

**ISLAMIC REPUBLIC OF AFGHANISTAN**

**MINISTRY OF FINANCE**

**VERIFIED PAYROLL PLAN – 1385**

## **1. Background**

International financial institutions, including the IMF, World Bank, and Asian Development Bank (ADB) have been monitoring deficiencies in the process of salary payments to the employees of the Government of Afghanistan. This has resulted in a structural benchmark under the IMF SMP to establish timetable for verified payroll before end-June 2004 as well structural benchmarks under ADB Post conflict Multisector Program Loan and World Bank Programmatic Support for Institution Building Loan.

The initiative of Verified Payroll Plan (VPP) was taken up as a government measure of economic reforms under the Staff Monitored Program with the International Monetary Fund (IMF) and to meet the challenges regarding policy development and implementation in the payroll for government employees. The plan aimed at reducing the length of salary distribution process, as well as for providing defined windows for management of government payroll. The objective of this document is to provide a brief analysis of the issues and strategies in implementing the Verified Payroll Plan (VPP).

## **2. Analysis**

Problems in paying salaries to government employees can be summarized as :

- Late salary payments to government employees, causing arrears.
- Lower than authorized salary payments to individual government, possibly due to illegal withholdings on the lengthy route
- Loss of significant amounts of salaries due to a number of “ghost” employees registered in multiple government entities.

The existing payroll system arrangements were last reformed with USAID technical assistance in 1960’s. A number of inherent weaknesses in the institutional setup and capacity cause problems and hinder reform process. A few of such weaknesses can be outlined as :

- Procedures for handling payrolls in government institutions are manual and hence prone to error risks.
- Identification documents held by individuals are not reliable and their application is discretionary.
- Underdeveloped banking services limit options to extensive use of bonded trustees (cashiers) for the distribution of salaries.
- The efforts by the MOF to reform the payroll system after adopting the original verified payroll plan (VPP) have been behind schedule and employee coverage under the VPP till end of June 2006 has been approximately 31 thousand government employees in Kabul. Rollout of VPP activities to provinces has not yet commenced.
- The procedures for coordinating establishment (tashkeel), budget appropriations and allotments require review and augmentation.
- The Treasury and provincial mustofiats lack access to updated and detailed tashkeel data, necessary for establishing controls.
- Inadequate information and follow up on authorized tashkeel impede expenditure controls and increase risks of overruns in the employment levels and wage expenditures. Lack of reliable information on authorized tashkeel undermines controls and relations with international donors in determining government employment levels and discussing government wage policies.

### 3. Objectives of the reform

The objectives of the reform strategy are to ensure timely and accurate government salary payment to the legitimate staff throughout government in compliance with the approved budget, establishment and staff positions, through sustainable cost effective payroll payment procedures. Verified payroll facilities would cover all government employees paid from the budget funds, including those not subject to the Civil Service Law, e.g. judges, Parliamentary staff. However, these systems will not extend to the civil servants working in the entities not financed from the budget, eg. Da Afghanistan Bank.

Outcomes from implementation of the Verified Payroll Plan (VPP) would include the following ;

- **Payment of salaries consistent with approved budget, establishment and staff positions..**
- **Salary payments to legitimate and identified employees of the Government of Afghanistan,** through use of standardized names and unique identification number on picture ID cards.
- **Payment of accurate and timely salaries.** The use of computerized payroll calculations would allow avoiding errors and would allow salaries payments within due periods. Payables tracking would ensure subsequent salary disbursement to employees who do not get paid on time due to illness, absence, travel etc.

The above have been used to develop systems, procedures, and controls for salary payments under the Verified Payroll System..

