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## முகாமைத்துவ கணக்காய்வுத் திணைக்களம்

### DEPARTMENT OF MANAGEMENT AUDIT

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මහ ලේකම් කාර්යාලය, කොළඹ 01.

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My No.

DMA/2009/03

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நிகதி  
Date

2010-02-19

Management Audit Circular Number DMA/2010(4)

To all Secretaries of Ministries and Heads of Departments

### Guide for Internal Auditing of Personnel Emolument Records

Internal audit and control of personnel emoluments is extremely important, as human resource cost forms a significant portion of the government expenditure. Even a small error in a salary payment goes a long way as the numbers are large and the periods of payments are long.

The salaries of most of the Ministries and Departments are now prepared, paid and accounted using the personal computer based software issued by the Ministry of Finance and Planning. Computerized payments preferably have to be controlled and audited using computerized control and audit techniques to ensure accuracy. The attached guide explains computer based control and audit techniques that are to be employed with the supplied software in order to ensure the accuracy of salary payments.

Chief accounting officers are kindly requested to bring matters mentioned in this guide to their Internal Audit Officers so that they could provide a more professional service in conducting the human resource expenditure audit of the government institutions.

P.M. Pius Fernando  
Director General of Management Audit  
For the Secretary to the Ministry of Finance and Planning

# **Guideline for Internal Auditing of Computerized and Manual Personnel Emolument Records**

(Issued with the Management Audit Circular Number DMA/2010(4) )

## **1. Requirement of keeping records of personnel emoluments**

1.1 Personnel emolument records, as specified in detail in Sri Lanka Financial Regulation (FR) No. 453 have to be maintained to ensure that;

- a) sanctioned cadre under each grade is not exceeded
- b) payments are made in accordance with the sanctioned scales and rates
- c) a record is maintained of;
  - a. Payments made (and if necessary recoveries made from) to every officer
  - b. Other particulars necessary or helpful in determining the amounts to be paid.

1.2. Any alternative system for maintaining pay records is allowable under FR, provided that such a system ensures all details required by FR to be maintained. Most government agencies now use computers with the software distributed by the Ministry of Finance and Planning (GPS – Government Payroll System, and CIGAS – Computerized Integrated Government Accounting System) to prepare salaries and remit them to bank accounts. This system is a Personal Computer based software with only minimal data security. Therefore, it is not prudent to solely depend on this software to keep records as required by the Financial Regulations.

1.3. However, it has been revealed that some organizations have discontinued with keeping required personnel emolument records as per the FR because of having the computerized payroll system. This practice may open their salary payment systems to risk of frauds, errors and omissions in addition to non-compliance.

## **2. Details to be maintained in Personnel Emolument Register according to FR 453**

2.1 The “Personnel Emolument Register” should readily show the number of sanctioned cadre and number of officers who have been paid salaries. The names of each officer paid; their annual salary; date of appointment; confirmation; increment; marriage; retirement; resignation; interdiction; reinstatement; occupation and vacation of government quarters; dismissal; death, as happens must be recorded in the Pay Register.

2.2. The particulars of salary and wages paid to each officer and deductions from salary shall be noted against the names of employees under each month of payment. If the amounts paid are different from the previous month, difference should be explained in a footnote.

2.3. A certificate should be provided by the certifying officer at the bottom of each pay abstract, to the effect that he has verified and found that the Personnel Emolument Register has been completely entered up, totaled and reconciled. Surcharges and arrears should be entered in red.

### **3. Government Payroll Software System (GPS) and the PE Register**

3.1. GPS software package was introduced by the State Accounts Department in its Circular No 107/98 of 16<sup>th</sup> September 1998. It had given specific instructions to continue the PE registers manually until the department could have “fully implemented” GPS software and is in a position to generate annual printouts to serve as the PE Register.

3.2. (i) Full implementation of GPS software requires maintaining records in the computer so that the requirements of Financial Regulations for personnel details are fulfilled. Accordingly records on

- a) cadre, salary scales and other personnel details,
- b) salary payments details of each month against each payee name
- c) payments from a special pay abstract,
- d) payment of any arrears or
- e) recovery of any surcharges etc.

should be maintained in the computer, so that they are readily and reliably available when required.

