

MODULE 5 - PAYROLL AND TIME MANAGEMENT

Real life story

The company “AIDCONSULT” managed a technical assistance (service) contract for an EU-funded project. The service contract was implemented in Borduras, Latin America, by a team of expatriate experts and a team of local staff.

The auditors appointed by the Contracting Authority to audit the contract noted that a large number of timesheets for the international staff had in fact been completed before the work actually took place.

The auditors also noted that the timesheets of some of the local staff contained obvious errors (such as the same day being entered twice, or 33 days worked in the same month). As the local staff in question were paid per day worked, this meant they had been overpaid.

It was also found that some staff charged for time every day, including Saturdays and Sundays, throughout the project period (and even for an uninterrupted period of up to four months).

What happened: These issues had not been detected by the company, which had not checked the timesheets effectively. As a result, the Contracting Authority asked the company to rectify its invoices. The company was unable to recover the amounts overpaid to the former local project staff, so it had to cover the difference itself.



WHY IS PAYROLL A KEY FINANCIAL MANAGEMENT AREA?

Key Message:

The payroll is a significant cost that must be properly controlled.

Human resources are a major cost component for many projects, particularly service contracts.

In such projects it is essential to control and account properly for these costs.

Critical aspects of payroll costs include:

- ▶ proper calculation of pay and compliance with national social security and related rules;
- ▶ adequate staff contracting;
- ▶ adequate systems to allocate staff costs to projects;
- ▶ adequate control of attendance;
- ▶ sound remuneration practices.

Content of this module

- ▶ Minimum contractual conditions.
- ▶ What could go wrong? Key control measures.
- ▶ Basic tips.
- ▶ Specific issue – Compensation for leave entitlement.
- ▶ Tools and templates.



MINIMUM CONTRACTUAL CONDITIONS

Key Message:

Understand the Contractual Conditions.

The following summarises the main contractual requirements for payroll and time management in EU-funded external actions managed through grants, service contracts and programme estimates.

• Grant Contracts



The general conditions of grant contracts:

- ▶ Define eligible payroll costs as the “actual gross salaries of the staff assigned to the action, including social security charges and other remuneration-related costs”. These payroll costs may not exceed those normally borne by the Recipient or its partners (Article 14(2)).
- ▶ Specify that the supporting documents to be provided are payroll records such as contracts, timesheets and salary statements (broken down into gross salary, social security charges, insurance and net salary (Article 16(3))).

MINIMUM CONTRACTUAL CONDITIONS (continued)

• Service Contracts



The general conditions of service contracts include many rules on staff management. The main ones are summarised below:

- ▶ For fee-based contracts, timesheets recording the days or hours worked by the Consultant's staff must be maintained. These timesheets must be approved on a monthly basis by the project manager or by any person authorised by the Contracting Authority (Article 24(2)).
- ▶ The Consultant must inform the Contracting Authority of all staff whom it intends to use to carry out tasks, in addition to the key experts named in the contract (Article 16.1).
- ▶ The Consultant may not make changes to the agreed staff without the prior approval of the Contracting Authority (Article 17).
- ▶ The days and hours of work of the Consultant's staff are to be consistent with the laws, regulations and customs of the beneficiary country and the requirements of the work (Article 21).
- ▶ For fee-based contracts, the fee rates are deemed to take account of annual leave. Days taken as annual leave are not considered to be working days (Article 22).
- ▶ The Consultant must respect internationally agreed core labour standards, e.g. ILO (International Labour Organisation) core labour standards, conventions on freedom of association and collective bargaining, the elimination of forced and compulsory labour, the elimination of discrimination in employment and occupation, and the abolition of child labour (Article 8(2)).
- ▶ Civil servants or public agents of the beneficiary country may not be recruited as experts for contracts in the beneficiary country unless the Contracting Authority has given its approval (Article 9(5)).



MINIMUM CONTRACTUAL CONDITIONS (continued)

- Programme Estimates  The Practical Guide for Programme Estimates, under “Staff Management”, Section 4.1.9, states that:
 - ▶ The rules for managing the various categories of staff must be set out in the administrative implementing arrangements of the programme estimate. These must include the procedures for recruiting staff, the national legislation applicable, the type of contract used and the relevant social entitlements.
 - ▶ The recruitment procedures and remuneration package for management staff must be approved by the Head of the EU Delegation.
 - ▶ Terms of reference and contracts must be drafted for the recruitment of contract staff. These contracts should usually be for a fixed term coinciding with that of the programme estimate. The list of staff, their pay scales and rates for additional allowances must be annexed to the programme estimate.
 - ▶ The imprest administrator and the imprest accounting officer must keep an up-to-date staff register and payroll with monthly tables showing the details of expenditure on staff. Each year they must also draw up a list of staff by function and by name, stating the cost of their pay and the relevant contributions.

- Other contract types  If the action is financed by means of some other type of contract, refer to its provisions.



WHAT COULD GO WRONG? KEY CONTROL MEASURES.