### 4. Work initiated

The MOF adopted Verified Payroll Project (VPP) in June 2004. The treasury has consolidated the staff involved in verified disbursement of government payroll in Kabul in a separate VPP unit, covering the following interlinked activities:

- Individual Salary Payment (ISP) project, through which Treasury staff monitors salary distribution to over 22 thousand employees of government units in Kabul by DAB, Millie Bank, and Pashtany Teryaty Bank cashiers, at the office locations of budgetary units.
- Registration and issue of photo ID card with unique Afghan Personal Identification Number (APIN) by Afghanistan Registries Authority (ARA) – a unit of the Treasury. More than seventeen thousand employees of government units in Kabul have passed through the registration process.
- Generation of payroll sheets from a locally developed payroll database application (MS Access based). Three budgetary units, with a total staff of 561 employees have been covered by this system. The payroll generation system is supported by local staff of Bearing Point (World Bank financed).
- Salary payment from distribution lists with banks – DAB (8,360 employees) and Millie Bank (2,050 employees).
- Direct deposit of salaries to individual employee account in commercial banks in Kabul. 561 employees have been covered under this process through three banks.

Progress has also been achieved through different projects, addressing the issues of government payroll management:

- Public Finance and Expenditure Management Law has been adopted and Financial Regulations are in the final phase of adoption to set legal basis for the MOF managing payrolls government-wide.

- Headcount database monitors monthly payroll data, allowing tracking the number of employees of government units and their salaries by ARTF Monitoring Agent (PriceWaterhouse Coopers).
- Human Resource Management Database covering the functions required for civil service management for the Independent Administrative Reform and Civil Service Commission (IARCSC) is being established.
- Systems Study Project is underway to assess existing data processing facilities and future needs for government financial management (AFMIS), including integration with solutions for new functions such as payroll management
- Compensation payment to demobilized military officers is monitored to ensure payment of full amount to identified individuals. This is a separate project undertaken by the treasury upon request of the MoF.

## **5. Key verification requirements**

Key steps in verification of payroll include the following

- Tashkeel (authorization of established positions)
- Sawane – Human Resource Data (personal information, educational, employment background, etc.)
- Budget and allotment
- Payroll form (M41) – Based on updated database and attendance records
- Payee identification
- Receipt verification.
- Reporting to and reconciliation with the Treasury
- Ex-post monitoring (audit)

## **6. Impediments**

Some important activities of the original VPP strategy adopted in June 2004 have not been implemented. The outlook adopted in the 2004 strategy was realized as optimistic, due to obstacles confronted, primarily on account of the following reasons:

- The anticipated transfer of the tashkeel management function from the Ministry of Administrative Affairs to the IARCSC did not happen, postponing the review and upgrade of tashkeel controls.
- High labor intensity of the ISP process and limited number of staff at the disposal of the Treasury for monitoring salary distribution.
- The reform of grouping government units into three pay distribution periods could not be implemented despite the necessary decisions have been adopted. This would have allowed smoothening of the workload of the ISP team and cashiers of disbursing banks.
- The capacity of ID card unit could not be fully exploited, with the average monthly achievement being only 600-800 ID cards issued, subsequent to registration. The current daily capacity has been assessed at 200-250 employee verifications and card preparation, due to better technology and processes adopted by the ID card unit.
- The agreements with commercial banks on the fees payable by the MOF for the services of salary distribution could not be concluded despite the launch of pilot in November 2004, mainly due to high prices quoted by banks. The costs have been negotiated to reasonable levels.

- The internal audit capacity, which would ensure effective identification and follow-up on violations in payroll management, remains critically low.

## **7. Revised Strategy**

The revised strategy aims to focus on the management of the systemic aspects of the payroll process. Verified payroll disbursement would concentrate mostly on the certification of employment and payroll calculation data by heads of budgetary units, after validation of payroll data through control environment. The Treasury and provincial Mustofiats would ensure that the payrolls are consistent with the tashkeel and budget allotment.

The data and experience gained from the VPP would constitute the baseline for the payroll component to be developed under the planned HRMIS program. There is a need to harmonise similar programs under one umbrella, so as to ensure that the efforts and outputs from any initiative are not duplicated. The ARA cards as well as generated Employee ID numbers under the VPP, would be used in any future payroll management system.

Computerized payroll processing would be established in Kabul in the Ist Phase, covering over 90,000 employees. In the second phase, provincial centers will be covered, and the implementation would draw down from the learning of the prior phase.

Adequate reporting and audit facilities would be developed to ensure that the provincial authorities and accounting offices of ministries perform their functions duly. The computerization strategy will further assist the ministries in centralizing payroll processing.

