

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

GRFS 2 - Payroll

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the Norwegian Association of Authorized Accountants (NARF) and "Økonomiforbundet" (the Finance
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2.1 Basis and definitions

2.1.1 Purpose and scope

This standard provides guidelines for generally accepted accounting principles in the payroll field of assignment.

The purpose of the standard is to state what external Accounting Firms generally must take as a basis for good practices in this service area.

The standard applies to anyone who is an authorized accountant pursuant to the Accountants Act, but is at the same time limited to employment through a business which undertakes financial reporting for others.

The standard indicates mandatory requirements with bold fonts, given that the respective requirements come in under tasks which it has been agreed to perform in accordance with the accounting services agreement. These have also been summarised in Chapter 2.8. The other contents in the standard consist of recommendations. However, the entire standard must be taken as a whole, as the supplementary text, in addition to giving specific guidance, elaborates upon and explains the contents of the fundamental principles and activities necessary to comply with the requirements for business activity in keeping with Generally Accepted Accounting Principles.

The user of the standard must take into account the fact that the accounting sector is in a continuous process of development, for example as a result of technical innovations, statutory matters and market adaptations. Consequently, solutions other than those adhering to the letter of the standard may be fully acceptable. However, the intentions of the standard must be satisfied by the Accounting Firm. The Accounting Firm must be prepared to account for any non-conformities.

The framework which Accounting Firms must adhere to is described in the standard GRFS 0 – General information on accounting assignments. In addition, this standard further states which assumptions external Accounting Firms normally must fulfil in order to undertake assignments.

In addition to this and the standard referred to in the previous paragraph, standards have been prepared within other specific service areas. This standard must be taken in the context of these¹.

2.1.2 Definitions

2.1.2.1 Wages and compensation

Wages and compensation shall mean all benefits that must be registered in the pay statement pursuant to the Tax Assessment Act².

2.1.2.2 Payroll basis

Payroll documentation shall mean the documentation etc. which provides the basis for wage payments and deductions³, more specifically agreements relating to wages and payment in kind, time sheets, travel expenses, tax deduction cards, resolution relating to attachment of earnings, subscription fees, insurance deductions, etc.

2.1.2.3 Payroll assignments

Payroll assignments is defined as the registration of wage basis, preparing documentation for disbursement of wages, vacation pay, deductions and employers' contribution, as well as filling in and submitting mandatory statements to the authorities for and on behalf of the Principal, with associated quality controls.

2.1.2.4 Payroll specifications

Payroll specifications shall be understood to mean a written statement of the calculation methods used for wages, the calculation basis for vacation pay and deductions made, often called wage disbursement, pay slip, etc. The employee must receive such a statement upon disbursement or immediately thereafter.⁴

2.1.2.5 Payroll report

Payroll report shall mean written notification on the results of the records, preferably based on payroll assignments performed.

2.1.2.6 Other definitions

For a better understanding of what this standard means by the terms:

- Authorized accountant
- Accountancy activities

¹ Cf. GRFS 1 - Bookkeeping and annual report and accounts and preliminary GRFS 3 - Invoicing.

² Cf. Section 6-2 of the Tax Assessment Act of 13 June 1980 no. 24

³ Cf. Section 5-6 of the Bookkeeping Regulations

⁴ Cf. Section 14-15, subsection 1, of the Working Environment Act.

- Person responsible for the assignment
- Co-worker
- Principal
- Accountancy
- Documentation

please refer to GRFS 0 - General issues relating to accounting services assignments, Item 0.1.2.

2.2 Facilitating

2.2.1 Accounting services agreement

For payroll assignments, the accounting services agreement must clearly and unequivocally state⁵ that a payroll assignment has been entered into and what is comprised herein.

2.2.2 Consistent routines

The Accounting Firm should endeavour to maintain consistent and uniform routines for all payroll assignments. If the Principal's affairs necessitate a different procedure, such deviation of procedure must be stated in the assignment documentation.

2.2.3 Resources on the assignment

The person responsible for the assignment must take into account the competencies required for the assignment, and make sure that the assigned personnel meet these requirements. Furthermore, the person responsible for the assignment must make sure that the Accounting Firm possesses the required resources to be able to comply with the agreed deadlines, also in the event of unforeseen absences⁶.