What could go wrong?	Key control measures
<ul style="list-style-type: none">• It may be impossible to show how much time staff spent on the project.	<ul style="list-style-type: none">• Set up a timesheet system to record and control the time spent by the staff. Have the timesheets of all staff checked by a responsible individual.• In addition to the above, keep travel documentation and boarding passes for expatriate staff working in beneficiary countries showing arrival and departure dates relating to the project.
<ul style="list-style-type: none">• The time reported by staff on timesheets may not be reliable.	<ul style="list-style-type: none">• Ensure timesheets are reviewed by a responsible individual within the project (e.g. the team leader or the head of project support unit).
<ul style="list-style-type: none">• For service contracts, the Consultant may assign staff to the project without informing the Contracting Authority.	<ul style="list-style-type: none">• Inform the Contracting Authority of any new staff before they start work on the project.
<ul style="list-style-type: none">• The actual salary costs may not be determined correctly or the amount may not be supported.	<ul style="list-style-type: none">• Keep payroll records in accordance with the relevant national legislation. Draft payroll sheets by person and in total.• Ensure that salary scales are in line with market levels.
<ul style="list-style-type: none">• The relevant social security rules and/or the relevant national employment legislation may not be obeyed.	<ul style="list-style-type: none">• Consider using a specialised payroll office.
<ul style="list-style-type: none">• Undue allowances (per diem and other) may be paid to staff and charged to the project.	<ul style="list-style-type: none">• Ensure that any allowances paid to staff are justified.



BASIC TIPS

Key Message:

Consider using timesheets even if the contract does not require them.

An effective timesheet system can help to meet several important objectives:

- ▶ Allocating staff costs to the project according to their actual time inputs.
- ▶ Allocating the work to the correct activity in the project.
- ▶ Checking that staff are actually present.
- ▶ Documenting the staff's work on the project.

Recipients are encouraged to set up a timesheet system to manage staff time, even if this is not required in the Contractual Conditions.

Timesheet requirements may be more or less strict depending on the objectives.

For example, if staff work on several different projects during the same period, a stricter timesheet system may be needed than if they are hired to work exclusively on one project.

The next page presents basic measures which can be taken to make the timesheet system stricter.



BASIC TIPS (continued)

Key Message:

Consider what makes a good time recording system.

Appropriate measures to make a timesheet system more effective include:

- ▶ **Preparation by staff themselves:** Arrange for the timesheets to be filled in by the people who performed the work. Have them sign their timesheets to acknowledge their responsibility for their input.
 - ▶ **Timely preparation:** Require project staff to submit their timesheets no later than one or two days after the end of the designated period. To encourage reliability, monitor this deadline.
 - ▶ **Periodicity:** Make the timesheet period sufficiently short (weekly, fortnightly, or, at most, monthly).
 - ▶ **Data integrity:** Once the timesheet has been filled in and approved, the staff member should no longer be able to amend it.
 - ▶ **Standardised format:** Set up a standardised timesheet format which must be followed by all staff. This will improve staff discipline.
- ▶ **Review and approval:** Have staff timesheets reviewed and approved by their direct superior (for example the team leader, for a service contract).

If the objective of requesting timesheets is to prevent absenteeism, consider asking staff to submit their timesheets to their superior on a daily basis (otherwise, the supervisor's review may be less effective).
 - ▶ **Reconciliation with total time worked:**
If staff work on several projects during the same period, maintain an overview of the time spent by each individual on the different projects, which should tally with his/her total time worked. This practice should ensure that no time can be charged twice.
 - ▶ **Use of time recording software:** (relevant mainly to service contracts). If a Recipient already has its own internal time recording system, it should ensure that the timesheets submitted to the Contracting Authority for the project tally with its internal time recording system.



BASIC TIPS (continued)

Key Message:

Make sure that agreed staff are used for the project.

If staff are named in the project budget or in the project proposal, always obtain prior approval in writing from the Contracting Authority before making any changes.

The project budget and the project proposal are part of the contractual agreement between the Recipient and the Contracting Authority. Changes in items of the Contract require a rider or amendment to be drawn up.

Recipients should never change a staff member who has been agreed upon with the Contracting Authority without obtaining its prior approval in writing.

For service contracts, the Contracting Authority should be notified in writing of the inclusion of any non-key experts who are not named in the Contract.

Key Message:

Make sure that project staff work in the contract period.

Contracts for EU funded external actions generally specify a period during which the action may be implemented.

Staff costs for work performed outside this period are ineligible.

Recipients should inform staff of the start and end of the project implementation period, which is the only time they may work on the project.



BASIC TIPS (continued)

Key Message:

Make sure that social and tax laws are strictly obeyed.

Recipients should never “by-pass” the required social security contributions and income taxes in an attempt to reduce project costs. Nor should project staff be allowed to evade these contributions to increase their net salary income.

The Recipient or its staff might face penalties imposed by the national authorities as a result.

