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Introduction

From 2014 to 2017 the SA Board for People Practices (SABPP) developed a total of 25 HR Professional Practice Standards in support of the 13 National HR Management System standard elements. Each Professional Practice Standard sets out the operational/tactical process that constitutes good practice in that particular area of HR Management, giving expression to practical issues in more detail than can be covered in the main HRM standard. In 2017 SABPP formed an HR collaboration alliance with the South African Payroll Association (SAPA) and the South African Reward Association (SARA). As a first step towards collaboration, it was decided that SABPP and SAPA would work together to develop a payroll standard for South Africa (to be added to the suite of 25 HR Professional Practice Standards of SABPP). The purpose of the payroll standard is to ensure the sound governance, professionalism and a consistent approach to payroll practice. The full set of HR Professional Practice Standards are the intellectual property of SABPP, while the copyright for the Payroll Standard subsists jointly with SABPP and SAPA.

SABPP and SAPA would like to thank all the contributors to the development of the payroll standard, and in particular the following individuals for their leadership role in the development and/or comment phases of the payroll standard:

- Dr Shamila Singh, Head: HR Standards (SABPP)
- Ms Annetjie Moore, Head: HR Audit Unit (SABPP)
- Mr Allen Lombard, Chief Operating Officer (SARA)
- Ms Renske Coetzee, Head: HR (Redefine Properties)

More information about the HR Management System Standards and HR Professional Practice Standards is available from the SABPP office on (011) 045 5400 or on the website www.sabpp.co.za Regular updates about the HR Standards and payroll standard are provided via twitter @SABPP1 @SAPayroll

We trust that the payroll standard will make a contribution to improving the quality and consistency of payroll practice in South Africa. We would like to encourage users of the standard such as HR Managers, Financial Managers, Payroll Managers and Payroll Officers, Remuneration Managers and Payroll Providers to ensure the consistent application of the standard in the workplace.

Marius Meyer **James McKerrell**
CEO: SABPP Chairman: SAPA

26 October 2017

Payroll Standard

Where does Payroll fit into the HRM System?

The Payroll System fits within the Reward and Recognition Standard element of the National Human Resource Systems Standard.

Definition

Payroll is the delivery of accurate and timeous employee, contractor and third-party salary payments, while complying with statutory requirements and company policies and procedures, and the general principle of confidentiality. The payroll system needs to record data and generate reports which contribute to decision-making, good governance, effective reward and business sustainability.

Objectives

1. To pay employees, contractors, expatriates and third-parties timeously and accurately in accordance with contract, relevant legislation, statutory requirements and company policy and procedures.
2. To establish a framework for managing the payroll in accordance with legislation, governance, risk and compliance and alignment to policies, procedures and practices.
3. To analyse payroll data to identify trends for effective decision-making, governance, risk and compliance and manage people reward transactions according to best practice.
4. To effectively communicate with all the relevant stakeholders.
5. To document, record and generate reports for approved payroll.



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Process Map for Payroll Standard System

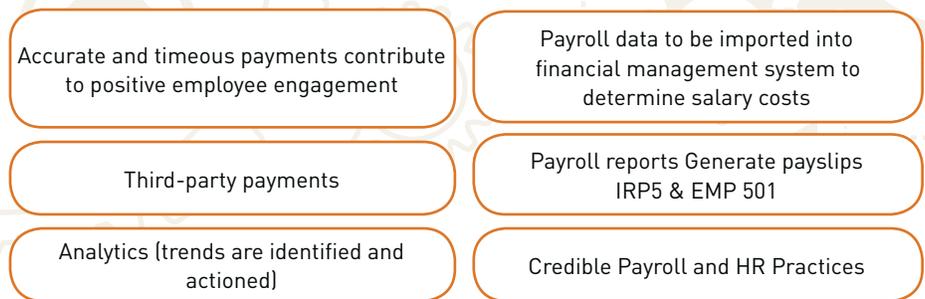
Inputs



Process



Outputs



MONITOR AND EVALUATE

What are the fundamental requirements for good payroll practice?

- a. Ensure that the payroll processing is compliant with all legislation and delegation of authorities, including segregation of duties (HR/Finance cannot capture and verify).
- b. Payroll processing practices are aligned to reward and recognition strategy, governance and philosophy of the organisation.
- c. Payroll is planned and paid timeously and accurately in accordance with the policy.
- d. The payroll processes and procedures provide the road map for the processing of the payroll and the internal and external auditing thereof.
- e. The Protection of Personal Information and levels of security, confidentiality and access to payroll information is managed.
- f. Adequate controls are in place for good payroll governance, risk management and fraud prevention.

1. Inputs

1.1 Alignment between the business strategy and the reward and recognition strategy

The term payroll generally refers to the process of identifying employees, calculating the pay and payroll taxes, recording the payroll transactions, making the payments, and completing the required statutory obligations. The reward and recognition strategy and philosophy is derived from the business strategy.

1.2 Reward and recognition philosophy and strategy

The reward and recognition philosophy should attract, engage and retain the best talent; pay competitive market related remuneration where relevant. Remuneration and benefits are benchmarked nationally, regionally and internationally in that sector where relevant.