2.2.4 The Principal's internal routines

Upon establishing an assignment, the Accounting Firm and the principal must make an assessment together of which of the Principal's internal routines that will affect the assignment and adjust these in a manner that ensures prudent registration of payroll documentation and potential follow-ups.

This includes, depending on its relevance for the assignment, contributing to ensuring that the Principal:

- a. is aware of the requirement of having employment contracts for all working relationships⁷
- b. has a satisfactory routine for follow-up of the register of employees⁸

⁵ Section 3 of the Accountants Act

⁶ Cf. GRFS 0 – General issues relating to accounting services assignments, items 0.2.4 and 0.2.5

⁷ Cf. Section 14-5 of the Working Environment Act

⁸ Cf. Section 25-1, first subsection, of the National Insurance Act of 28 February 1997 (notification relating to intake of employees and cessation of employment)

- c. has a satisfactory routine which ensures that employees and any other wage earners receive their correct wages and remunerations at the agreed time, which also includes relevant documentation regarding wages and compensations, earnings-related insurance agreement and payroll deductions, etc.⁹ being submitted to the Accounting Firm as early as possible following preparation or receipt thereof
- d. complies with identification provisions for reimbursement of expenses¹⁰, travel expense reports¹¹ and other expenditure allowances¹²
- e. is familiar with the requirement to give employees written statements of the method of calculation of wages, the calculation basis for holiday pay and withholdings made (statement of disbursement/pay slip), and that such a statement shall be given to the employees upon disbursement or immediately thereafter¹³
- f. fulfils the requirement of having a dedicated tax withholding account, or alternatively holds a sufficient bank guarantee for withholding obligations¹⁴
- g. keeps the deadline for depositing tax withholding funds in a tax withholding account¹⁵
- h. keeps the payroll documentation in a satisfactory and clear manner
- i. is familiar with requirements related to storage time for payroll documentation
- j. is familiar with the duty to have Occupational Injury Insurance¹⁶
- k. has a satisfactory routine for claiming reimbursement of sickness benefit
- l. follows up the reports of the Accounting Firm, and gives feedbacks on any errors or shortcomings

If the Accounting Firm encounters deficiencies or errors in the principal's internal routines during the assignment, this matter must be raised with the principal. In the event of material breach or repeat occurrences, written notification must be given.

2.3 Payroll records

2.3.1 The Principal's interests

The Accounting Firm must keep records of payroll documentation in accordance with requirements that follow from legislation and the Accounting Services Agreement, and in general serve the principal's best interests .

⁹ Cf. Section 5-6 of the Bookkeeping Regulations

¹⁰ Cf. Section 2 of the regulations of 14 Oct. 1976 relating to payroll withholding tax in expenditure allowances

¹¹ Cf. Section 3 of the regulations of 14 Oct. 1976 relating to payroll withholding tax related to expenditure allowances

¹² Cf. Section 4 of the regulations of 14 Oct. 1976 relating to payroll withholding tax related to expenditure allowances

¹³ Cf. Section 14-15, subsection 5, of the Working Environment Act

¹⁴ Cf. Section 11 of the Tax Payment Act No. 4 of 21 Nov. 1952

¹⁵ Cf. Section 11, second subsection of the Tax Payment Act No. 4 of 21 Nov. 1952 (no later than the first workday after pay disbursement).

¹⁶ Cf. Section 3 of the Act relating to industrial injury insurance of 16 June 1989

To the extent that the Accounting Firm has had access to the payroll documentation to the extent that was agreed in the Accounting Services Agreement, the record-keeping of the payroll documentation must be performed at the right time.

The Accounting Firm must manage the recording of payroll documentation so that requirements related to statutory reporting duties and other duties that may be included in the Accounting Services Agreement are complied with.

2.3.2 Processing of payroll documentation

2.3.2.1 Tidiness in documentation

If the Principal's payroll documentation is not organised upon receipt, this documentation must be organised by the Accounting Firm.

2.3.2.2 Safekeeping

The Accounting Firm must ensure satisfactory storage of the Principal's payroll documentation when this is in its possession.

Payroll documentation that has not been recorded should be kept in a fire-proof place.

2.3.2.3 Overview of reception and submission

The Accounting Firm must keep an overview (log file) of the time of receipt of payroll documentation, alternatively keep a summary of delayed deliveries.

An overview must be kept as to the time of reporting and submission of payroll documentation.