The new strategy involves the concurrent use of ISP and ID card unit to attain the overall the goal of salary payments through banking channels, i.e. employee account transfers. The goals are optimistic due to the growth in banking activities over the last one year, and the willingness of banks to participate in the process. The MoF has received proposals from four commercial banks, evincing their interest to partner in the payroll reform initiative. Salary transfers to employee accounts in the provinces will be directly dependent on the growth of banking in provinces.

ISP process would be used as an initial tool for identifying employees through individualized salary payments at the phase of budgetary units entering VPP. The ISP would initially complete two monthly cycles at the budgetary unit, and would prepare a list of verified employees at that unit, containing the names, identification particulars and signature. The list would serve as a base for distribution in future cycles, and would also be useful as an important identifying tool for the ARA. Due to cost considerations, ISP would hand over the monitoring to the Internal Audit after the initial stage has been completed.

ISP has not been envisaged as an objective, but as a path for finally paying salaries directly to the bank accounts of employees. In the interim – the use of the current ISP solution would be gradually replaced by a Pay-by List mechanism using bank branches. This would involve use of bank branches in the proximity of budgetary units for paying salaries through a specific list, pertaining to individual branches only. The employees will be paid on the basis of ID cards, and the process will be supervised and monitored by the VPP team.

Ensuring standard government picture ID for every government employee remains critical for putting the VPP process on fast track. A roadmap has been chalked out for the ID card unit, in line with the augmented capacity of the unit. Based on the current capacity and the difficulty associated with registration process, a monthly coverage of around 7,500 employees can be projected for the ID card unit.

An option to branch off the identification and registration of employees for Ministry of Education as a separate project would enable a government wide implementation of the payroll reforms in a 24-30 month timeline. The Ministry of Education project would be under

the overall supervision and monitoring of the Treasury (VPP team) and two persons each from the ID card unit and ISP teams would be deputed to work within the project.

A revised plan for the VPP has been drawn up, taking into account the coordination of various activities, as also the experience gained. The plan targets are summarized below :

**Employee coverage under VPP**

- 80 thousand budget entity employees in Kabul and Kabul province (60-70 percent) by end 1385. (Achieved 27,561 employees till date)
- 60 percent government employees in provincial centers and comprehensive process coverage for Kabul by end 1386, which would include complete coverage in largest centers.
- Improvement in monitoring for all remaining government employees outside provincial centers by end 1386.
- Government wide coverage by end 1387.

**Implementation of computerized payroll processing**

- Coverage of all Central Ministries by end of 1385
- Process mapping of Payroll in Mustofiat, and initiation of setup in Kabul Mustofiat by end of 1385
- Selection and implementation of robust computerized governmental payroll system – 1386, alongwith procedures.
- 100 percent of government employees in Kabul and 10 largest Mustofiat by end of 1386
- All provincial payroll generation by end 1387

**Registration of government employees and issue of ID cards**

- For all central budgetary units at Kabul, by end 1385
- 90 percent employees in Kabul province, and 10 other largest provinces – end 1386
- Ministry of Education by end 1386
- All government employees by end 1387

**Implementation of transfers of salary to Employee Bank Accounts**

- 60 percent of government employees in Kabul by end 1386
- 100 percent of government employees in Kabul and 50% in selected ten provinces by end 1386
- 50 percent of government employees in all provincial centers by end 1387
- Remaining government employees outside provincial centers would be dependent on the development of network of commercial banks.

## 8. Work plan: Establish a certified monthly payroll system

**Objective:** To improve budget implementation, payroll management, and accountability of managers in processing payrolls.

