



**treasury**

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PROVINCE OF KWAZULU-NATAL

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## HEAD OF DEPARTMENT

Our Reference: 11/6/13/6  
Enquiries: Mr F Cassimjee  
Date: 28 July 2017

**To: MAYORS  
MEMBERS OF MUNICIPAL COUNCILS  
MUNICIPAL MANAGERS  
CHIEF FINANCIAL OFFICERS  
KWAZULU-NATAL MUNICIPALITIES**

### PROVINCIAL TREASURY CIRCULAR PT/MF 1 OF 2017/18

#### EMPLOYEE HEADCOUNT GUIDELINES

##### 1. PURPOSE

The intention of this circular is to provide guidelines to municipalities in conducting an employee headcount exercise to ensure that expenditure relating to salary and wage payments are valid and are made to legitimate employees for actual work performed as well as expunge the payroll system of "ghost employees".

##### 2. BACKGROUND

The existence of "ghost (fictitious) employees" on the municipal payroll is an onerous and preventable burden on the finances of an organisation and must be detected and dealt with immediately. This type of payroll fraud may add up to a significant amount of money over a long period of time if not timeously detected and expunged from the payroll system.

The objective of an employee headcount is to ensure that expenditure relating to salary and wage payments are made to legitimate employees for actual work performed.

Whilst the creation of "ghost employees" emanates from weaknesses in controls over the payroll system, the conducting of an employee headcount will ensure that such fraud is identified. The investigations that stem from each identified "ghost employee"

must ensure that the necessary measures are taken to prevent any such re-occurrences.

The accounting officer of a municipality is required to report to Council on all expenditure incurred on staff salaries, wages allowances and benefits as per *Section 66 of the Municipal Finance Management Act No. 56 of 2003*. In addition, the aforementioned Act is quite clear in its expectation for municipalities to pro-actively ensure the safeguarding of its assets and to prevent any prejudice to the financial interests of the municipality.

It is therefore crucial for accounting officers to conduct an employee headcount exercise, on at least an annual basis, to detect and eradicate the existence of “ghost employees”.

### **3. DEFINITIONS**

*“Ghost employee”* means a person on an organisation's payroll, either real or fictitious, who does not work for the organisation. The aim of the fraud is to have the salary paid to the “ghost” employee and collected by the dishonest employee;

*“Headcount”* means the physical verification of the actual number of people employed in the municipality on a specified date or over a specified period;

*“Employee”* means a person in the employ of a municipality and includes political office bearers and members of a municipal council; and

*“Payroll System”* means the automated personnel, salary and wages management system used by the municipality.

### **4. EMPLOYEE VERIFICATION (HEADCOUNT)**

A physical verification of employees recorded on the electronic payroll system must be conducted at least annually to verify the physical presence of employees and to detect “ghost employees”.

The physical verification of all employees must be co-ordinated by the Head: Human Resource Department. In order to ensure transparency and the reliability and accuracy of the headcount, the actual physical verification of employees must be conducted by the Human Resource Department in conjunction with the municipality's Internal Audit unit or an appropriately independent authority.

Employees must be advised in writing of the date on which the headcount will be conducted and all necessary requirements pertaining to the headcount (see Annexure A)

The attached Annexure B (minimum requirements) must be used to ensure that all the requirements of the headcount are undertaken and all municipal employees are accounted for.

On the date the headcount is conducted all employees must sign the current month's payroll (see Annexure D for minimum requirements in this regard) and simultaneously present their original identity document. This serves as confirmation of the receipt of the monthly payslip and the certification by the Head: Human Resource Department of the physical presence of the employee and the authenticity and entitlement to such remuneration. This must be independently verified with the signature and date of the official(s) from the Internal Audit unit or appropriately independent authority.

The payroll should also be scrutinised to detect "duplicate" bank accounts, ID numbers and or Personnel numbers. Appropriate measures must be taken to eradicate and correct such records.

Employees absent during the headcount and the reasons for such absence and any identified "*ghost employees*" must be recorded on the attached Annexure C, as indicated in paragraph 5 and 6 hereunder.

A copy of the payroll and all attachments (Annexure A, B, C and D) must be retained for record and audit purposes.

## 5. EMPLOYEES ABSENT DURING HEADCOUNT

In order to ensure the reliability and accuracy of the headcount, a record must be maintained of employees absent during the headcount and the reasons for such absence. This must be accompanied by documented proof of the legitimacy of the absence, for example a leave form (see Annexure C).