In cases where the submission does not take place in accordance with fixed procedures, an assessment must be made as to whether the overview should have a signature by the recipient plus a note as to what the submission contains and how it is conducted.

If payroll documentation or produced reports are submitted electronically¹⁷, sufficient information should be at hand (for example a log) to track what has been transmitted and when the Accounting Firm received or sent the material. This is in order to be able to document the time and date of information transfers, as well as to enable reconstruction should anything get lost or destroyed.

However, e-mail is processed in the same way as traditional post. The Accounting Firm must retain copies (on paper or stored electronically) to the extent necessary for documentation of the assignment¹⁸.

¹⁷ Cf. Section 13 of the Personal Data Act, as well as regulations of 15 December 2000 no 1265 Chapter 2

¹⁸ Cf. item 2.6.3

2.3.3 Registration of payroll documentation

2.3.3.1 Follow-up of payroll documentation

The Accounting Firm must ensure that claims for reimbursement of expenses, travel expenses and other claims for expenditure allowances conform with the statutory documentation requirements¹⁹, so that tax withholding and payroll tax are attended to.

If the requirements for documentation have not been met satisfactorily, the Accounting Firm must inform the Principal on the consequences of this and recommend that new documentation is prepared.

As long as wages and compensation have been satisfactorily documented, the Accounting Firm has no duty to verify the payroll documentation. This applies in as far as the Accounting Firm does not understand or should have understood that the payroll documentation is incorrect or improbable.

If the Accounting Firm suspects that a transaction is related to matters comprised by the Money Laundering Act,²⁰ the firm must investigate and report in accordance with the above-mentioned act.

2.3.3.2 Satisfactory registration

The Accounting Firm must ensure satisfactory registration of payroll documentation.

In addition to correct registration of payroll documentation, the Accounting Firm must pay particular attention to use of the correct wages and withholding codes, standard expenditure allowance rates, etc., and also any employer contribution codes.

2.3.3.3 Tax deduction

The Accounting Firm must normally base the tax deductions on original tax deduction documents, i.e. tax withholding cards or tax exemption cards issued by the tax assessment office²¹.

2.3.3.4 Other deductions

Mandatory and voluntary deductions other than tax withholding must be processed as per the written documentation²². This also applies to changes and cessation of such deductions.

¹⁹ Cf. Sections 2-4 of the regulations of 14 Oct. 1976 no 9830 relating to advance tax withholding for expenditure allowances

²⁰ Cf. Section 5 of the Money Laundering Act of 20 June 2003, No. 41,

²¹ Cf. Sections 7 and 11 of the Tax Payment Act of 21 Nov. 1952 no 2, regulations of 14 Sept. 1956 no 9866 Sections 3 (provision of tax card to employer), 10 (advance tax withholding according to table), 14 (withholding tax in percentage) and 15 (exemption card) and regulations of 23 Dec. 1976 no 9835 relating to deduction in January when the new tax card is not handed in.

²² Cf. Sections 14-15 and 14-16, first subsection of the Working Environment Act

2.4 Reports and statements to the authorities

2.4.1 Frequency

Periodic reports and statements to the authorities are to be prepared throughout the year in accordance with the frequency that follows from the Accounting Services Agreement.

2.4.2 Periodic payroll reports

One must prepare basis for payment of salaries, wages etc, tax deduction, attachment of earnings, subscriptions/union dues, insurance deductions etc., i.e. remittance specifications for the relevant remittances.

In addition to the reports and statistics that might be specified in the Accounting Services Agreement, the Accounting Firm must prepare the accounting documentation for wages and compensations, i.e. a list of payroll postings/entries with deductions.

2.4.3 Pay slips²³

The Accounting Firm must prepare pay slips for each employee in connection with each wage payment. Unless otherwise stated in the agreement or other written documentation, the pay slips shall be submitted to the Principal²⁴.

2.4.4 Statements to the authorities

When specified in the Accounting Services Agreement, the Accounting Firm must complete, and, if authorized to do so, sign and submit the quarterly report for tax deductions²⁵ and the employers' contribution²⁶, End of Year Certificates, statement of pay and deductions for each employee²⁷, annual report/statement for employers' contribution and covering letter for statement of pay and deductions²⁸, as well as forms for control lists of the recorded and reported amounts²⁹.