1.3 Legislation and statutory requirements

The payroll system must be designed to adhere to all country relevant statutory requirements, collective agreements, sectorial determinations and company policies and procedures. In addition, the payroll must be aligned to governance, risk and compliance frameworks and ensure that all processes and controls are in place to manage the payroll. Thirdly, to meet statutory requirements, employees must be paid timeously and accurately to ensure a relationship of trust. Fourthly, the organisation must ensure compliance to the Protection of Personal Information (POPI) Act in the handling, retention and destruction of personal information. Lastly, HR and/or finance must implement risk controls to manage the payroll-related risks and to enforce segregation of duties.

- Any business that employs at least one employee must register with the South African Revenue Service (SARS) for pay as you earn (PAYE) and Standard Income Tax on Employees (SITE).
- Businesses employing staff must also pay a gross revenue or salary-related levy to the district council.
- Payslip requirements and termination payments are covered in detail in the Basic Conditions of Employment Act (BCEA)
- Adherence to the Labour Relations Act (LRA) covers transferring of contracts, restructuring, mergers and acquisitions and temporary employment services (TES)

1.3.1 Employment Considerations

- All employees must be registered with the necessary government departments such as Department of Labour and South African Revenue Services (SARS).
- Payroll should be processed in accordance with all country legislative requirements.
- Foreign employees are required to have the valid visas and work permits as established by immigration laws. Depending on the type of visa, enough time must be allowed for the processing of these visas.

1.3.2 Remuneration Considerations

- If applicable, remuneration must be processed in accordance with formal minimum wage determinations and legislation.
- Overtime hours must be worked in accordance with an employment agreement. Employees above the threshold are not paid overtime and employer policies may provide time off in lieu of overtime worked.
- Overtime must be processed in accordance with the maximum allowed per day and week in accordance with agreements.
- Upon termination, it is common practice to pay the employee on the final day of employment, although there is no legal mandate to do so. It is mandatory to issue and complete the necessary forms to claim unemployment. Upon retirement and restructuring, additional counselling and documentation need to be completed to third-parties.

1.3.3 Tax Requirements/Collection/Withholding

- Employers have monthly withholding obligations for income taxes and benefits.
- Income tax is deducted from employees' salaries via the PAYE system at the rate that aligns with their income, and paid to the Revenue Service.
- Contributions from both employer and employee include the Unemployment Insurance Fund (UIF), the Workmen's Compensation Fund, medical aid, and life insurance schemes.
- Every time employees are paid, they must be issued a payslip containing details of their remuneration and any deductions.
- Requirements of capturing data aligned with SARS requirements and coding (EMP 501).

1.4 Professional code of conduct

Payroll administrators are required to adhere to the Code of Professional Conduct of the SA Payroll Association, the organisational code of conduct and HR policies and procedures.

1.5 HR Policies and Procedures

All payroll related processing must be aligned and guided by human resources and finance policies to determine the rules and tax efficient remuneration structures for employees.

1.6 Finance Policies and Procedures

The payroll processing will be guided by the finance policies and procedures in terms of third-party payments, internet transfers, integration between payroll system, finance system, HR system or the outsourced party.

1.7 Payroll system, policy and procedures

The payroll policy and procedures will cover the payroll policy, purpose and goals, namely:

- Provide proper and timely earning payments to employees as stipulated in contract.
- Provide tax withholding on employee earnings and payment of those taxes to the government
- Provide other approved deductions and payment of those deductions to appropriate entities.
- Provide proper and timely reporting of wage and salary payments to employees and governmental agencies.
- Consider all the country laws, statutory requirements, collective agreements, sectorial determinations and union agreements that impact payroll.
- The policy and procedure will also address pay cycles (weekly, biweekly and monthly); employment information flows into HR/Finance/Payroll system continually; time input and special or additional payments entered according to published deadlines; payroll checking and verification processes; and to address rectification of any resulting errors and inconsistencies.
- The policy and procedure also covers the procedures to follow to finalise payroll; procedures for payslip distribution; tax and deduction remittances to external parties; payroll transactions posted to the financial system; resolving payroll related queries; extracting and disseminating payroll reports; distributing payslips; analysing payroll data (payroll analytics) and the recording and filing of payroll related information.
- The payroll must translate into the financial statements.
- The workflow process must be drafted and disseminated to all stakeholders.
- Employees' remuneration structures must be determined and signed off in accordance with the reward and recognition policy, HR policies, company policies, collective bargaining agreements and sectorial determinations.
- Employees must be aware of and receive training on the payroll policy and procedures.
- All managers must also familiarise themselves with the payroll policy and procedures and understand their payroll related responsibilities specified in the SLA.

