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SYSTEM OF PAYROLL IN THE PUBLIC SECTOR ADMINISTRATION



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ABSTRACT

Keywords

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Salary payments in the public sector administration are a key to service success, performance effectiveness and efficiency. Be that as it may, this write up was painstakingly tailored to lay much emphasis on the importance of labour and wages in the public sector management. Pay roll system in the public sector administration lays emphasis on productivity and prompts remunerations. In going about these various payroll preparation methods purported efforts were made to demonstrate how far adoptable the system are in bringing about effective and efficient salaries and wages administration in the public sector. Various outstanding remuneration literatures were reviewed and far reaching observations were advanced to do justice to the subject matter. However, a lot still beckons salaries wages scholars to lend their voices for the larger benefit of man.

1. INTRODUCTION

Irish Times, 2002 defined payroll system as “a system whereby workers are being paid according to their level of productivity”. Emphasis was also made on the method and manner in which salaries and wages are prepared in different organizations.

Armstrong (2000) defined payroll as “the list of employees by a company and the amount of money to be paid to each of them”. Before the advent of payroll system there was what was referred to as “COMPENSATION” of what was being rendered. That is to say, a job or work or goods were used to pay for work. But since the advent of money it has become necessary to commensurate job done, with or by actual money value. This system for money exchange of labour or services rendered users in the use of wages and salaries as a means of remunerating

laborers or employees for the services rendered to the organization. This therefore led to payroll system, where employee's remuneration can be tabulated on paper showing their total emoluments. The payment of wages and salaries on payroll therefore has become the usual practice in organization or tertiary institutions in the country for remunerating their employees.

According to economic theories, it was said, "The Reward of Labour or Services, is wages".

The article is aimed at identifying the basic problems encountered in payroll computation and designing a standard system for all organizations in the country. It is important that Standard Payroll procedure be followed to ensure that satisfactory authorization takes place prior to payroll computation or payment and that adequate record are maintained and also analysed in details to assist the organization in decision making in the future.

According to [Armstrong and Stephens \(2005\)](#) the basic rule in most organization is that every employee must be paid at the end of their hours of labour, either daily, weekly or monthly. Efficient wages and salaries system is essential to maintain the continued co-operation of the workforce.

The payment of every employee must be made in a detailed explanation of computation used in determining the net amount received by the employee. The payroll system must therefore be capable of processing the input data such as employee's name, social security number, date worked, pay rate, overtime due and taxes, to produce accurate output of pay schedule, cheques, pay record, withholding or payee taxes, statement's and reports to the appropriate government agencies.

The task of accounting for payroll-cost would therefore be an important one. This is because of the large amount involved. However, it is further complicated by the Federal and State laws which requires employers to maintain certain specific information in their payroll records not only for the organization as a body but also for employee in the computed and all money so deducted, must have to be remitted to the appropriate bodies.

Also, there must be efficient and effective system of safeguarding against overpayment and payment to fictitious employees, and the continuance of payment to retired persons or terminated officers. With adequate information from the Registry Department/Administrative Manager, the Bursary Department in case of inherited liability organizations ought to be furnished on quarterly basis, the up to date staff list. This will enable the Payroll office to delete names of the terminated officers or officers who have left the service from the payroll sheet with effect from the date they left the service.

1.1. Wages and Salaries Administration

Activities and duties connected with the employment, placement, recruitment, promotion, transfer and discharge of employee's are normally carried out by separate department(s) called various names as Personnel department, Administrative department, Establishment department or Personnel Welfare Office.

In private sectors where the determination of salaries and wages is usually done by Joint Negotiation, between the Proprietors and the employee's representatives (UNIONS). The

determination of such in the Public Sector, (Educational Institutions inclusive) is usually arrived by Government and Labour Unions (SUP, NASU, COESU, SSA etc).

The Department that is responsible for the administration of wages and salaries and related matters are professional who are well knowledgeable in Personnel administrative matters such as salaries, negotiations, incentives and fringe benefits.

In the public sector in which Tertiary Institutions are included, the Federal Government is the Sole determination of wages, salaries and fringe benefits in Nigeria. Various commissions had been set up since pre-independence to address wages and salaries problems in Nigeria. These include the Whitely Commission of 1934, the Adebo Commission of 1970, the Udoji of 1974 and the Committee that decided the New Elongates Salary in 1992.

The major determinant of wages and salaries include the following among others:

- i. Ability to pay
- ii. Comparable wages
- iii. Cost of living
- iv. Government regulation
- v. Equity in Wages and Salary Relationship
- vi. Productivity

The above determinants of wages and salaries could be summarily analysed as follows: Ability to pay – The financial condition of the employer is one of the important criteria determining wages and salaries paid to her workforce. As per the Government, the moalithis nature of the country's export (mainly petroleum) with its unpredictable international market tells generally on the disprovable revenue for the payment of wages and salaries.