2.5. Control of report contents

Under their payroll assignment, the Accounting Firm must check that the key figures in the reports that are covered by the assignment seem reasonable.

Full and complete reconciliations rest with the Accounting Firm as a general rule, unless otherwise stated in the Accounting Services Agreement.

²³ Cf. definition in subsection 2.1.2.4

²⁴ Cf. subsection 2.2.4 litra e)

²⁵ Cf. Tax Payment Act of 21 Nov. 1952 no 2, Section 12 no 1

²⁶ Cf. Section 5 of the regulations of 2 Dec. 1997 no 1385, form RF-1037

²⁷ Cf. Section 6-2 of the Tax Assessment Act of 13 June 1980 no 24, form RF-1015

²⁸ Cf. Section 6 of the regulations of 19 Dec. 1986 no 2229, form RF-1025

²⁹ Form RF-1022

2.6 Documentation

2.6.1 Scope of documentation

There must be sufficient documentation available to allow for verification and controls of the processed payroll records.

Documentation includes paperwork such as correspondence, payroll documentation, tax cards, pay slips³⁰, statements to the authorities and salary reports.

2.6.2 The Principal's documentation

The Principal's payroll documentation, counterpart of pay slips and salary reports shall be returned to the Principal in accordance with the specifications of the Accounting Services Agreement.

Tax card(s) and exemption card(s) are to be returned to the Principal upon request. Alternatively, with the Principal's permission, the tax card(s) and exemption card(s) may be distributed directly to the card holder. If the Accounting Firm knows that the reason for the return is that the employee has requested this, the Accounting Firm must usually insert, and - if relevant - and upon authorisation in writing, attest to the information which the Principal is obliged to add to the tax card³¹. Prior to delivery the Accounting Firm must copy the tax card, and file this together with the Principal's other payroll documentation.

2.6.3 The Accounting Firm's documentation

The Accounting Firms' own assignment documentation must contain, to the extent these documents are relevant:

- a. copy of payroll reports which have been submitted to the Principal
- b. copy of statements to the authorities
- c. Documentation of reception and delivery/pick up³²
- d. copy of other correspondence
- e. of quality control executed³³

On the purpose of assignment documentation and storage/safekeeping of same, ref. GRFS 1 – Bookkeeping and annual report and accounts chapter 1.5.

2.7 Quality control

2.7.1 General internal control at assignment level

The person who is responsible for the assignment or another authorized accountant must check the following for each principal at least once a year:

- a. The assignment agreement is up-to-date

³⁰ Cf. Section 2.4.3

³¹ Cf. regulations of 14 Sept. 1956 no 9866, Sections 10 no 2 (tabular tax deduction card), 14 no 3 (deductions in percentage) and 15 no 2 (exemption card)

³² Cf. Section 2.3.2.

³³ Cf. Section 2.7.3

- b. Authorizations have been documented in writing
- c. Overview (log file) of receipt and delivery of payroll documentation and other documentation from and to the Principal must be continuously updated³⁴

2.7.2 Assignments performed by co-workers

If the person in charge of the assignment does not personally process the payroll assignment, he/she must carry out a quality control.

The nature of the quality control is to ensure that the payroll assignment is performed in accordance with the Accounting Services Agreement.

Relevant checkpoints might be whether:

- the Accounting Firm's regular or especially agreed routine has been followed
- the payroll documentation, based upon available documentation, is satisfactory
- the Accounting Firm meet the agreed deadlines
- documentation of own work is available

The quality control may be carried out as spot checks.

Quality control must be carried out throughout the year. It is not sufficient that such control is only reviewed in connection with the annual settlement.

2.7.3 Documentation of quality control

The person responsible for the assignment must document his or her quality control in a suitable follow-up system³⁵.

2.7.4 Non-conformity

Nonconformities in the form of errors and deficiencies revealed during the quality control must be documented and corrected as soon as possible.

2.8 Summary Mandatory requirements

Listed below are the requirements which according to this standard shall be regarded as mandatory, provided that the requirements come in under the tasks assumed by the Accounting Firm pursuant to the accounting services agreement:

1. For payroll assignments it must be stated clearly and unambiguously in the contract that this is a payroll assignment and what this includes. I
2. Upon establishing an assignment, the Accounting Firm and the principal must make an assessment together of which of the principal's in-house routines that will affect the assignment and adjust these in a manner that ensures prudent registration of payroll documentation and potential follow-ups.

