



**MICHAEL AND CECILIA IBRU UNIVERSITY**

**BURSARY DEPARTMENT**

**REPORT ON TRAINING PROGRAMME ATTENDED ON  
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**ON**

**PAYROLL ADMINISTRATION AND ACCOUNTING**

**BY**

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## BACKGROUND AND INTRODUCTION

Administering payroll refers to salaries and wages management which is traditionally handled by the Finance Department of an organisation. Payroll is the list of company's employees and their entitlements.

The remuneration of the work force of an entity is usually reflected in the payroll of the organization. Large and well-structured establishments normally have a payroll or salaries and wages unit in their finance department.

## PAYROLL ADMINISTRATION AND ACCOUNTING

Payroll used to be prepared manually but with the advent of the computer and electronic data processing, most organization in contemporary times has their salaries and wages administration computerized for timeliness, effectiveness and efficient workflow.

In the administration of salaries and wages, it is necessary for the payroll unit to obtain the following information in respect of every employee of the organization:

- Letter of appointment detailing salaries and remuneration packages.
- Certificate of life insurance, where applicable.
- Voluntary Contribution instruction, where applicable.
- Letter of annual salaries packages and reviews
- Tax relief granted to the employee by the relevant tax authority, IF ANY.

A modern payroll system just like the conventional one encompasses facilities such as:

- Monthly consolidated salary comprising of Basic, Transport, Housing, etc., which totalling monthly **Gross Pay**.
- Statutory deductions including tax deduction, employee's pension contribution, national Housing Fund, etc.
- Other deductions as applicable.
- Determination of net pay
- Computation of upfront payments.
- Communication of periodic pay and preparation of wage control ledger account for the preparation of trial balance and final accounts.

It is however necessary to point out that the payroll unit **act on instruction of the human capital or human resources or personnel department**, who provides it (payroll unit or salaries and wages unit) with an employee's letter of employment as expressly indicating his/her remuneration package including entitlement.

In accounting for salaries and wages, the offer of employment letter serves as the original source from which the salaries and wages accounting are opened for a staff.

Conventionally an employee perk and remuneration will include basic pay, housing allowance, transport or car maintenance allowance, plus others such as entertainment, clothing, utilities, medical, annual leave or holiday allowance etcetera.

It is instructive to note that salaries and wages like other expense are usually **debit entries** in the preparation of ledger account. Wages are regarded as part of cost of production whereas salaries are treated as part of general expenses in the profit and loss account.

Appropriate ledger accounts and records must be maintained of every aspect of the payroll; National Housing Fund, employee pension fund contribution and Pay As You Earn must be deducted from the gross pay of individual employed to determine the net pay.

In accounting for payroll appropriate account codes should be assigned to every of the salary item, that is there must be a code for basic salary, code for housing allowance, code for transport allowance, code for utility, another for furniture, code for entertainment, leave allowance, employer pension fund contribution, employee pension fund contribution, pay as you earn (PAYE) tax, national housing fund deductions, and others as applicable. Pay advice should be given to every staff on pay day. The pay advice or slip is a duplicate of each employee's salary's analysis and net figure stated there in **must** be in agreement with amount paid into bank or the cash packaged in the relevant workers' pay package.

In well-structured organization as part of control measures every employee is expected to open and operate a salaries account into which his monthly or periodical pay will be made. This is to reduce volume of physical cash held in the system to avoid the incidence of fraud and other irregularities. There could of course be exceptions where majority of the workers are factory men or persons who are not too literate.

In which case, adequate control mechanism and extra security measures must be put in place including the use of security guards, well secured vaults/safe should be installed reliable, internal control system must be in place.

**In recent times, especially in some organizations salaries and wages are made very confidential with employees entering into covenants not to disclose their remunerations to colleagues and co-workers. This may appear healthy from the point that reward for hard work may attract envy, but critically appraised, the truth is that the rational man appreciate hard work and any benefit accorded to it and rather than**

**anything else, it will promote the spirit of healthy competition with attendant of positive impact on productivity.** Where the benefit reward system is perceived by employees to be objective that will induce hard work and the result will be peak performance.

The payroll unit of the account department or human resources department as the case may be must compile the names of all staff who maintain account with particular bank and this form a backup document with vouchers which are raised and cheque prepared for salaries of each group of staff on the basis of the commercial bank where they have account for salary payment.

The finance department could have a policy of selecting and using a particular commercial bank through which salaries and wages are paid. In which case, adequate control mechanism and extra security measures must be put in place including the use of security guards, well secured vaults/safe should be installed and a reliable internal control system must be in place.