1.7.1 Payroll Inputs

- There is a distinction between salaried and waged employees. For salaried employees, the annual salary is divided by 12 to calculate the monthly amount to be paid. Whereas waged employees are paid weekly - which is the rate per hour, rate for overtime and number of hours worked that week. Expatriates and Contractors are paid according to outputs stipulated in their contract.
- To calculate the payroll and how much each employee should be paid, the following details or inputs are needed for the payroll master file, namely: employee number; name and surname; physical and postal address; ID Number; Date of birth; spouse and children details; next of kin, contact details; income tax numbers; physical address; IRP details; medical aid details; start date of employment; hourly rate of pay of annual salary; overtime rate; bonus details; pension and/or provident fund details and bank details.
- All types of leave (statutory sick leave details, maternity payment entitlement, annual, annual leave, etc) must be considered,

1.8 Third-party agreements

- The agreements, terms and conditions with third-parties (providers of medical aid, pension, provident, funeral funds, life cover, etc) must be considered in processing the in-house payroll.
- The procedures for tax directives and garnishee orders must be followed and deductions must be communicated to staff and processed in a timely manner.

1.9 Remuneration structures, rules and calculations

- Payroll processing consists of calculation of payments to employees for work done in the company – whether it is based on time or productivity, calculation of benefits, and/or statutory deductions. Payroll needs to be processed by each company periodically. It may be processed weekly, bimonthly, monthly or daily (for daily wage workers).
- Payroll processing involves accurate payroll calculations, disbursement, payslip generation, and managing payroll taxes and record keeping compliance.
- Payroll processing may be done manually or using payroll software to ensure accuracy in employee payments and compliance.

1.10 Communication and consultation

- HR must consult employees on the remuneration structure that will be loaded on the payroll system.
- In addition, communication should be done as required based on any deductions (e.g. garnishee orders) and bonus provisions that are paid annually.

1.11 Payroll Processing File

The file must be prepared and organised systematically to ensure that capturing is done with ease. The structure of the preparation file can be categorised and tabulated in specific areas like leave, new employees, etc.

1.12 Payroll process flow

A detailed payroll process flow chart should be made available with deadlines to guide employees, managers and other stakeholders and to serve as the basis for payroll assurance and audits.

1.13 Compliant Payroll System

A compliant payroll system must be selected and used to ensure that payroll processing is done in accordance with statutory and good governance requirements.

1.14 Process

- In some instances, payroll uses a system called batch processing where all the data is stored and processed together at the end of the week or month end.
- An exception report is produced to take account of incorrect processing and errors that occurred for the purpose of corrective action to be taken.
- The payroll inputs are based on original source documents which are used to check, verify changes and corrections, aligned with the delegation of authority.

2. Process

2.1 Analyse payroll data, verify and capture

- The payroll information received (employee self-service, time and attendance data, terminations, recruitment and selection, garnishee orders, bonuses, commission, overtime, etc) is processed.
- All information is verified for accuracy in accordance with the HR and finance policy and procedures.
- The payroll is processed in accordance with SOPs and timelines.
- The information is captured by the payroll officer in accordance with payroll source documents.
- The payroll calculations are done and checked in accordance with segregation of duties.
- A report is generated to check all the items that were captured to assess any risks (detect ghost employees, negative pay, overtime, change of banking details, etc).
- Corrections to payroll are affected to ensure the accuracy of payroll and re-checked and signed off for adequate control.
- The releasing of salary payments involves uploading the salary file into internet banking and verifying the accuracy of payments or could be manual where casuals sign for wages.

2.2 HR Service Delivery

- All employee queries related to the payroll processing must be addressed in accordance with the Service Level Agreement, HR Service delivery indicators and the payroll policy and procedures.
- The effects of payroll changes must be considered with regards to reissuing payslips and the correction to the Employee Master File. In addition, the adjustments are authorised and forwarded to Finance for processing.

3. Payroll outputs

- All contractual obligations are met.
- Payroll ensures on-time and accurate payment of employees.
- A payroll system will produce many outputs, namely: the payslips; exception reports; bank list; and payroll related reports (medical aid, leave balances, medical aid, etc).
- Payslips are produced either weekly, fortnightly, monthly or bi-monthly (twice a month), depending on the regularity of employee payments. The payslips are printed on a template so that all the details (name, UIF, tax, medical aid, etc) are printed in the same position each month.
- Payroll related reports are printed and disseminated to the relevant stakeholders (finance, line managers, employees, etc).
- The salaries/wages are transferred from the business account to the employee's bank accounts.
- The payroll policy and procedures are followed to close the current period and to roll over into the new period.
- Payroll reconciliations are completed and forwarded to the Finance Department for sign-off.
- Third-party payments are processed.

Reporting and analysis

- The payroll system can generate standard and customised reports for record-keeping and decision-making.
- Payroll related reports can be used to conduct analysis of payroll data to determine trends (overtime, leave, terminations, etc.), address exceptions, generate IRP5 information and analyse third-party reports.

Payroll reconciliation

- At the end of each month, it is necessary to pay to SARS and Department of Labour the employees' tax deducted, Unemployment Insurance Fund contributions due, COIDA and the Skills Development Levy due.
- Employers are required to complete all relevant tax and statutory reports and make payment to the necessary statutory bodies timeously.

4. Monitor and evaluate payroll

- External audits can be done by audit firms, governance structures and statutory bodies.
- Internal and external audits are done to ensure that the control systems are strengthened.