³⁴ Cf. Section 2.3.2.

³⁵ Cf. Section 2.6.3

3. If the Accounting Firm encounters deficiencies or errors in the principal's internal routines during the assignment, this matter must be raised with the principal. In the event of material breach or repeated occurrences, written notification must be given.
4. The Accounting Firm must keep records of payroll documentation in accordance with requirements that follow from legislation and the Accounting Services Agreement, and in general serve the principal's best interests
5. To the extent that the Accounting Firm has had access to the payroll documentation in accordance with the agreement in the Accounting Services Agreement, registration of payroll documentation must be performed at the right time.
6. The Accounting Firm must manage the registration of payroll documentation so such that statutory reporting duties and other that might be included in the Accounting Services Agreement is being complied with.
7. If the Principal's payroll documentation has not been organised upon receipt, this documentation must be organised by the Accounting Firm.
8. The Accounting Firm must ensure satisfactory safekeeping of the Principal's payroll documentation when it is in possession of this.
9. The Accounting Firm must keep an overview (log file) of the time of receipt of payroll documentation, alternatively keep a summary of delayed deliveries.
10. An overview must be kept as to the time of reporting and submission of payroll documentation.
11. The Accounting Firm must ensure that claims for reimbursement of expenses, travel expenses and other claims for expenditure allowances conform with the statutory documentation requirements, to ensure that the regulations relating to deductions and employer's contributions are being complied with.
12. If the requirements for documentation have not been met satisfactorily, the Accounting Firm must inform the Principal on the consequences of this and recommend that new documentation is prepared.
13. The Accounting Firm must ensure satisfactory registration of payroll documentation.
14. The Accounting Firm must normally base the tax deductions on original tax deduction documents, i.e. tax withholding cards or tax exemption cards issued by the tax assessment office.
15. Other mandatory and voluntary deductions must be executed in accordance with written documentation. This also applies to changes and cessation of operations of such deductions.
16. Periodic reports and statements to the authorities are to be prepared throughout the year in accordance with the frequency that follows from the Accounting Services Agreement.
17. One must prepare basis for payment of salaries, wages etc, tax deduction, attachment of earnings, subscriptions/union dues, insurance deductions etc., i.e. remittance specifications for the relevant remittances.

18. In addition to the reports and statistics that might be specified in the Accounting Services Agreement, the Accounting Firm must prepare the accounting documentation for wages and compensations, i.e. a list of payroll postings/entries with deductions.
19. The Accounting Firm must prepare pay slips for each employee in connection with each wage payment. Unless otherwise stated in the agreement or other written documentation, the pay slips shall be submitted to the Principal.
20. When specified in the Accounting Services Agreement, the Accounting Firm must complete, and, if authorized to do so, sign and submit the quarterly report for tax deductions, summary of wages and deductions for each employee, annual statement of employers' contribution and cover letter for statements of wages and deductions, as well as the formula for control table of recorded and reported amounts.
21. Under the payroll assignment, the Accounting Firm must check that the key figures in the reports that are covered by the assignment seem reasonable.
22. There must be adequate documentation at hand to be able to track and check payroll entries that have been made.
23. The Accounting Firms' own assignment documentation must contain, to the extent these documents are relevant:
 - a. Payroll reports which have been submitted to the Principal
 - b. Copy of statements to the authorities
 - c. Documentation of receipt and delivery
 - d. Copy of other correspondence
 - e. Documentation of quality control performed
24. The person who is responsible for the assignment or another authorized accountant must check the following for each principal at least once a year:
 - a. The assignment agreement is up-to-date
 - b. Authorizations have been documented in writing
 - c. Overview (log) of receipts and distribution of payroll documentation and other documentation from and to the principal respectively to be updated continuously
25. If the person in charge of the assignment does not personally process the payroll assignment, he/she must conduct a quality control.
26. The nature of the quality control is to ensure that the payroll assignment is performed in accordance with the Accounting Services Agreement.
27. Quality control must be carried out throughout the year. It is not sufficient that such control is only reviewed in connection with the annual settlement.
28. The person responsible for the assignment must document his or her quality control in a suitable follow-up system.
29. Nonconformities in the form of errors and deficiencies identified during the quality control must be documented and corrected as soon as possible.

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