### **INTERNAL CONTROL**

Adequate internal control system must be designed over payroll unit. Such control will ensure that dummy or ghost names are not included in the payroll. This is one problem according to business media, which often rears up its ugly head in the Nigerian Public Sector. In recent time we even hear of ghost pensioners which have given rise to the not too healthy experience of seeing the sorry sight of elderly senior citizens of these being exposed to the absurdity of what the authorities call pensioners audit.

No doubt if appropriate and effective systems of controls were to be in place the issue of ghost names in the payroll will not arise. The control questions that should always readily be borne in mind will include;

- What are the procedures for including names in the payroll?
- Who authorizes such inclusion?
- Who prepares monthly payroll?
- Are duties relating to preparation of payroll adequately segregated?
- Who writes salaries' voucher?
- Who authorizes and approves the salaries payment voucher?
- Who write the wages and salaries cheque?
- Who are the signatories to the cheque?
- Who takes custody of these cheques?

This control questions amongst others must be addressed to avert payroll fraud.

- i. Addition of dummy (ghost) workers on the payroll with the eventual collection of their pay by the perpetrator;
- ii. Duplication of employees names on the payroll
- iii. Misappropriation of unclaimed wages
- iv. Retention of names of dismissed and/or resigned staff on the payroll.
- v. Refusal to hand over the necessary statutory deductions from staff pay to the relevant authority and may thereafter be diverted into private pockets
- vi. Deliberate inflation of overtime of workers
- vii. Overcasting the gross and net columns in wages sheets while pocketing the differences.

## **PERSONNEL ADMINISTRATION**

Personnel administration largely relates to human resources management, which involves all workers career activities from planning of recruitment or cessation of employment.

In recruiting and maintaining staff the following steps will often be involved

- Job analysis and declaration of vacancy
- Recruitment and selection
- Training and development
- Performance appraisal
- Compensation, health and safety scheme
- Incentive and benefit scheme.

It is necessary to point out that the personnel and human resources function sometimes called human capital management function perform these tasks in well-structured organizations. The planning process is built around the types of employees (level of skill) and the number of persons needed for particular position, future needs in terms of vacancies and putting in place a reliable succession plan.

Job analysis is the systematic study of jobs with a view to identifying the characteristics of the job and the appropriate personnel to be assigned to it, while recruitment refers to the sourcing of qualified persons to fill existing vacancies.

Training and development remain cardinal for the enhancement of the worker performance, as it could be quite motivating. Training and development could be adopted includes: include

- On – the – job training.
- Apprenticeship training.
- Job rotation.
- Management traineeship.
- Advanced/senior management training.

The appraisal of every employee's performance is done on periodical basis. A good appraisal system is an asset to an organization as performance rating could be a veritable source of friction. A motivating performance evaluation system will lead to improved productivity, and reverse is the case where the system is perceived to be demotivating.

**The following steps are often involved in a good performance evaluation**

- Establishing a performance evaluation policy encompassing the criteria for evaluating/appraisal and what tools to use.
- Securing data relating to employee performance.
- Carrying out the evaluation proper.
- Discussing evaluation with the employee.
- Decisions are made based on the evaluation.

## **DAY 2**

### **Implementing an Automated Payroll System**

What is Automated Payroll System?

- The use of computer readable devices to store employee info.
- For example, a magnetic stripe identification badge is issued to every person on a payroll.
- The card, similar to an automated teller machine (ATM) card, stores information about the particular employee: wage rate, position, lunch schedule - anything the employer would like to have permanently logged on the employee's card.
- That information on the card, also referred to as the badge, is processed along with the precise times the employee clocks in and out on the swipe reader, the time clock of the future.

- This information is automatically updated and stored on a host computer where it can be reviewed or amended by a supervisor.

### **Capabilities of a good Automated Payroll System**

- Provide comprehensive payroll reporting as well as "state of the art" employee time captures.
- Accurately record, store and transmit all employee "ins" and "outs".
- Eliminate the need for time clocks, time cards, sign-in sheets and payroll "call-ins".
- Able to record and calculate all sources of income including hourly wages, overtime, salaries, commissions and tips as well as standard deductions and multiple users defined non-standard deductions.
- Provide quarterly and annual reporting in addition to the comprehensive current and year-to-date provided each pay period.
- Should save you time and money in your payroll!

### **Benefits of Implementing an Automated Payroll System**

Two significant benefits of implementing an automated time and attendance system are **accuracy** and **consistency**.