(ii) However, GPS is not fully implemented in many institutions and therefore it is still required to maintain the manual Personnel Emolument Register due to following reasons.

- a) Details mentioned in 3-2(i) above are not available in the computer readily and reliably.
- b) Although there is a record in GPS in printable form usable instead of PE Register, it is incomplete since it would not include payments made by special pay sheets etc. Moreover, printing this record monthly is not efficient as it is bulky due to repetitive printing of monthly data of past months, each time it is printed.
- c) Only a copy of the printed pay abstract of each month is filed each month and there is no single record to show summary salary payments to a particular employee, during a year.
- d) The use of security measures to ensure safety of electronic data in GPS is practically not very sound and is not very difficult it in most cases for unauthorized parties to access electronic personnel records and change them.

### **4. Manual Records on Loans given to staff and recoveries of such loans**

4.1. Staff Loans to Public Officers are given under the type of Special Advance Accounts provided in F.R. 501 (c). According to F.R. 502 accounting officers should ensure that adequate records are maintained in respect of Advance Accounts. Detailed loan records are continued to be kept in CC 10 format which had been prescribed by the Credit Council circulars. Detailed circular instructions have later been issued on procedures to be adapted and records to be kept on loans and recoveries by the Department of National Budget. Accordingly, in addition to electronic records maintained in the GPS payroll system, detailed manual records prescribed in 3.2(i) above have to be maintained.

## **5. Control Measures to be taken when using GPS software according to State Account Circular No. 171/2004**

5.1. State Account Circular No. 171/2004 of 11<sup>th</sup> May 2004 specified the following control systems when using GPS software;

- a) Passwords should be used to prevent unauthorized access to computers where GPS is installed. The first level password of GPS should be kept with the accountant or any other authorized staff officer ensuring that it will not be known to any other person. Second and third level passwords should be kept with the chief clerk and salaries clerk respectively, and they must be made to understand that it is their responsibility to keep them confidentially.
- b) Passwords must be changed at least once in three months.
- c) The accountant must do the final 'Payroll Process' after entering the monthly variable data by salary clerk.
- d) As soon as the payroll process is completed, copy of payroll 'Account Summary' should be printed and kept by the accountant and when signing the salary cheque he should check whether its figures are correct. The accountant should be satisfied with the changes in the individual salaries and the total amount debited to vote ledger, in comparison with the last month (This is electronically possible by GPS)
- e) Officer who prepares salaries should not be involved in withdrawing cash from the bank to pay salaries, in packing individual salary packets and in preparing bank reconciliations.
- f) GPS software is issued only at the request made by an accountant and they should be responsible for supervision and maintenance of sound internal control systems for payment of salary accordingly.
- g) All employees of the organization should be issued with the pay slips and be encouraged to be vigilant on the accuracy of amounts in their slips.

## **6. Electronic Salary Payments using CIGAS Software**

Output information from GPS software such as payment amounts, loan and other recovery amounts, remittance amounts to banks and other institutions are electronically fed into the CIGAS software for

- a) printing of pay cheques
- b) maintaining loan balances and
- c) accounting salaries against votes
- d) transmitting an electronic listing to banks based on Sri Lanka Inter Bank Payment System (SLIPS) of the Central Bank of Sri Lanka.

## **7. CIGAS Salary Payments by SLIPS System**

7.1. Both the government and the employees are benefited from paying salaries through bank accounts rather than paying them in cash. Therefore all government institutions are encouraged to pay salaries through bank accounts.

