AGA KHAN UNIVERSITY

Guidelines, Policies and Procedures

Policy Name	Payroll Operating Policy
Policy Number	AKU-K/FIN/PL - 012
Approved by	Chief Financial Officer
Date of Approval	4th November 2022
Contact Office	Office of the University Registrar

1. **Purpose:**

   1.1. To ensure all the employees at AKU-K receive their remittances (payroll, other payments or final settlements) and payment information in accordance with this policy.

2. **Scope:**

   2.1. The policy is applicable to all units The Aga Khan University Kenya (AKU-K). The word AKU-K is herein referred to as the "Institution".

3. **Responsibility:**

   3.1. Responsibility of Payroll Section (PS) is to provide assistance to employees on payroll related enquiries and process accurate payroll each month; the Human Resource Department (HRD), is responsible to promptly advise of significant events / changes (which affect the salaries and compensation of the employees and non-full-time clinicians) to the PS to enable accurate processing.

   3.2. Only the HRD has the authority to create new employees in the PeopleSoft-Human Resource Management System (PS HRMS). PS is only responsible to process salaries and compensation using the information provided by the HRD through PS-HRMS

   3.3. A monthly program checklist should be prepared by the PS to communicate HRD about the important cut-off dates and timelines relating to payroll processing and updating of PS-HRMS.

   3.4. HRD is responsible and has the right to update the PS-HRMS regarding the change in the employment status of any employee including salary, compensation and benefits.

   3.5. Overtime payments are linked with the PeopleSoft time and labor module and therefore PS will not have any rights to change or alter the overtime payments in the payroll system.

   3.6. PS can stop the salary of an employee only if it is required or requested by the HRD.

3.7. Access passwords are given to the authorized individuals (who are the bank signatories) in the Finance Department with appropriate limits to use a third party salary transfer solution (provided by the any Bank) to transfer salaries using bank's online portal.

3.8. The Salaries payment through letters will be signed by the authorized signatories with appropriate limits.

3.9. The PS will be responsible for processing employee related other payments.

3.10. All the other payments will be processed on receipt of "request of payment (RoP)" from HRD with appropriate approvals.

4. **Terms and Definitions:**

4.1. **"Employees":** This includes all the faculty and staff of AKU-K whether working as full-time, part-time or on a contractual basis.

4.2. **"Salary"** The monthly remuneration paid to the staff as per the salary communicated in their appointment letters, and the revision letters issued from time to time by the HRD to faculty /staff.

4.3. **"Gross Salary"** Gross salary includes:

4.3.1. Salary including backdated salary arrears; and

4.3.2. Other earnings such as leave encashment, moonlight payment, extra sessions earnings etc.

4.4. **"Deductions"** Deductions include:

4.4.1. General Deductions of any nature utilizing the services of intuition for which payment to institution is due. These deductions will be uploaded by using earning deductions upload utility.

4.4.2. Income tax/Payee

4.4.3. Admin charges and monthly loan deductions.

4.4.4. Employee component related to inpatient and outpatient service of the hospitals.

4.4.5. Any other deduction authorized by HRD.

4.5. **"NFT payments"** Remuneration paid to Non Full Time Staff based on the actual work.

4.6. **"Payroll Processing"** A process that runs through the computerized payroll system to incorporate all the changes in salaries including deductions of loans, taxes, advances, financial charges, receivables etc. to determine the net amount payable to each employee.

4.7. **"Integration Process"** Refer to:

4.7.1. Hire / Rehire: Through this process the data of newly joined staff/faculty is fetched from the PS-HRMS to create employees in the payroll system.

4.7.2. Termination: Through this process the data is fetched from the PS-HRMS for employees who have resigned, been terminated or retired from the service.

4.7.3. Benefits: Through this process, the data related to staff benefits is downloaded from the benefit module of the PS-HRMS for the existing and newly joined staff.

4.8. **"Position Number"** The position number is a unique number allocated to each employee hired for a particular job.

4.9. **"Position Charging Module"** This module is used to update the charging of salary and benefit cost of each approved position. This module requires position number to access the position.

4.10. **"Income Tax / Payee / Credit Rebate"** Income Tax/Payee Credit/Rebate is a tax saving that a salaried employee can avail within a tax year in accordance with the Income Tax Laws.

4.11. **"Banking Detail"** Banking information of staff and faculty for salary transfer.

4.12. **"Cut-off date"** This is the final date to update Human Resources Management System and to receive the deductions data and other earnings to be processed in the same month.

4.13. **"Identify process"** This process is run to download the updated salary and compensation data from the PS-HRMS, updated till the cutoff date. The updating of compensation information in the PS-HRMS is the sole responsibility of the HRD.