1.1.1. Comparable Wages

Employers and the Government also often take into cognisance pay structure in private sector in fixing wages for her workforce.

1.1.2. Cost of Living

There is no doubt that cost of living has been and will continue to be a major factor, when the cost of living is rising there will be pressures form workers to adjust the existing wages structure of off-set reduction in real wages.

1.1.3. Government Regulation

In 1988, the Federal Military Government deregulated wages and salaries policy. The hitherto unified salary structure was abolished. The Federal, State and even Local Governments can now negotiate its pay with its workforce. However, a minimum wage level was set for the public servants.

1.1.4. Equity in Wages and Salary Relationship:

Wages and Salaries and fringe benefits differentials are mark of social status in most organizations. Wages are fixed according to the hazard involved in the course of doing a particular job. That is, wages must correspond with the relative work and nature of job or its risk. Consequently, the employee's sense of justice is outraged leading to job acidification and hence dispute.

1.1.5. Productivity

In recent times, wages, salaries and fringe benefits were adjusted in accordance with changes in some measure of labour productivity.

1.2. Fringe Benefits and Salary Administrations

Fringe benefits cover payment outside the purview of wages and salaries which include among others, housing, transport, meal allowances, medical allowances, etc.

The major distinguishing feature of fringe benefits is that they constitutes privileges and not rights. In the private sector it is determined by the organizations, taking into consideration its disposable resources and social benefit frame-work as "Since qua non" for workers improved performance and motivation. Unlike in the public sector where fringe benefits determined by the Federal, States and recently the Local Governments.

1.3. Types of Fringe Benefits

According to [Dangana and Dongs \(2011\)](#) 'Pay is the value of the job according to the level of responsibility and its degree of difficulty. Pay then can be said to be combination of value of the basic wages or salaries plus the fringe benefits. It is important therefore to note that wages and salaries alone do not constitute pay. Some of the fringe benefits as applicable to public sector and institutions of higher learning are classified in two categories. Category A is general fringe benefit while Category B is basically for the teaching staff of institutions of higher learning.

Category A: Fringe benefits in this category include:

- | | |
|------------------------|--|
| i. Rent Subsidy | ii. Transport allowance |
| iii. Utility allowance | iv. Meal subsidy |
| v. Medical | vi. Non-Accident Bonus to Drivers only |
| vii. Leave bonus | viii. Overtime allowance |
| ix. Shifting allowance | x. Special duty allowance |

Category B: The fringe benefits under this category is only payable to the members of the Academic staff of institutions of higher learning all over the federation.

The benefits are:

- i. Journal Allowances
- ii. Teaching allowances

- iii. Examination Supervision allowances
- iv. Swess allowances

1.4. Remuneration and Incentive Scheme

According to [Armstrong and Murlis \(2005\)](#) Remuneration is the total monetary earnings of an employee. It therefore consists of any hourly wages or daily pay, weekly or monthly payments, payment by results and other financial incentives received at the regular intervals, weekly or monthly.

Incentives on the other hand are arrangements of a financial (monetary) or non-monetary nature received to stimulate employee's efforts and effectiveness ([Gunnigle et al., 2006](#)).

It is important to note that salaries and wages offer a greater scope for cost reduction than practically any other items of expenditure, thus management must therefore continually endeavor to improve labour effectiveness and so reduce labour cost. Since employee is a real factor in cost control every system of remuneration should be designed so as to encourage every employee to do his or her best. The payment of minimum wage rate seem to give rise to labour cost, but this is not generally the case because high wages tend to affect the best workers and the application of incentives gives an added encouragement to increase output and employees general performance.

The design and formulation of remunerations and incentive system, employee interest should be given adequate consideration ([Guest and Conway, 2000](#)). The attitude of workers to different methods of remunerations is of paramount importance. Many employers oppose incentive schemes on the ground that increase in the employee's efficiency will give rise to redundancy and consequently lead to lay off.

Furthermore, it is essential to relate remunerations to time and productivity in the private sector, and for salaries and wages policies to be so devised that the different types and grade of labour are suitably paid for their skill, ability and experiences. If employers of labour are to gain the full benefit from their worker's effort, then they must by good management, create mutual trust and contentment and provide all necessary facilities and materials to work with. As explained above, incentives are combination of financial and non-financial reward made to employees in order to stimulate their effort and efficiencies. Certain incentives commonly used are:

- a. Payment of leave bonus
- b. Payment of salary while on study leave
- c. Payment of disturbance and traveling allowances while posted to a different station.
- d. Pension and gratuity after service year
- e. Research and development allowances
- f. Journal allowance

The range of Non-monetary incentives is extremely wide. Their aim is to make the employment attractive as well as attractive to employee. Non-monetary incentives may be provided free or there may be a partial contribution by the employee.