- A more **accurate** recording of the time worked is an obvious advantage.
- Time clocks are not always precise, while sign-in sheets, clearly, have greater faults.
- An automated system, though, holds every employee's working time to the same standard and the same scrutiny.
- A more accurate recording of the time worked is an obvious advantage.
- Time clocks are not always precise, while sign-in sheets, clearly, have greater faults.
- An automated system, though, holds every employee's working time to the same standard and the same scrutiny.
- Company payroll functions rely on myriad variables, such as shift differences, pay, overtime, etc.
- The automated system takes all these variables into account.
- Whereas different department heads might have unique views as to what constitutes overtime or how to round off minutes on a time card, the automated system remains **consistent**.

- Another major benefit of the automated time and attendance system is policy compliance.
- It forces individual departments to conform to company payroll policies.
- It is often found that a lot of the departments don't really understand the payroll policies.
- Automated systems provide a way for companies to redefine those policies and to ensure that they are consistently applied across all departments wherever possible.
- Even in an automated system, the "human touch- is still needed.
- The automated payroll system is thorough, but the financial supervisor must still examine ongoing records for accuracy.
- Additionally, the automated system's turnaround document, a record that requires "human" updating, notifies the system of any type of supervisor override (for example, paying someone who was late a full day's wages because they are normally a consistent and dependable employee).
- Overall, the system should become quite an advantage for any business.
- However, a common remark from financial officers with longstanding, traditional payroll methods in place may still arise: "If it ain't broke, don't fix it!"

#### **Employee Acceptance Issue**

- The employees are usually a bit uncertain at first, but it will ultimately make things easier for them.
- Management should bring it in in stages, for example, start with a pilot program using only a small department, and incrementally involve everyone.
- Overall, the system should become quite an advantage for any business.

#### **Management Acceptance Issue**

- But how much does it cost in manpower and effort?
- It might be a better run system if it were automated.
- A good place to start would be to review the payroll process.

#### **IT IS WORTH TO NOTE THAT**

- As mentioned earlier, payroll can comprise anywhere from 60 to 70 percent of expenses.

- If something is that expensive, why would it be treated so cavalierly as to rely on a simple sign-in sheet?

*Remember is money*

## DAY 3

### DEDUCTION FROM EARNINGS

#### INTRODUCTION

The gross salary and wages of an employee is usually subjected to various deductions. These deduction include state tax i.e. PAYE, Pension, loans, NHF, NHIS etc.

#### STATE TAX - PAYE

A tax is simply a charge imposed by government authority upon individuals, companies or transactions to raise for public purposes. The pay as you earn (PAYE) system is a method of collecting personal income tax due on employment income including pensions. Tax is payable on a remuneration of an employment except if such remuneration is in reimbursement of expenses on which the employee is not expected to make profit.

Thus remuneration of an employment including salaries, wages, pensions, bonuses, commissions, directors, remuneration etc. will all come under PAYE scheme. Under this scheme, the employer in accordance with the direction of the State Board of Internal revenue is to deduct income tax from the pay of his employees and pay the net amount to employees.

#### The legislation:

Section 10 of personal income tax decree 1993 deals with employment. In addition to this other section dealings with employment and PAYE scheme are; section 26; subsection 4 of section 57 of the decree.

section 80 provides:

- Income tax chargeable on an employee by an assessment whether or not the assessment has been made shall, if relevant tax authority so directs, be recoverable from any emolument paid, or from any payment made on account of the emolument by the employer to the employee.
- In arriving at the amount of income tax to be deducted from any payment of or on account of the emolument to an employee, the relevant tax authority shall secure so far as possible that the aggregate amount of all the deductions made during a year of assessment shall equal the income tax chargeable on him in respect of this emolument for that year.

### **Liability of Employer:**

An employer who fails to operate the Pay As You Earn deduction scheme in accordance with the revenue's guidelines is liable to make restitution, and might be required to pay penalties for:

- **failure to deduct the correct tax from the employee's pay**
- **failure to pay overall net tax deducted from employees pay in accordance with the revenue's deductions.**

Failure to make correct return of his employees' tax, **Section 81** provides for the amount of the penalty as 10% per annum of the amount plus interest at the prevailing commercial rate. Such tax together with the penalty and the interest shall be recoverable as a debt due by the employer to the relevant tax authority.

A special booklet titled Employer's guide to PAYE periodically being issued by the Joint Tax Board (JTB) can be obtained from the revenue to which reference should always be made whenever there is any difficulty in operation of the PAYE scheme

### **Other deductions**

There are other deductions that can be affected on an employee's gross earnings. Such other deductions include, employee's pension contribution, absenteeism, recovery of personal loans, development levy (N100 per annum) and other losses incurred by the staff.