Such employees must be advised in writing to present their identity document within two days of their return to the workplace. The payroll must be signed and dated by the employee and verified by the Head: Human Resource Department and the Internal Audit unit or any appropriately independent authority, on presentation of the original identity document to authenticate the physical presence of the employee. **The failure to comply will result in the employee's salary/wage being withheld due to the**

**inability to physically verify the existence of such employees.** Notice should be given to the affected employee, in writing, of the intention to withhold the salary where practical. This will provide the employee with a final opportunity to present themselves for verification before the salaries are withheld.

Where practical, municipalities may set aside another period for the verification of absent employees.

## **6. IDENTIFICATION AND ERADICATION OF “GHOST EMPLOYEES”**

*“Ghost employees”* identified during the headcount must be updated on the attached Annexure C.

Where necessary and to avoid any further salary payments to “ghost employees”, consideration must be given to immediately stopping such payments, as approved by the Accounting Officer, once the verification results are finalised.

The Human Resource Department must take immediate steps to remove any “ghost employees” from the electronic payroll by terminating such “persons” from the personnel management payroll system.

All fraudulent transactions must be investigated and disciplinary action taken against any municipal official committing financial misconduct as prescribed by section 171 of the Municipal Finance Management Act No. 56 of 2003, read together with the regulations on financial misconduct as issued in terms of Section 175 of the aforementioned Act and MFMA Circular No. 76. Provisions of the aforesaid that relates to political office bearers and members of a municipal council must be applied, where appropriate.

Any investigation must also centre on the recoveries of monies banked by “ghost employees”, whilst also providing recommendations to prevent any re-occurrences.

## **7. ANNUAL VERIFICATION OF EMPLOYEES**

In order to maintain accurate employee records and ensure that only correct and legitimate transactions are recorded on the municipal payroll system and prevent “ghost employees” and fraudulent and erroneous transactions such as duplicate bank accounts/ID numbers/Personnel numbers, a headcount must be conducted as a minimum annually. Additional verifications may, however, be conducted where necessary.

The annual headcount should ideally be conducted during the months of January, February and March in order for the tabling of results to be done by latest 1 April of each year. This will also inform the budget for the next year.

#### **8. INFORMATION TO BE SUBMITTED BY ACCOUNTING OFFICER**

The accounting officer of a municipality must table the results of the headcount exercise to the municipal Council for consideration immediately after the conclusion thereof. Consideration should be given to informing the municipal Council of salaries that will be withheld for the potential "ghost employees" identified. The final results should be tabled annually by no later than 1 April.

In addition, the results of the headcount exercise must simultaneously be submitted to the Provincial Treasury (see Annexure E in this regard).

#### **9. IMPLEMENTATION**

Accounting officers are urged to comply with guidelines set out in the circular and ensure that a headcount of employees are conducted on an annual basis as a minimum.

Accounting officers may customise and adopt these guidelines as policy to suit the circumstances of a municipality and/or alternatively to include additional objectives, such as the identification of irregular appointments and fraudulent qualifications.

Yours sincerely,



**MR LS MAGAGULA**

**HEAD OF DEPARTMENT: PROVINCIAL TREASURY**

cc: Ms B Scott (*MEC for Finance: KZN*)  
Ms V Maharaj (*Auditor-General*)  
Mr J Hattingh (*National Treasury*)  
Mr T V Pillay (*National Treasury*)

EXAMPLE:

MUNICIPAL CIRCULAR PT/MF 1 OF 2017-2018

**TO: ALL MEMBERS OF COUNCIL  
ALL MUNICIPAL OFFICIALS**

**FROM: HEAD: HUMAN RESOURCE DEPARTMENT  
REFERENCE:  
SUBJECT: EMPLOYEE VERIFICATION / HEADCOUNT**

1. The municipality will conduct a physical verification of all employees recorded on the payroll to verify the physical presence of all employees and to detect any "ghost employees" or fraudulent or erroneous payments.
2. The objective of the employee verification headcount is to ensure that salaries/wages are made to legitimate employees who are remunerated for work performed. In order to conduct a physical verification of employees and ensure that salaries/wages are actually being paid to rightful employees, all employees will be required to produce their original identity document and sign the applicable report prior to receiving their (Month/year) payslips. To facilitate this process all payslips will be withheld by the Human Resource Department.
3. The (dates) of (month/year) is identified for the verification of employees remunerated on the (paydate). Employees are expected to avail themselves on these dates and ensure they are in possession of their original identity document. Each employee will be visited at their workstation to minimise disruption to service delivery and facilitate the process as efficiently as possible [*Alternative option: Employees are to report to (venue) with their original identity document.*].
4. Employees who have prior commitments affecting their availability on the abovementioned date/s must contact the Human Resource Department (name of employee) to set up alternative appointments. The failure to comply herewith will result in salaries/wages being withheld due to the inability to verify the actual existence of such persons.
5. Your assistance and co-operation is appreciated.