	Activity	Timeline	Status	Responsible department
1	Request from the Tashkeel Office, complete information on current tashkeel. Standing arrangement of receiving one copy of any new tashkeel or modification to approved tashkeels. Seek for Cabinet (President) authorization, if necessary.	June '06	Tashkeels for 15 organizations received.	Budget
2	Issue new finance circular on responsibilities and procedures for calculating, authorizing and paying salaries and wages covering the following: <ul style="list-style-type: none"> <li>▪ Establish that all provincial mustofiats shall be informed through the Treasury department about any change in the tashkeel. Staff hired in excess of tashkeel or allotment shall be excluded from payrolls.</li> <li>▪ Clarify responsibility for certifying the employment, attendance, and changes in eligibility for benefits while requesting monthly payroll.</li> <li>▪ Change the form of monthly payroll report to reflect all new recruitments and departures of old staff.</li> <li>▪ Establish penalties for mis-certification of payrolls or hiring in excess of authorization established in the tashkeel and allotment consistent with the Financial Regulations.</li> </ul>	July' 06	Draft circular in line with requirements, distributed for comments	Treasury, Budget
3	Agree with ARTF MA to adjust processing of monthly payroll report	July' 06		Treasury, World Bank
4	Hold training of administration staff of line ministries and provincial Mustofiats on the use of computerized payroll system	Ongoing	Training provided to six budget entities	Treasury, Budget
5	Start the process for verifying authorized employment levels in the ministries of education, interior, and defense. Provide Tashkeel summary to all central budgetary units and provincial mustofiats.	June' 06	Process of employee identification in progress in all three ministries. MoI already under ISP	Treasury, Budget
6	Develop audit brief, audit program and launch audits	Aug' 06		Internal Audit
7.	Prepare evaluation on implementing certified monthly payroll system	Sep' 06		Budget, Treasury

**9. Work plan: Implement measures for verified payroll payment**

**Objective:** To ensure verified payroll disbursement to around 80 thousand government employees in Kabul and Kabul province before end 1385.

	Activity	Timeline	Status	Responsible department
1.	Implement three pay cycles to smooth the work load of ISP team and bank cashiers	July' 06	To be initiated	Treasury
2.	Agree with DAB on new schedule of salary distribution through ISP or pay-from -list processes to accommodate increasing number of government employees	July' 06	Discussions held, DAB to assess capacity	Treasury / DAB
3.	Update the VPP implementation plan to ensure coverage of all government employees in Kabul under the verified payment process	June' 06	Completed. To be reviewed after 2 months	Treasury
4.	Hire additional staff and/ alter duties for implementing the plan	Ongoing		Treasury, Administration
5.	Proceed with the implementation of the plan	Ongoing		Treasury

**10. Work plan: Implement computerized payroll system**

**Objective:** To ensure computerized payroll processing for all government employees processing payrolls through Kabul Mustofiat and Ministry of Education before end-1387;

To ensure robust long-term payroll software solution for line ministries in the center and all provinces by end 1387.

	Activity	Timeline	Responsible department
1.	Conduct independent review of the Access based payroll solution in the MOF to determine the risks involved in implementing it for large scale payroll processing (up to 40 thousand employees by one client-server system) Eg. Ministry of Education	July' 06	Treasury, MOE, Administration
2.	Adopt detailed plans including full resource requirements for the payroll system rollout to Kabul Mustofiat and the Ministry of Education (pilot sites)	August' 06	Treasury, MOE, Administration
3.	Adopt detailed procedures for the payroll system operation in the pilot sites, including system security and backup	July' 06	Treasury, MOE, Administration
4.	Impart training to personnel for operation of the payroll systems implanted at various sites. Provide information on the hardware and consumables requirement.	Ongoing	Treasury, MOE, Administration
5.	Registration of employees, data entry, card production and payroll system rollout as per plan	Ongoing	Treasury, MOE, Administration
6.	Prepare report upon completing the pilot including the recommendations for using the approach in the system implementation in other provinces and line ministries	March' 07	Treasury, MOE, Administration

**11. Work plan: Ensure registration and picture ID cards for all government employees**

**Objective:** To ensure registration and issuance of picture ID cards to approximately 80 percent of government employees in Kabul before end 1385.