4.14. **"Calculate payroll"** This process calculates the income taxes, loan and admin charges to be deducted and validates all manual earnings and deductions updated before the defined cutoff date including back dated salary arrears.

4.15. **"Finalize Payroll"** This process is run once the accuracy of payroll calculations is verified and completeness of data is confirmed.

4.16. **"Cost and Benefit Allocation process"** This process is run to allocate salaries and benefits cost to respective general ledger accounts in accordance with the data updated in the position charging module.

4.17. **"Pay-slip"** Statement given to each staff at the end of every month, which provides details relating salary and benefits including the break-up of salary components and any other salary related payments due to the staff and the deductions that have been made from the salary to arrive at the net pay for the month and year-to-date.

4.18. **"e-Pay-slip"** Employees receive their pay-slips electronically on their email addresses extracted from the PS-HRMS.

4.19. **"Earning /deductions upload Utilities"** These utilities are used to upload earnings (other than salary) and deductions data into PeopleSoft.

4.20. **"Bank File/File Formats"** Different file format as per the banking details available against each employee in the system. The file contains net amount payable to each employee for that month.

4.21. **"Bank Station"** A third party salary transfer solution use to transfer the salaries of those staff and faculty who are having their bank accounts maintained in banks other than Institutional Bank or drawing salaries through pay orders or having their bank account outside of city where institution operate.

4.22. **"Pay day"** This is the day when the salary is distributed. Payroll is disbursed two working days before the end of the month.

4.23. **"Net Pay Report"** This report shows the total net pay of active employees. This report is used to transfer salaries using bank stations.

4.24. **"Email-ID synchronize process"** A process is run in the payroll system to fetch email-IDs from the PS-HRMS to send e-Pay-slips to employees.

4.25. **"Terminal Benefits Form (TBF)"** This form contains information regarding employee's:

    4.25.1. Official identity;

    4.25.2. Personal details;

    4.25.3. Employment period;

    4.25.4. Benefits entitled to;

    4.25.5. Earnings or deductions to be paid or deducted; and

    4.25.6. Any other dues receivable from or payable to the employee.

4.26. **"Employee Exit Checklist"** This checklist is used to obtain employee clearance from the relevant departments. Also, the checklist highlights the outstanding dues of the employee.

4.27. **"Severance Paper"** Severance paper is the confirmation or acceptance document of conclusion of employment, provided by the HRD to each outgoing employee at the time of finalizing terms of separation. A copy of this acceptance is shared with the Finance Division.

4.28. **"Receivable Memo"** It is used to communicate the receivable balance due from the employee. The receivable memo is prepared by the PS and given to the HRD to deliver it to the employee.

4.29. **"Not Processed Pay Slip"** The "Not-Processed-Pay-Slip" option in the payroll system is used to identify outstanding loan, deductions, earnings and receivable balances of an employee that have not been processed due to employee resignation or termination.

4.30. **"Request for Payment"** It is a request made through leave application form, specific loan application forms or through a memo duly approved by the Human Resources Division.

1. **Process / Procedure:**

    1.1. **Observations and limitations**

        1.1.1. All salary related changes, shall be updated in the PS-HRMS by the HRD on the agreed cut-off date i.e. on or before 15th of every month.

        1.1.2. Information on other earnings and deductions shall be received by the 10th of every month for incorporation in the same month's payroll.

    1.2. **Procedure for monthly processing of payroll**

        1.2.1. The PS will run the "Integration Process" in the payroll system after the 10th of every month to fetch the data from the PS-HRMS to:

            1.2.1.1. Create new employees in the payroll system.

            1.2.1.2. Obtain information about the employees who have resigned or have been terminated, and

            1.2.1.3. Fetch data related to staff benefits of the existing and newly joined staff.

            1.2.1.4. *Note: The "Integration Process" is run after 10th of every month*

1.2.2. After the "Integration Process", the PS will run the "Identify Process" in the payroll system to download the updated salaries and identify the active employees to be processed.

1.2.3. Data about salary deductions should be received from various departments.

1.2.4. The PS supervisor will check the data for proper authorization and then get the deductions processed.

1.2.5. Deductions will be transferred into the payroll system by using an "upload data utility".

1.2.6. Information on earnings other than fixed salaries is received from the HRD for salary preparation. The information received will be entered in the payroll system for salary preparation.

1.2.7. All other payments as defined in section 1.8 of this document are entered as and when processed.

1.2.8. All rebate/exemption claims against income tax/Payee will be entered in the system by PS.

1.2.9. Once all the above activities are performed, the "Calculate Payroll" process will be run to calculate gross salaries and deductions.

1.2.10. Once the payroll calculation is finalized a "Net Pay Calculation" process will be run to generate different file formats according to the banking details available for each employee.