### **Conclusion**

There are many deductions that may be effected on employee gross earnings. In all cases, these deductions must be approved by law or by the consent of the employee. Deduction without due process could lead to low staff morale, complaints, strike legal actions etc. consequently all deductions must be professionally handled to avoid negative results. On the other hand when statutory deductions are made it should be well accounted for. It should also be well audited/checked. Statutory deductions are PAYE, Pension, NHF, NHIS-medical etc.

When these monies are deducted and are not fully and timely remitted to relevant government agencies it could lead to sanction/fines. From the foregoing, deductions from gross earnings appear as routine assignment, but the consequences of mismanagement of this activity could rock an organization.

DAY 4

## **RETIREMENT AND PENSION PLANNING: ISSUES AND CHALLENGES**

### **INTRODUCTION**

#### **DEFINITION OF CONCEPTS**

## RETIREMENT

**NARROW DEFINITION:** Giving up or withdrawal from an office, occupation or career

**BROAD DEFINITION:** Giving up or withdrawal from an office, occupation or career INTO a life of freedom to rest or pursue an interest for personal fulfilment.

- Retirement, like growth, is not an event.
- Retirement is a process.
- It requires long-range planning.
- The planning process covers the whole working life.
- The planning should have the end in mind right from the beginning of working life.
- The focus must be right and clearly pursued.
- Some element of flexibility should be built into the plan.

## PENSION

Old Age income paid to a Retiree for Life for services rendered during working life.

RETIREMENT is a major shift in lifestyle that requires:

- Psychological Preparation
- Financial Preparation

Which may leads to;

- Income Reduction
- Freedom
- Change in Lifestyle
- Boredom
- Stress
- 

## CAUSES OF RETIREMENT

- Old age-This is the cause usually stressed by most people
- A career dead end.

- Involuntary exit on health or disability grounds or other, as it may be applicable.
- Strategic/Policy Shift in work place.
- Changes brought about by economic problems associated with the Employer's business

## **ISSUES IN RETIREMENT PLANNING**

- PSYCHOLOGICAL
- FINANCIAL

### **ISSUES IN PLANNING FOR RETIREMENT-1 PSYCHOLOGICAL ASPECTS**

#### **FEAR OF RETIREMENT CAUSED BY**

- Lack of or inadequate financial preparation
- Obsession with one's job
- Evaluating selfworth by position, occupation, profession or career
- Prior preparation through counselling and retraining of the Individual is necessary.

### **ISSUES IN PLANNING FOR RETIREMENT-2 FINANCIAL ASPECT**

#### **PENSION-Regular Income for life during Retirement**

- WHY INCOME?
- To AVOID OUTLIVING Financial Resources during old age

#### **PLANNING FOR PENSION- WHO'S RESPONSIBILITY?**

#### **CLASSIFICATION OF EMPLOYMENTS**

- SELF- EMPLOYMENT
- PAID-EMPLOYMENT

#### **RESPONSIBILITY FOR PENSION MAY BE:**

- FOR THOSE IN SELF-EMPLOYMENT; By the Government and the Individual

- FOR THOSE IN PAID EMPLOYMENT; By the Government, The Employer and the Individual.

## **STAGES IN PENSION PLANNING**

### **STAGE 1-ACCUMULATION STAGE**

Period of active working life should ideally start when the first income is earned to the last day of active working life involves:

- Setting Aside Part of Earnings on Regular Basis
- Investing what is set Aside To provide Regular Income During Old Age

### **STAGE 2-INCOME STAGE**

From pension age for life period during which what has been accumulated at stage 1 will be earned as income for life:

- When should it start?
- NOTE that the PENSION AGE need not be the same as Retirement Age.

## **BENEFIT PROVISIONS UNDER A RETIREMENT/PENSION SCHEME**

- Old age income, i.e. pension (annuity) only.
- Lump sum payment only.
- A combination of lump sum and income.
- Death-in-service benefit:
  - Widow's/widower's pension on death of individual before retirement
  - Widow's/widower's pension on death of individual during retirement
  - Dependent children's benefit
- Disability benefit

## **PENSION PLANNING FOR EMPLOYEES IN PAID EMPLOYMENT**

### **ISSUES AND CHALLENGES**

- Benefit bases
- Financing
- Investment

- Administration & payment of pension
- Management of mortality risk
- Management of longevity risk

#### BENEFIT BASES & CHALLENGES-1

- **DEFINED CONTRIBUTION BASIS**
  - Contribution into the Pension Fund is Defined
  - Benefit is a function of what is accumulated into the fund which depends on contributions and investment earnings on the contributions
  - Benefit at the pension date may have no bearing on the final earnings at the retirement date
  - The Employee bears the risk associated with fund.