7.2 SLIPS system goes one step beyond the normal system of generating bank cheques and makes payment to all the banks of payees through a single bank based on an electronic listing generated by CIGAS. This has been very popular recently instead of paying by cheques as it saves public funds as the cost of

- a) cheque leaves printed in thousands per each agency,
- b) postage for posting them to thousands of institutions,
- c) labor and documentation involved in writing and signing cheques
- d) printing cost of covering letters and envelopes, folding, inserting and sealing etc.
- e) cost of error corrections which would happen in manual processes

## **8. Control Measures to be taken when using SLIPS system**

8.1. Especially due to security lapses pointed out in previous paragraphs of this guide, great care has to be taken when making SLIPS electronic transmissions of GPS data through CIGAS, to ensure payments are remitted to the correct bank accounts and any fraudulent payments are avoided. The following control measures are useful with this regard. The internal auditors should examine whether the following control measures are in place with regard to SLIPS payments.

- a) The accountant who signs the SLIPS listing and the related cheque for the total amount must ensure that all the bank accounts in the listing are the bank accounts given by the payees. This would involve comparing of several hundreds of bank account numbers with permanent records each month. The accountant should devise suitable internal control methods to ensure proper implementation of the this process.
- b) The accountant should compare the Grand total in SLIPS list with the total amount shown in the 'Account Summary' generated by the GPS, to avoid overpayment.
- c) Issue printed pay slips to payees to scrutinize their salary payments themselves and to bring any underpayment or discrepancy to the notice of the accountant.
- d) Specially examine the authority and the identity of the third parties in cases where the salary amounts have been paid to them at the request of payees.
- e) Any monthly changes have to be effected to the payroll only with the approval of the accountant.
- f) In the GPS Remittance Summary which is a part of the Account Summary total shown in 'Net Sal By Chq' column should be same as the column 'N-Bank-Paid' in the Net Salary Report of the Account Summary.
- g) Total amount in the CIGAS SLIPS list must be less than the amount mentioned in f) above, as this figure is the total amount paid to 'agents', paid in the SLIPS system as well as 'agents' not paid in the SLIPS system.

- h) 'Agents' paid in the SLIPS system are the 'Agent Names' ending with a \$ sign in the 'Remittance Summary' of the 'Account Summary'. Auditor can total them independently and compare it with the CIGAS SLIPS list total.

## **9. Information Flow from Personnel Division to Accounts and Payroll Division**

9.1. In government ministries and departments personnel work is done at a division usually under an administrative officer and accounts and payroll work is done at a division under an accountant. This is very good as an internal control measure, but may raise operational issues if there are any defects in the information flow between personnel division and the accounts division.

9.2 For instance, if the details of an interdiction of an officer with no-pay are not promptly informed to the payroll division by the personnel division, risk arises that the officer may be paid salary. Similarly if 'no pay' leave taken by the employee is not known by the accounts division, the risk of not making relevant deductions from salary would arise.

9.3 A proper mechanism should have been established to streamline the information flow between personnel division and the payroll division in order to avoid such instances.

## **10. Auditing Personnel Emolument details**

This audit can be done in four stages according to the preference of the auditor.

- a) Examination of the manual paper records kept with regard to these transactions such as source documents and PE register.
- b) Examination of the physical controls existing in the payroll process such as controlled access to the computer systems, periodical change of passwords and maintenance of records in the form of paper printouts.
- c) Examination by using control facilities available in the software. In this regard auditor should obtain a fair exposure to GPS and CIGAS software packages.
- d) Examination of relevant GPS data files using spreadsheet software to find any malpractices in salary payments. This process has been explained in paragraph 13 of this guide.

## **11. Auditing of Payroll Records using facilities of the GPS software – Printouts**

The following printouts from the GPS payroll are usually taken and filed. They can be examined in audit.

- a) **Monthly Account Summary** - which includes (a) Analysis of Payments for the month (b) Summary Analysis of Payment for the month (c) Remittance Summary (d) Net Salary Report (e) Cross Entries etc. This would show all control totals of salaries, cash payments, and remittances to banks and other institutions and deductions from salaries. Arithmetical Correctness of all the details of payroll is ensured when totals of (a) above and (b) above are tallied. This is a basic test which can be done in audit.