Some of these incentives are as follows:

- a. Education
- b. Health
- c. General

Educational: incentives means, staff are released for studies. This could on Part-time or Full-Time basis while the employee's salaries of allowances are paid regularly. To most staff, there is course allowance which they could benefit while in school. Scholarship or self-educational subsidies are also enjoyed by the staff of most organizations or institutions or higher learning.

Health: There is first-Aid facility available to staff. Soft loan are also granted to staff who have complicated medical problems. Drugs are sold at the organization or institution clinics at subsidized prices.

General: The general incentive include, sporting and recreational facilities, canteens, financial or other assistance in respect of housing subsidy, sick and benevolent funds, contributory funds, etc are available.

1.5. Remunerations Systems

Generally, there are three basic systems or methods of remuneration commonly used by organization and establishments.

These are:

- a. Time Rate
- b. Piece rate
- c. Premium Bonus system
- d. Day rate and
- e. Payment by result

The salary/payroll system as an internal part of the over-all accounting system is a system within a system. Hence, it is often suggested to various types of control; while the two salient important elements of control are salary control and payments control. The different stages in the flow of work in some duty posts as well as their relevance will be classified briefly as follows:

1.5.1. Salary Procedures

The salary control procedures often include in a general form a number of elements, such as:

Adequate control records like variation control forms, Payroll voucher, Payroll summary voucher, advice of deduction from salary, Bank payment advance slips, etc that is, to control and provide evidence of approval and accuracy of amounts calculated as the due for payment.

Procedures governing the processes of payroll preparations, e.g Opening of New Cards, entering of variations, writing of Payrolls, writing of summary, etc to ensure that unauthorized data are not introduced or unnecessary alterations made.

The methods of submitting payroll to the Paying Officer and its earlier certification.

Arrangements for discouraging cash payments to senior officers so that salary payments can be made by cheque(s).

1.5.2. Work Procedure/Programme

The officer in charge of the salaries section in any organization will find it necessary to draw up a "Time framework" for each month. The programme will show specific dates for each thing as the date on which top close treating variation exercise, the dates on which the posting of personal emolument records will commence and end. The date of closing of all entries to the payment vouchers completed and the date which all payment vouchers should be submitted to the Internal Audit and ay Office. We can now examine the basic transaction of salary procedures as follows:

A. Personnel Emolument Forms

At every beginning of a year each sectional Head sends the lists of all officers in his/her department to the Head of salaries wages section. The same lists should be forwarded along with individual personal emolument forms and the Head of Finance and Supplies (Head of Accounts) Department normally called for the lists and information in a circular to be issued in the preceding year.

B. Personnel Emolument Cards

New personal emolument cards are opened every year with the information so supplied on the Personal emolument Forms and equally from the previous' Personal Emolument Cards for a continuous permanent record of the salaries and allowance and the changes that affect them from time to time, a personal emolument card is maintained for each officer each year.

1.6. Group Register

The payroll preparation process begins with the Group Register because of its importance. The register can be described as a concise Nominal Roll for salaries/wages section. All the opened personal emolument cards are to be registered in alphabetical order in the group register which is later sent to the internal Audit Department for auditing. When this register is not in use they must be properly safeguarded against unauthorized used by keeping them in a file proof cabinet or safe.

1.7. Salary Variation Advice

This is one of the functions of the personnel/Establishments section of an organization which communicate to salaries/wages section any variable which are likely to affect the payrolls for any given month. The salary variation advice (SVA) becomes very necessary because when an officer is newly appointed, promoted, up-graded, Acting, transferred, terminated or reassigned an appointment. Salary Variation Advice is usually in five copies and distributed as follows:

- i. Salary section
- ii. Audit section
- iii. Variation Control Section
- iv. Variation file (Personnel Department) and

- v. Personal file copy of the officer

1.8. Payrolling

Having explained briefly the organization of Payroll section, we now proceed to consider the preparation of the pay rolling for any given month. This system is defined as handwritten, multi-post method whereby entries of monthly earnings and deductions from Personal Emoluments Cards is pay rolled in duplicate. The pay-slips or statements to individual are made in one single operation.

1.9. On-Payment Deductions

On-payment vouchers are raised to cover the total of each type of deduction made for the month as per salary payroll vouchers. Separate vouchers are prepared for each type(s) of deduction duly attached with advice of deductions which gives details on how the deductions were arrived at e.g. Payroll No, Name, Subjects, Taxes, Allowance etc. and amount on each individual officer. Such deductions should be remitted to the various organizations.