	Activity	Timeline	Responsible department
1.	Streamline processes to accelerate the government employee registration and issuance of picture ID cards to the level of 5,000 registrations every month	Completed	Treasury
2.	Prepare plan for coverage of all ministries in Kabul under the ID card unit	Completed	Treasury
3.	Advice ministries about the work plan, and their sequence in the ARA coverage	Ongoing	Treasury
4.	Prepare report upon completing a pilot for increasing capacity of ARA to accelerate government employee registration and issuing picture ID cards through CPS supported process and one-stop registration and card issuance procedure.	Completed	Treasury
5.	Make adequate adjustments to the database and formats of the ID cards to ensure compliance with the new requirements	July' 2006	Treasury
6.	Ensure hiring the necessary staff and procuring appropriate ICT means and consumables for producing plastic ID cards	Ongoing	Treasury, Administration

**12. Work plan: Implement measures for direct deposit of salaries to employee bank account**

**Objective:** To ensure arrangements for paying salaries directly to bank accounts of employees in commercial banks, thereby covering a majority of the employees in Kabul by end 1385

	Activity	Timeline	Responsible department
1.	Seek decision of the MOF management regarding the options of the commercial bank services and compensation to the banks for salary account maintenance	Completed	Treasury
2.	Invite proposals from banks for participating in the direct salary transfer mechanism. Select the banks meeting criteria set out for, and arrive at a negotiated fee rate for the bank's services.	Completed	Treasury
3.	Complete agreements with commercial banks on the terms and charges from the government for salary deposits to employee bank accounts in the banks, including protocols.	July' 06	Treasury
4.	Develop plan for the transition of the staff of budgetary units to direct deposit payment facility	July' 06	Treasury
5.	Review procedures for managing direct salary deposits	August' 06	Treasury
6.	Proceed with the implementation of the plan	ongoing	Treasury

## RESPONSIBILITY MATRIX - VPP / ISP

PROCESS	ACTIONS	VPP Team - Treasury	Line Ministry	DAB	Commercial Banks
<b>ISP INITIATION</b>	Agreement with Ministry for responsibilities under ISP	x	x		
	Obtain ministry Tashkeel	x	x		
	Preparation of M41 and submission to Treasury		x		
	Validation and verification - Tashkeel count and Headcount history	x			
	Preparation of cheque for cash withdrawal	x			
	Designation of responsible team	x		x	
	Liaise with Line Ministry for Salary Distribution date	x	x	x	
	Cash collection for Distribution			x	
	Distribution of salary	x	x	x	
	Preparation of Control / Check list	x			
	Deposit of Unpaid Salary into TSA			x	
	Collection and Submission of Deposit Counterfoil to ARU	x			
	Submission of unpaid salary sheet to ARU	x		x	
	Use of Control List for distribution in next payroll cycle	x	x	x	
	Analysis of salary payments with Control Sheet	x	x	x	
Letter to ministry for inconsistency in Tashkeel and distribution	x				
<b>EMPLOYEE ID CARDS</b>					
Registration	Appointment with Ministry for designated initiation date	x			
	Formulation of task team	x			
Validation	Registration and Data entry	x	x		
	Validation with Control Sheet (from ISP)	x			
	Data integrity check (for multiple ministry enrolment)	x			
	Validation of Draft Output (Employee data)		x		
	Verification of changes / modifications	x			
	Modifications to draft output of database	x			
Certification	Certification by Ministry		x		
ID Production	I-Card Production based on certified list	x			
	Check for correctness of cards	x			
Distribution	Approval for Distribution	x			
	Despatch of cards to Ministry, alongwith Control sheet / checklist	x			
	Distribution of cards by Ministry as per Control sheet, checklist signed by recipients		x		
	Submission of checklist to MoF, with undistributed cards		x		
	Verification of signatures in Distribution List with Control Sheet (prepared during ISP)	x			
	Preparation of database for CPS	x			