1.2.11. Once the payroll is finalized, the "Total Payment Report" will be generated from the payroll system to compare the amount of salary processed in the payroll system with the amount reflected in the General Ledger (GL).

1.3. **Procedure for cost allocation**

1.3.1. The "Cost and Benefit Allocation process" is performed to allocate salary and compensation cost to respective GL codes. The payroll system will automatically generate a Journal Voucher (JV) for GL posting.

1.4. **Procedure for preparation of payment voucher and filing return**

1.4.1. Payment vouchers will be prepared for distribution of salaries. Salaries will be distributed through the following means:

1.4.1.1. Direct transfer to employees' bank accounts

1.4.1.2. Pay orders are issued to Faculty /Staff where banking details are not available

1.4.2. Third party salary transfer solution (Bank Station) is used to transfer salaries and compensation of employees (staff and faculty) maintaining their bank accounts with other banks or are desirous of getting their salaries / compensations through pay orders. A salary transfer instruction (through a net pay report) will be given to the authorized bank.

1.4.3. Payment vouchers and Tax/Payee Challans will be prepared for depositing income tax/payee deducted and withheld from employees' salary. This should be done on or before the due date of payee payment as prescribed by the Tax authority of respective country.

1.4.4. The copy of paid challan received from the Bank will be used to file

monthly returns through to URA. The returns will be filed with the URA on or before 15th of the following month.

1.5. **Procedure for payroll processing and distribution of payslips**

1.5.1. Manual Pay-slip:

1.5.1.1. Manual pay-slips will be printed for:

1.5.1.1.1. Employees whose email addresses are not available in the PS-HRMS, and

1.5.1.1.2. Employees who are paid via cheques / pay orders, instead of direct bank transfers.

1.5.1.2. Manual pay-slips will be handed over to the department representative or to the individual staff on second last working day of the month.

1.5.1.3. Acknowledgement will be taken for each manual pay-slip distributed.

1.5.2. E-Pay-slip:

1.5.2.1. Electronic pay-slips will be sent to those employees whose official email addresses are available in the PS-HRMS on second last working day of the month. In some cases, and based on authorization from HRD, e-pay-slips will also be issued on the personal email addresses of the employees.

1.5.3. Payroll Distribution:

1.5.3.1. Payroll will be distributed on second last working day of the month.

1.5.3.2. *Note: Employees will be informed about the date of salary distribution through a circular issued at least one day before the distribution date.*

1.6. **Procedure for downloading and dissemination of important reports:**

1.6.1. Following mandatory reports will be downloaded by the PS supervisor from the payroll system for dissemination to the relevant departments such as:

1.6.1.1. Job Classification and cost allocation reports will be generated and disseminated to each department who prepares the Budget Variance Report (BVR).

1.6.1.2. Vehicle Insurance report will be generated and shared with the Insurance Department of the Finance Department to assist them to reconcile the premium paid and expenses charged.

1.6.1.3. NSSF deduction report will be generated and shared with the HRD for payment disbursement to the NSSF authority.

1.7. **Process of transfer of payroll data in peoplesoft financials:**

1.7.1. Payroll data will be transferred to the PeopleSoft financials module for recording purposes.

1.8. **Process for employee related other payments:**

1.8.1. These include payments related to leave encashment, salary advances and loans (staff loan, car loans etc.). Payments related to the salary advance and leave encashment will be processed either with the monthly payroll or separately during the month. Request for processing of these payments is sent to the PS by the HRD. All loan payments are processed and paid separately during the month.

1.8.2. Employee related other payments do not include:

1.8.2.1. Salaries paid through monthly payroll, and

1.8.2.2. Payments against full and final settlement of employees.

1.9. **Detail steps involved in the processing of employee related other payments:**

1.9.1. The RoP received from HRD will be checked by ensuring:

1.9.1.1. The completeness of the documents; and

1.9.1.2. The accuracy of the amount payable to the employee

1.9.2. Payments that are to be made separately during the month will be processed through the Cash and Banking Section of the Finance Department. These payments will be processed through accounts payable module of the PeopleSoft financial system. For such payments, following process will be followed:

1.9.2.1. Payment voucher will be prepared by the PS and approved by the appropriate individual in the Finance Department, in accordance with the approved authority matrix. *(Note: such payments are to be processed within the seven working days of the receipt of the request or clearance of discrepancies, whichever is later)*.

1.9.2.2. The approved voucher will be sent to the Cash and Banking section of the Finance Department for preparation of cheque or bank transfer letter.

1.9.2.3. Hard copies of payment voucher and RoPs will be kept with the PS for record and necessary adjustments in the payroll of the following months.