1.10. Last Pay Certificate

The last pay certificate can only be issued when an officer is either transferred to a new organization or Inter-State level. All the information that are available in both personal emolument cards and files can be extracted into the certificates and duplicate copy of the Personal emolument card is attached with details of the month in which the officer was last paid. The good role salary administration plays in any organization is to see than an ideal payroll system, is put in place to ensure that there is neither over-payment nor short-payment of employee's salary.

1.11. Salaries and Wages Account

It is a known fact that wages payroll is a memorandum listing the employees of a business or organization (does not form part of the accounting records) stating their gross pay and final take-home pay. To include the content of wages payroll in the normal accounting records, a journal is usually raised. In the hypothetical examples below, the journal will be raised by the Deduction Allowance approved by any responsible officer of the organization.

S/No. Trans.	Name Net	Basic	Over Pay	Time	Gross Pay	Tax Fee	Union Ded	Loans port	Total	Hou.
	Pay		N	N	N	N	N	N	N	N
1.	A	30	5	35	1	2	2	5	10	
2.	B	25	5	30	1	2	1	4	5	
3.	C	18	2	20	0.50	2	2.50	5	2	
3	20									
Total		73	12	85	2.50	6	5.50	14	17	
16	104									

From the above wages Payroll for the month of January, 1991, a total salary N104 will be paid for the month. In the wages account can be produces through a journal thus:

	Dr.	Cr.
Salaries and wages account	85	
Housing allowance	17	
Transport allowance	16	
Salaries payable		104.00
Taxation (payee)		2.50
Union fees		6.00
Loan account		5.50
	118.00	118.00

From the journal, respective accounts can be posted to the appropriate ledger. The amount posted to wages account should always be equal to the gross pay while the amount posted to the salaries and wages payable will always be equal to the take home pay. When payments are effected, the Cash Book will be credited while the salary payable account will be debited hereby nullifying the earlier recorded credit entry. With staff loan and advances, respective ledgers or employees affected i.e. Mr. A; B, and C will be credited to wipe-out part or all loan received by such staff earlier on debited to his account.

Finally, in order to improve efficiency in Payroll Unit and minimize the incidence of payroll fraud in an organization the following procedures are recommended:

- a. The accounting clerks in the payroll offices should be exposed to proper periodic training
- b. There should be a senior staff whose responsibility is to check payroll sheets at the end of every operation.
- c. Staff list should be up-dated on quarterly basis.
- d. There should be a staff register that will contain the:
 - i. Names of all staff to be paid
 - ii. Each salary clerk should maintain a register in which all the names of persons for whom he prepares salary are recorded.
 - iii. Under no circumstances should the names on the Payroll differ from the names in the register.
 - iv. Any addition in the register and by implication in the payroll should be initiated by the officer controlling vote or the Finance Manager.
 - v. All registers should be kept with the accountant or the Finance Manager.
- e. Preparation of salary for a particular department should not be made permanent to a particular salary clerk.
- f. Likewise, there should be more than one or two checking officers, who will also be rotating the checking department by department.
- g. All names on the payroll must be checked along with the Pay Records Cards dully authorized.

1.12. Temporary Absence

The Decree recognizes three possible situations leading you temporary break in service, viz.

- a. Leaving service on account of ill-health, abolition of office and being subsequently re-employed.
- b. Leaving service of a voluntary agency and being subsequently employed in the public service.
- c. Resigning for the purpose of pursuing further studies and being subsequently re-employed.

In each of the above cases the break in service will be disregarded for the purpose of computing pensionable service.

Formular for Calculation of Pensions and Gratuity in Respect of Retirement Between 1st April, 1974 and 31st March 1977.

Years of Qualifying Service	Gratuity as percentage of final pay	Pension as percentage of final pay
5 years	100%	-
6 "	110%	-
7 "	120%	-
8 "	130%	-
9 "	140%	-
10 "	100%	30%
11 "	110%	32%
12 "	120%	34%
13 "	130%	36%
14 "	140%	38%
15 "	150%	40%
16 "	160%	42%
17 "	170%	44%
18 "	180%	46%
19	190%	48%
20 "	200%	50%
21 "	210%	52%
22 "	220%	54%
23 "	230%	56%
24 "	240%	58%
25 "	250%	60%
26 "	260%	62%
27 "	270%	64%
28 "	280%	66%
29 "	290%	68%
30 "and above	300%	70%

2. CONCLUSION

Reviewing the article so far, the level of labour and productivity were seen as a veritable tool enhancing successes in the management of public sector in the scheme of things. Salaries and wages, being the oil that keeps the lantern of the public sector moving, it can therefore not be adequate with insufficient emphasize on the pay roll system. Therefore dialectical methods of pay

rolling system have been brought to bear here in order that the management of salaries and remuneration system are properly addressed for the benefit of mankind.

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