- b) **Detailed Remittance Lists** - includes break up details of remittances – Any abnormal values in these lists can be further examined in audit.
- c) **‘SLIPS’ List generated by CIGAS** - This could be examined in audit with the control measures indicated in the paragraph 8 in this guide.
- d) **Cadre Control Report** - according to ‘Category’ and according to ‘Service’
- e) **Pay abstract** with signatures of payees as the original paid document.
- f) **Monthly Advance Report** which shows loan recoveries.
- g) **Pay Reconciliation with previous month** - This is a very useful control report which can be printed with GPS under
  - (Reports)
  - ‘K. Summaries’
  - ‘7. Pay Reconciliation’
  - ‘(Utilities)’
  - ‘O. Report Viewer’ – ‘Salrecon.rpt’

## **12. Auditing of Payroll Records using facilities of the GPS software – Processes**

There are very useful tests which could be done by the auditor to check whether the payroll amounts are correct.

**Payroll Process** – ‘Payroll Process’ can be done by the payroll accountant in the presence of the auditor or by the auditor himself. After carrying out the ‘payroll process’ print ‘Account Summary’ and examine it as mentioned in paragraph 11 (a) above.

With regard to the present month this can be done in GPS under

- ‘(Data Entry)’
- ‘A. Variable Data – Validation Run – (Processing) –‘
- ‘E. Payroll Process – (Reports)’
- ‘L. Special Reports’
- ‘8. Remittance List – (Utilities)’
- ‘O. Report Viewer - Account.rpt’

**Item Listings** - Auditor can select any item of pay such as Basic Salary, Fuel Allowance etc. and prepare a listing of all payments of the selected item. The auditor can examine any abnormal values further. The listing can be printed under

- ‘(Reports)’
- ‘K. Summaries’
- ‘1. Monthly Item Report- [F2] key to select an Item of Pay – (Utilities)’
- ‘O. Report Viewer – Itemrep.rpt’

**Pay Reconciliation** - Pay Reconciliation Report also can be printed by auditor independently as shown in paragraph 11(g) of this guide.

### **13. Auditing of Payroll Records using Spreadsheet Software**

13.1. It is possible to obtain electronic copies of data files from the current GPS payroll for audit. For instance the following files will contain salary and loan data.

- a) **massortd.dbf** (Salary Data)
- b) **pyrloans.dbf** (Loan Data)

13.2 It must be noted that only a copy of the original file must be used for audit and not the original file itself. It would be evident that after opening for audit with a spreadsheet and making changes the file would not be usable again in GPS. These files can be opened using a popular spreadsheet program such as 'Microsoft Excel' or 'Open Office Calc' and electronically analyzed to find any possible cases of

- a) Double payments (same employee paid twice)
- b) Fraudulent payments to non-existent employees
- c) Erroneous or fraudulent payments to officers who are not entitled such as those on no-pay leave, under interdiction or dismissed etc.
- d) Incorrect salary or allowances paid to valid employees
- e) Loans obtained without entitlement
- f) Non recovery of amounts recoverable in time
- g) Payments to incorrect Bank Accounts

The following are some of the simple techniques which could be used to electronically analyze payroll data;

- a) Finding,
- b) Sorting
- c) Auto filtering
- d) Calculating (i.e. percentages, ratios etc.) and
- e) Cross tabulating (Pivot Table)

13.3 Those auditors who have higher professional skills can use advanced audit techniques which are possible with spreadsheet software. For instance Benfords Law tests, aging tests, stratification, basic statistical analysis such as mean, median, mode, standard deviation etc., advanced statistical analysis such as regression, trend analysis, Monte Carlo simulation are all possible with spreadsheet software.

13.4. It is also worth mentioning that in addition to spreadsheet software which is quite sufficient for our purposes, special audit software both free open source products and priced proprietary products are also available for auditing of computerized records.

### **14. Taking samples for audit from high risk areas**

As it would be impracticable to examine 100% when the number of employees paid is high a good representative sample can be taken, preferably to cover the risk areas such as highly paid officers, divisions of the organization that do not receive pay slips, officers who might not usually examine the details of their salaries.

**15. Backup Copies** It is very necessary to keep several backup copies of important electronic records as they could be easily destroyed.