at random throughout the year.
- 2.1.4 The managerial staff of the remuneration and payroll administration functions must control system access of users to data, input screens and reports in accordance with their level of authority and assigned responsibility. Restrictions such as 'view only' and user passwords must be in place to protect data manipulation by unauthorised users.
- 2.1.5 A disaster recovery plan (DRP) must be clearly defined. Data back-up procedures must be set in conjunction with the Information Technology section. It is part of the responsibilities of both the management of remuneration administration and of payroll administration to ensure that these back-up procedures are adhered to.
- 2.1.6 Due to the strategic importance of the payroll function, it is **best practice** that clear procedures and plans to deal with an emergency situation are defined to ensure that the payment of employees can still be effected in the case of, for example, a system crash, fire disaster, etc.
- 2.1.7 The information system should facilitate online validation of data.

## ***2.2. Code structures***

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- 2.2.1. It is **best practice** that changes to applicable code structures must only be done by the Payroll manager and/or the Human Resources manager according to the access granted and restrictions on the information system.
- 2.2.2. Code structures must be outcomes-driven in accordance with the management reporting requirements.
- 2.2.3. In order to enable an external audit of changes to the code structures, changes must be written away to the audit trail.

## ***2.3 Documentation of procedures***

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It is always **best practice** to have clear step-by-step procedures documented and approved that will direct staff of the institution in the execution of their duties. A workflow document to describe the procedures for each process should exist.

Although it is accepted that procedures are unique to each institution, an example is hereby given as a guideline:

- 2.3.1. The Human Resources section must prepare a list on or before the monthly cut-off date of all new appointments, resignations and retirements, and supply this list to the payroll office for verification of the payroll data.
- 2.3.2. The standard data validation reports available on the salary system in use must be run before the salary calculation is performed and follow-up must be done on any invalid data.
- 2.3.3. A monthly salary calculation followed by the variance reports should be run, and follow-ups on discrepancies pointed out in the reports conducted.
- 2.3.4. The payroll system in use should provide for an employee's salary to be calculated only once per month for both fulltime and part-time salary payments where applicable.
- 2.3.5. Once all data discrepancies have been corrected a final calculation should be run and verified.

- 2.3.6. The Human Resources section must, according to **best practice**, distribute the personnel detail carried on the information system to each individual staff member annually to verify that their personal data on the system is up-to-date.
- 2.3.7. An on-line system for the update of personnel detail must be instituted where the system functionality is available, as this practice will minimise human error and ensure timeous and regular collection and update of data.

## ***2.4 Update of fringe benefits and deductions***

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As the data pertaining to fringe benefits and deductions has to be updated on a regular basis, the Human Resources section must ensure that this information is communicated accurately and timeously to the Payroll section in accordance with the following **best practice**:

- 2.4.1 Changes to fringe benefit contributions by staff and the institution must firstly be communicated to the Human Resources section for the purpose of remuneration management, and secondly to the Payroll section for the purpose of updating data on payroll deductions and payments to third parties. It should thirdly be communicated to the employees to keep them informed of changes affecting their benefits and net income.
- 2.4.2 Changes in the statutory deductions must also be communicated to both the Human Resources and Payroll sections for the same reason as above. Where such changes are to be effected on the system by an external software provider, the Payroll Manager must ensure that the changes are implemented and that the staff is updated on such changes.

## ***2.5 Communication***

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The practice of sound and open communication channels in the institution will always contribute to **best practice**. The following specific channels should be in place:

- 2.5.1 Applications from line managers to Human Resources for appointment of contract or part-time employees must be in writing. If Human Resources receive such requests after the cut-off dates or if they are incomplete, the particular manager must be advised that the appointment cannot be processed.



- 2.5.2 The Human Resources and Payroll sections must have regular meetings with the Information Technology section to address system functionality, service levels, user requirements, etc.

## ***2.6 Filing of hard copy records***

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An effective filing system of hard copy documents contributes to **best practice**. It must meet the following requirements:

- 2.6.1 The set up and organisation of the filing system must be clear to all staff members who require access to filed documents.
- 2.6.2 Access must be limited to authorised staff members of the payroll and remuneration administration only and must always be regarded as confidential.
- 2.6.3 Hard copy documents must be kept in a safe and secure place of storage and the necessary control over keys must be exercised.
- 2.6.4 An electronic document storage system is deemed **best practice** due to easy but controlled accessibility and the saving on physical storage space.

# Focus area 3:

## Periodic payroll processes

### *3.1. Monthly checklist*

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An institution should compile a checklist to give step-by-step direction to staff in the Payroll Section regarding monthly procedures. The checklist must include the required validations and subsequent follow-up, reconciliation and third-party payments. This checklist may also be useful for training new staff.

### *3.2. Monthly cut-off dates*

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Monthly cut-off dates for payroll processing is a strategic procedure that improves internal control and therefore has the full support of senior management. It is thus considered **best practice**. Cut-off dates for internal processes must be communicated monthly to all staff.

### *3.3. Cash flow forecast*

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Monthly salary payments make a significant impact on the cash flow of the institution. The following is defined as **best practice**:

- 3.3.1 A salary bank account that is separate from the current bank account is required. The bank account and the salary control account must be reconciled monthly to ensure effective internal control over the salary system.
- 3.3.2 The Human Resources section must compile a detailed staff cost budget for the next financial year that includes a monthly cash-flow forecast to assist the payroll manager with planning.
- 3.3.3 Details of the total cash transfer required to the salary bank account as per payroll totals must be supplied to the Director of Finance monthly on the pre-arranged dates.

### ***3.4 Monthly Management Information reports***

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It is defined as **best practice** that the Remuneration Manager and the Payroll Manager must determine what the exact needs for management information reporting throughout the institution in accordance with information available from the Personnel and Payroll systems respectively are. These may include statistical reporting to executive and senior management, leave and absenteeism reports, cash-flow budgeting, budget control and variance reports, etc.

### ***3.5 Annual reports***

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In order to ensure a smooth financial year-end, it is **best practice** to run annual reports on a monthly basis to make the necessary adjustments and corrections throughout the year, instead of all at the year-end.

### ***3.6 Annual Tax Reconciliation***

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This is an important annual event in the Salary Office, and therefore needs to be mentioned here, but this on-line process is prescribed by SA Revenue Services (SARS). It is therefore imperative that payroll practitioners adhere to these statutory procedures.

# Focus area 4:

## Compliance Audit

### *4.1. Statutory compliance*

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It is **best practice** that a senior staff member from finance and/or human resources, or the internal auditor, does an annual validation of the payroll practices for compliance with institutional policies and regulations, and that all legislative requirements are complied with.

### *4.2. Annual audit*

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It is **best practice** that the Human Resources Committee and Audit Committee of Council commission an independent annual compliance audit that addresses the applicable legislation, institutional policies and collective agreements. The audit reports must be submitted directly to the above-mentioned Council committees.

### *4.3. Access to regulatory legislation*

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To ensure that Salaries staff and Human Resources staff are always up-to-date with regulatory legislation and changes thereto, it is **best practice** that the institution provides them with access to applicable websites.

## Notes

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