THE MAIN CHALLENGE IS HOW TO GET THE MANAGERS OF THE FUND TO PERFORM OPTIMALLY

#### BENEFIT BASES & CHALLENGES-2

##### DEFINED BENEFIT BASIS

Benefit is defined in relation to

- Earnings- Usually final earnings
- Length of Service
- The Employer bears the responsibility for the sufficiency of the fund for meeting the liabilities.
- The Employer's Liability is unlimited, hence the funding rate (by the employer) cannot be fixed for all times.
- The Employer does not normally have full control on the eventual benefit that the employee will be entitled to at the retirement/pension date
- The employer's liability may turn out to be onerous as a result of changing economic environment

##### CHALLENGES

- Investment and Longevity Risk
- Investment of the fund to Match a Long Term Liability that could increase at exponential rate
- Relating the cost of potential future increases in liability to current Production Cost, or

- Relating increased Present Pension payments to past Production Cost

## **FUNDING AND FINANCING**

- **ADVANCE FUNDING OR PAY-AS-YOU-GO/BOOK RESERVE METHODS**
  - Advance Funding provides guarantee payment
  - Advance Funding takes advantage of earnings on investment over a long period
  - PAY-AS-YOU-GO/BOOK RESERVE METHODS creates inter-generational problem among employees, and
  - Provides no guarantee in the event of cash flow problems

## **EMPLOYER FINANCED SCHEMES**

- **NON-CONTRIBUTORY:FINANCED BY EMPLOYER ONLY**  
May Not Be Fully Appreciated By Employees
- **BALANCE OF COST-For Defined Benefit Schemes**  
Employees' contribution rate is fixed while the employer's rate varies
- **CONTRIBUTORY BY EMPLOYER/EMPLOYEE**  
Gives the employee a sense of commitment

## **INVESTMENT ISSUES AND CHALLENGES**

- **THE NATURE OF PENSION LIABILITY**
  - Very Long Term
  - The Liability can only experience only upward movement
  - The upward movement can only be sudden and substantial
- **INVESTMENT RULES FOR PENSION FUND**
  - Matching Investment with Liability.
  - Fund Security in Nominal and Real Terms.
  - Adequacy of Returns relative to Liability.

## **ADMINISTRATION AND PAYMENT OF PENSION**

### **ADMINISTRATION**

- Requires Well Designed Data Base For Keeping Employees' Records
- Employment History

- Earnings History
- History Of Contributions
- Records Of Employees' Dependents, their Nominated Beneficiaries/Next Of Kin And Changes

#### PENSION PAYMENT

- Design of payment system that recognize the nature of life in retirement.
- Record of continued existence during retirement.

#### MANAGEMENT OF MORTALITY RISK

- Mortality risk (death of employees in service) lead to payment of benefits to deceased employees' dependants.
- Benefit can be inform of widow/widower's pension/benefit or dependant children's benefit.
- This should be handled by risk transfer to a life insurance company.
- Benefit could be inform of a multiple of employee's pay.
- Benefit could be a combination of lump sum and/or regular income for life or for a specified period

#### MANAGEMENT OF LONGEVITY RISK

- Longevity risks are risks associated with retirees/or their spouses living till very ripe old age.
- It can lead to pensioners drawing too much from a pension fund.
- May present a situation where there are more pensioners than working people.
- Pension revaluation becomes necessary over time.
- It can lead to a fund's insolvency.
- It is better managed by purchasing annuity from a life insurance company to transfer the risk.

#### PERSONAL PENSION PLANNING

##### WHY PERSONAL PENSION

- For Financial Independence
- To Top Up The Provision By The Employer
- To Provide A Safety Net

- For The Self Employed, to Provide An Independent Source Of Income At Old Age

#### **METHODS OF PROVISION FOR PERSONAL PENSION**

- Regular savings and investment of savings
- Using a combination of several investment channels
  - Capital money market instruments, life assurance, mutual funds, properties, etc.

#### **REQUIREMENTS FOR SUCCESS OF PERSONAL PENSION**

- Financial Literacy.
- adequate Monitoring/Review.
- sincerity In Pursuit of Plan.

#### **ISSUES IN PLANNING FOR RETIREMENT-3: LIVING YOUR LIFE IN RETIREMENT**

- Family Issues
- Economic Activities during Retirement
  - Optional or Compelling
  - A job or a Business/ Investment?
- Retirement Home
- Alternative Activities
- Health Management
- How will you want the society to benefit from your life's toil?

#### **CONCLUSION**

- Have a big picture of what your life after active working life will be.
- Have a clear income goal during active working life.
- Prepare mentally.
- Have a fall back plan: the employer's provision can never be enough.

Thank you.

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