PROCESS	ACTIONS	VPP Team - Treasury	Line Ministry	DAB	Commercial Banks
	Submission of Database summary for validation	x			
	Validation / ministry certification of database (with approved list)		x		
	Analysis of functional capability of ministry	x			
	Guidelines for skill requirement of CPS operators	x			
Training	Identification of personnel to be deployed for CPS (in line ministry)		x		
	Content Preparation	x			
	Training schedule	x			
	Training - What is CPS, Use of CPS, Monthly payroll generation, database maintenance, access and security, Reporting, Modification Logs	x			
<b>ROLL OUT</b>					
System Setup	Signoff on responsibility matrix	x	x		
	Setup of administrator and operators	x	x		
	Provision of access ID's and passwords	x			
	Establishment of CPS in ministry	x	x		
	Test run, analysis and modifications	x	x		
Generation of Payroll	Attendance record input		x		
	Validation and authorisation of modification logs		x		
	Generation of M41& M16		x		
	Generation of M40 .....		x		
Monitoring of roll out	Output check of established CPS	x			
	Rectifications / modifications, if necessary, in CPS	x			
	Signoff by CPS for due diligence conduct	x			
	Handholding for 3 months	x	x		
Payroll Submission	Authorisation of payroll by the ministry		x		
	Submission of documents to Payroll Cell		x		
	Audit by Payroll Cell (outline steps)	x			
	Authorisation for payment by assigned mode (with intimation to responsible manager)	x			
	Preparation of cheque	x			
<b>VPP PAYMENTS (post issuance of ID cards)</b>					
ISP	Preparation of M41 by the CPS, with a unique code generated by the CPS		x		
	Signoff and certification by designated official at the ministry that prescribed due diligence has been adhered to		x		
	Submission of M41 and M16 to the treasury		x		
	Validation and verification by the payroll section - pre audit (budget availability, documentation, authorisation etc.)	x			
	Preparation of cheque for cash withdrawal	x			
	Designation of responsible team	x		x	
	Liaise with Line Ministry for Salary Distribution date	x	x		
	Cash collection for Distribution			x	

PROCESS	ACTIONS	VPP Team - Treasury	Line Ministry	DAB	Commercial Banks
	Distribution of salary against issued ID cards			x	
	Deposit of Unpaid Salary into TSA			x	
	Collection and Submission of Deposit Counterfoil to Treasury Accounting Unit (ARU)	x			
	Submission of unpaid salary sheet to ARU	x		x	
Pay by List (PBL)	Assign distribution dates for each ministry brought under the PBL	x	x		
	Establish volume capacity of DAB or any other bank for undertaking PBL Project	x			
	Protocol on responsibilities and actions	x		x	x
	Training to bank employees for payment, reconciliation and reporting of salaries paid	x		x	x
	Preparation of M41 by the CPS, with a unique code generated by the CPS		x		
	Distribution of employees as per designated bank branch		x		
	Separate M16 and M41 prepared for each bank distribution point		x		
	Signoff and certification by designated official at the ministry that prescribed due diligence has been adhered to		x		
	Submission of M41 and M16 to the treasury		x		
	Validation and verification by the payroll section - pre audit (budget availability, documentation, authorisation etc.)	x			
	Preparation of cheques favouring distributing bank / branches	x			
	Salary distribution at bank branch against signature and Employee ID cards			x	x
	Submission of report on paid and unpaid salaries			x	x
	Deposit of unpaid salary to the TSA			x	x
Bank Account Transfers	Assessment and selection of partner banks	x			
	Agreement between MoF and the bank, detailing services, responsibilities and recourse	x			x
	Assigning of Ministry and Bank	x	x		x
	Establishment of arrangement / agreement for bank branch / disbursal counter at the ministry		x		x
	Facility establishment by partner bank at respective ministry		x		x
	Employee data to bank for initiation of account opening (incl. signatures, Card No. etc)	x			
	Account opening by bank, document requirement of banks	x	x		x
	Distribution of bank cards				x
	Employee Account details provided to respective ministry for including in the CPS database		x		x
	Validation of CPS database after the above additions	x	x		

PROCESS	ACTIONS	VPP Team - Treasury	Line Ministry	DAB	Commercial Banks
	Preparation of M41 by the CPS (Bank account field included)		x		
	Electronic copy of generated payroll mailed to payroll section at the treasury		x		
	Signoff and certification by designated official at the ministry that prescribed due diligence has been adhered to		x		
	Submission of M41 and M16 to the treasury		x		
	Validation and verification by the payroll section - pre audit (budget availability, documentation, authorisation etc.)	x			
	Preparation of cheque favouring bank	x			
	Electronic copy of generated payroll distribution summary provided to bank by payroll section	x			
	Transfer to individual employee bank accounts, after receipt of credit				x
	Withdrawals by employees from disbursement facility at Ministry or other bank branches				x
<b>OTHER ACTIONS</b>	Protocol for ISP and Pay by List	x		x	
	Establishment of Special Payroll Cell	x			
	Preparation of Payroll Transition Plan	x			