1.9.3. Payments that are to be processed with the monthly payroll will be received from the HRD on or before the cut-off date i.e. 10th of every month. The request received on or before the cut-off date is incorporated in the payroll system for processing (with the payroll). Any request received after the cut-off date is processed in the following month or as requested by the HRD.

1.10. **Processing of full and final settlemtn of outgoing employees:**

1.10.1. Full and Final settlement (FFS) is the process of calculating the amount payable to or receivable from an employee at the time of the conclusion of his/her employment/contract with the Institution.

1.10.2. The process of FFS will be followed for each outgoing employee of the Institution/s on conclusion of his/her service, either by resignation, termination or retirement.

1.10.3. The PS is responsible for processing the FFS.

1.10.4. The FFS will be processed after receiving confirmation of separation of employment and the relevant documents from the HRD. The FFS is processed within 10 working days of the receipt of an email notification from the HRD or clearance of discrepancies, whichever is later.

1.10.5. In case of queries related to FFS, the HRD or the concerned employee, whoever appropriate, will be notified for the resolution.

1.10.6. The employee exit checklist must be completed by all relevant departments before being shared with the PS for records and processing of the FFS. The HRD is responsible to get the clearance from all the relevant departments on employee exit checklist.

1.10.7. The PS sends quarterly reminders to the HRD for follow-up on recovery of receivables. HRD is responsible to follow-up with employee for any amount receivable after cessation of employment.

1.10.8. The PS maintains all the FFS related documents for record and reference purpose for 5 years.

1.11. **Detailed steps involved in the processing of full and final settlemnt payments:**

1.11.1. On confirmation of employee's conclusion of employment and appropriate communication to the employee via severance letter, the HRD will send an online employee exit checklist to the respective departments.

1.11.2. The HRD will update the PS-HRMS system about the termination of service by an employee. Once the PS-HRMS system is updated with the termination information, the payroll system does not process the employee last month salary and therefore, the last month salary will be processed with the employee's full and final settlement.

1.11.3. In case if the PS-HRMS system is not updated with the employee termination details, the HRD will inform (through an email) to PS to stop processing the last month salary of an outgoing employee.

1.11.4. Upon receiving clearance on the exit checklist from the respective departments, the HRD redirects the "Terminal Benefits Form" containing attachments of severance letter to the PS for record.

1.11.5. The HRD will finalize the online/physical "Terminal Benefits Form" and notify (through an email) the Payroll Section to initiate the process of the FFS. The FFS process will not start until the receipt of this notification.

1.11.6. Once the employee exit checklist is received from the HRD, the PS will update the employee status in the payroll system and will run the FFS process through the PS- HRMS.

1.11.7. Upon receipt of the "Terminal Benefits Form" the PS will download all the relevant information from the employee exit checklist, Not-Processed-Pay-Slip/s and the terminal benefits system to compute the net amount payable to or receivable from the employee.

1.11.8. A separate process will be run for the FFS to calculate employee. Upon conclusion of the FFS process, the full and final settlement summary will be extracted from the PS-HRMS.

1.11.9. The accounting entries will be made in the PeopleSoft financial system on the basis of summaries extracted from the PS-HRMS.

1.11.10. Payment voucher will be prepared if the FFS summary shows a balance payable to the employee; whereas, receivable memo will be prepared if the FFS summary shows a balance receivable from the employee. *(Note: balance receivable from an employee will be adjusted from any other payment due to the employee).* In case if the payment voucher is prepared, the following process will be followed:

1.11.10.1. Payment voucher will be prepared by the PS and approved by the appropriate individual in the Finance Department, in accordance with the approved authority matrix.

1.11.10.2. The approved voucher will be sent to the Cash and Banking section of the Finance Department for the preparation of cheque or bank transfer letter (collectively called instruments). The cheque will be prepared for employees who do not have bank account with DTB, while the bank transfer letter will be prepared for employees having a bank account with DTB.

1.11.10.3. The instrument will then be sent for approval to the signatories in the Finance Department, in accordance with the authority matrix.

1.11.10.4. The FFS bank transfer letter will be sent to the bank and the cheque will be made available at the cash office. *(Note: The cashier is responsible to inform employee about his/her FFS cheque to be collected from the cash office or about the FFS amount transferred to their respective bank account).*

1.11.10.5. The cashier will obtain the acknowledgement on the acknowledgment slip, when delivering the cheque to the recipient.

1.11.10.6. The FFS summary will be shared with the employee once the FFS amount is transferred to the employee's bank account or FFS cheque is available to employee for collection.

2. **Review of Policy**

   2.1. This policy document shall be reviewed every three year or as required.

3. **Reference(s):**

   3.1. N/A

4. **Annexures:**

   4.1. N/A