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**HEAD: HUMAN RESOURCE DEPARTMENT**

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**Date**

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**MUNICIPAL MANAGER**

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**Date**

MUNICIPAL HEADCOUNT  
(NAME OF MUNICIPALITY)

Headcount conducted by:  
 Prepared by:  
 Year/month headcount conducted:  
 Reviewed by:

PHASE 1			
No.	Questionnaire/Procedure	Y/N	Comments/Outcome
1	Have all municipal employees been verified as legitimate?		
	<u>Verification Process</u>		
	Presentation of original identity document by all municipal employees present on date headcount conducted.		
	Verification against municipal electronic payroll.		
	Once verified each municipal employee must sign the payroll as confirmation.		
	Endorsement by Internal Audit/ independent authority.		
	Retain copy of payroll and attachments for record and audit purposes.		
2	<b>Are any municipal employees absent from duty?</b>		<b>Comments/Outcome</b>
	If yes, indicate name/s of employees and reason for absence as per Annexure C.		
	Provide documented proof for reasons indicated above.		

PHASE 2		Comments/Outcomes
<b>3</b>	<p><b>Process for absent employees</b></p> <p>Municipal employees absent during headcount must be advised in writing to undertake the following:</p> <p>Present the identity document within two days of the date of return to the workplace.</p> <p>Employees must sign and date the payroll.</p> <p>Endorsement by Internal Audit/ independent authority.</p> <p>Retain documents for record and audit purposes.</p>	
PHASE 3		Comments/Outcomes
<b>4</b>	<p><b>Process for "ghost employees"</b></p> <p>Any identified "ghost employees" must be updated on Annexure C.</p> <p>A full investigation must be conducted and such "persons" removed from the payroll.</p> <p>Disciplinary action instituted and recoveries of monies.</p> <p>Retain documents for record and audit purposes.</p> <p>Strengthening of controls</p>	



EXAMPLE

VARIANCE WORKING PAPER

The following municipal employees were absent for official reasons and were not verified during the headcount conducted on (Date)

No.	Name of employee	Personnel No.	Reason	Comments
1				
2				
3				
4				
5				

The following "persons" were identified as "ghost employees" and were not verified during the headcount conducted on (Date)

No.	Name of employee	Personnel No.	Reason	Comments
1				
2				
3				
4				
5				
Signature of person conducting headcount			Reviewed by:	
Date:			Date:	



1. I CERTIFY THAT, UNLESS OTHERWISE INDICATED, ALL PERSONS LISTED ON THE PAYROLL IN RESPECT OF THIS PAY POINT WERE EMPLOYED DURING THE PERIOD INDICATED.

NAME : \_\_\_\_\_ RANK : \_\_\_\_\_ SALARY NO : \_\_\_\_\_ SIGNATURE : \_\_\_\_\_

DATE CERTIFIED : \_\_\_\_\_

THE PERSON IN CHARGE AT THE PAY POINT MUST CERTIFY THAT ALL PERSONS LISTED ON THE PAYROLL IN RESPECT OF THE PARTICULAR PAY POINT, WERE ENTITLED TO THE PAYMENT. ALL PERSONS WHO RECEIVED SALARIES BY CHEQUE/ ELECTRONICALLY MUST SIGN ON THE PAYROLL FOR RECEIPT OF THEIR CHEQUE/ SALARY ADVICES. AFTER CERTIFICATION, THE REPORT MUST BE RETURNED TO THE SALARY DIVISION OF THE MUNICIPALITY, HEAD OFFICE OR REGIONAL OFFICE FOR ARCHIVING.

REPORT BACK ON ANNUAL EMPLOYEE HEADCOUNT

NAME OF MUNICIPALITY:

	Names of persons conducting employee headcount.
	Date employee headcount conducted.
	No. of employees absent for official purposes during headcount.
	Date by which all absent employees were physically verified.
	No of "ghost employees" detected.

Date by which "ghost employees" were removed from payroll system.	
Cost of "ghost employees"	
Measures taken to prevent re-occurrence of ghost employees.	
Disciplinary action instituted, where applicable.	
Additional comments	