There would also be an unacceptable risk of damaging the reputation of EU-funded projects in the country.

Keep sufficient documentation showing compliance with national social and tax legislations.

For example:

- ▶ correctly drafted employment contracts;
- ▶ payroll sheets showing that gross and net pay tally for individual staff and for the entity as a whole;
- ▶ copies of tax returns where required by national legislation;
- ▶ returns submitted to national authorities concerning social security and income taxes, reconciled with the payroll, and proof of payment to the authorities;
- ▶ possibly, proof of payment by staff member themselves, where they are responsible under national rules for paying social contributions and income tax (consider asking staff to provide such proof).
- ▶ As some countries' social legislation can be complex, unless the project's accountant is familiar with the rules it might be advisable to obtain the help of a specialised payroll office.



BASIC TIPS (continued)

Key Message:

Always use sound practices for allowances.

Remember that the basic objective of paying allowances to project staff or others is to save paying their expenses.

Paying allowances that are not commensurate with reasonable reimbursement may cause various problems. For example:

- ▶ Excessive training attendance allowances may attract unmotivated participants who may attend just for the allowance and not for the training itself.
- ▶ Excessive mission allowances may encourage project staff to arrange unnecessary missions which are not in the best interests of the project.

Recipients might consider the following:

- ▶ For training attendance allowances, fix the allowance at a level compatible with reasonable reimbursement of expenses. Document the basis for fixing the allowance. Avoid paying “fees” or “remuneration” for attending training courses.
- ▶ Keep attendance lists. Request participants to provide feed-back on training courses.
- ▶ For mission allowances (per diems), remember that the amounts published by the EC are the maximum. Recipients can always pay lower amounts, for example if the mission takes place in cheaper parts of the country or if the actual costs are lower.
- ▶ For mission allowances, keep appropriate documentation showing that the mission actually took place (mission orders, mission reports, boarding passes for international missions, copies of hotel bills showing the dates of arrival and departure, etc.)



BASIC TIPS (continued)

Key Message:

Always avoid unclear or ambiguous arrangements!

Unclear arrangements are a potential source of risk. Recipients are advised to challenge remuneration arrangements to ensure they are fully transparent.

The following are examples of potentially risky arrangements:

Staff donations: In projects with humanitarian or social content, some project staff may wish to donate part of their salary to the project. Whilst the donation may be made with good intentions, it might raise the following issues from a financial management standpoint:

- ▶ For cost-reimbursement contracts, the donation may effectively reduce the payroll costs of the project, thereby reducing eligible costs by the amount of the donation.
- ▶ If the donation is made by means of a deduction from salary, it might be very difficult to demonstrate later that the arrangement was not designed to inflate the cost basis of the project.

For these reasons, Recipients should be very prudent with this type of transaction. Recipients who intend to arrange staff donations are advised to inform the Contracting Authority in advance.

Additional salaries : In certain projects, additional salaries (top-ups) may need to be paid, for example to staff seconded by national authorities, to motivate them to work for the EU-funded project.

These could, however, attract criticism from other national actors, with a resulting risk of bad publicity. If the top-ups are funded by deductions from the salaries of other staff, it might also involve a risk of improprieties and social disputes.

If the project pays salary top-ups, Recipients should make sure that the amount, allocation criteria and means of funding are fully transparent. It is recommended that they obtain the endorsement of the relevant EU Delegation before making this type of arrangement.



SPECIFIC ISSUE – COMPENSATION FOR LEAVE ENTITLEMENT

For grants and programme estimates, the conditions of most contracts follow these principles:

- ▶ **actual basis:** the Contracting Authority reimburses the real salary cost of the employee, i.e. their gross pay plus social security and social insurance.
- ▶ **generally accepted accounting principles:** the project's accounting records must be kept in accordance with generally accepted accounting principles in the country of the Recipient.

As most countries follow the accrual accounting principle, that is the method Recipients will most often need to follow.

Examples of accrual accounting for paying compensation for leave entitlement are given in the box on the right.

EXAMPLES

- ▶ A project employee is entitled, under national legislation, to 30 days paid holiday leave per year worked. The project period is 10 months and the employee takes her/his 30 vacation days during the period of the project.

Under the accrual accounting principle, the share of the salary cost of leave accruing to the project is 30 days x 10/12, i.e. 25 days of remuneration (and not the 30 days taken during the project period).

- ▶ If the same project employee does not take leave during the project period but prefers to take it after the project ends, the share of the salary cost of leave accruing to the project is still 25 days of remuneration (and not zero).



TOOLS AND TEMPLATES

The following tool can be downloaded from the EuropeAid website at:

http://ec.europa.eu/europeaid/financial_management_toolkit/

FMT - MODULE 5 - TIME SHEET TEMPLATES

(2 templates included)

FMT - MODULE 5 - PRESENCE SHEET TEMPLATES

(2 templates included)

These templates are indicative, non-compulsory examples which Recipients may adapt as they see fit.