

The Auditor-General
Audit Report No.4 2009–10
Performance Audit

The Management and Processing of Annual Leave

Australian National Audit Office

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of Australia 2009

ISSN 1036-7632

ISBN 0 642 81087 7

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Canberra ACT
15 September 2009

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure. The report is titled *The Management and Processing of Annual Leave*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations/Glossary

Annual leave	A statutory minimum condition of employment in Australia, providing employees with paid days away from their workplace
Annual leave entitlement or balance	The amount of annual leave accrued but not taken by an employee. It is usually measured in days or hours
ANAO	Australian National Audit Office
APS	Australian Public Service
APSC	Australian Public Service Commission
ABS	Australian Bureau of Statistics
Attendance record	A record of an employee's attendance at their workplace. For each work day the attendance record will usually show the employee's start and end times, the total amount of hours at work and, as applicable, the type of leave utilised for each absence
ATO	Australian Taxation Office
Cashing-out	The conversion of part of an employee's annual leave entitlement to its cash equivalent
Deeming	Automatically recording an employee as being on annual leave
DBCDE	Department of Broadband, Communications and the Digital Economy
ESS	Employee Self Service
Employment Agreement	A document setting out the terms and conditions of employment of an individual or a workplace

Excess annual leave	The amount of annual leave entitlement that is above any maximum entitlement established in an employment agreement
FTE	Full-Time Equivalent
FW Act	<i>Fair Work Act 2009</i>
HR	Human Resources
HRMIS	Human Resources Management Information System
OHS	Occupational Health and Safety
PSA	<i>Public Service Act 1999</i>
SES	Senior Executive Service
WR Act	<i>Workplace Relations Act 1996</i>

Summary and Recommendations

Summary

Introduction

1. An entitlement to paid annual leave is a statutory minimum condition of employment in Australia. Annual leave provides employees with access to paid days away from their workplace each year. The effective management of annual leave, at both strategic and operational levels, is important in maintaining the well-being of staff, an organisation's productivity and its ability to deliver services efficiently and effectively. In addition, actively managing staff's use of their annual leave entitlements can help reduce the financial risks associated with accruing leave entitlements.

2. The Australian Government's *Consolidated Financial Statements for the Year ended 30 June 2008* reported that there were nearly 290 000 employees working in 187 Australian Government organisations at 30 June 2008. The Australian National Audit Office (ANAO) estimated that the total value of annual leave expenses and accumulated annual leave liabilities for these organisations for the year ended 30 June 2008 was \$1.1 billion and \$1.8 billion respectively.¹

3. The *Workplace Relations Act 1996* (WR Act) provided the legislative framework for Australian employers and employees to negotiate terms and conditions of employment. In 2006, the WR Act was amended to, amongst other things, provide five minimum conditions of employment, including an entitlement to paid annual leave. The *Fair Work Act 2009* (FW Act), which replaced the WR Act from 1 July 2009, sets out the new legislative framework for workplace relations in Australia. The FW Act also contains a set of minimum conditions of employment, including an entitlement to paid annual leave.

4. In November 2005, the ANAO tabled Audit Report No.16 2005–06, *The Management and Processing of Leave*. The audit concluded that the six audited organisations had arrangements that, to varying degrees, enabled them to manage their leave liabilities. However, five of the organisations were not

¹ These estimates are based on the financial information of the 72 material organisations identified in the *Chart of agencies under the Financial Management and Accountability Act 1997* and the *Chart of bodies under the Commonwealth Authorities and Companies Act 1997* published by the Department of Finance and Deregulation on 1 July 2008.

managing leave entitlements in accordance with these arrangements. The audit also considered that organisations could improve the management of the risks associated with managing and processing leave, and that some leave management processes and practices could be improved. These included: adopting a proactive approach to managing staff with high leave balances; more actively managing the number of unapproved leave applications; better articulating leave management roles and responsibilities; and improving the reporting and monitoring of leave information to senior management.

Audit approach

Audit objective and scope

5. The objective of this audit was to determine whether selected Australian Government organisations had effective processes for managing the annual leave entitlements of their staff, and whether systems and controls over the processing of annual leave were working as intended. In addressing this objective, the audit also assessed progress being made by the audited organisations in implementing the recommendations in ANAO Audit Report No.16 2005-06.

6. The following organisations were included in the audit:

- Australian Bureau of Statistics (ABS);
- Australian Taxation Office (ATO); and
- Department of Broadband, Communications, and the Digital Economy (DBCDE).

Audit conclusion

7. Annual leave is a statutory minimum condition of employment that entitles employees to a paid break from their employment each year. The management of annual leave entitlements is important to maintain the well-being of employees, an organisation's productivity and to help minimise associated financial risks.

8. Overall, the three audited organisations had developed and, for the most part, implemented effective arrangements for managing the annual leave entitlements of their staff. The effectiveness of these arrangements was underlined, amongst other things, by the fact that, for each of the audited

organisations, only a relatively small proportion of staff had accumulated annual leave credits above the maximum entitlement.

9. Each of the audited organisations had developed and implemented a range of controls, and had policy and procedural documentation to support the management and processing of annual leave. In particular, each organisation regularly monitored unapproved leave applications and the level of the annual leave entitlements of staff. They also took action to address excessive annual leave balances.

10. Although the controls we examined were generally operating as intended, around 20 per cent of the annual leave applications reviewed by the ANAO were recorded in leave processing systems as being approved after the annual leave had commenced. There may be valid reasons for annual leave applications not being submitted or approved in the system before annual leave is taken. However, in order to reduce the risks that staff may access leave to which they are not entitled, organisations need to routinely monitor the timely approval of leave applications in their leave processing systems.

11. The ATO and DBCDE had fully implemented the six recommendations contained in ANAO Audit Report No.16 2005–06 that were relevant to them. The ABS had fully implemented two, and partially implemented three, of the five recommendations from that audit that were relevant to the organisation.

12. This audit makes one new recommendation designed to improve the timeliness of the approval of leave applications in organisations' leave processing systems, including reducing the extent to which applications for annual leave are being approved after the commencement of leave.

Key findings by chapter

Chapter 2 - The management of annual leave

13. For the most part, the three audited organisations had developed and implemented effective arrangements for managing the annual leave entitlements of their staff. The effectiveness of these arrangements was demonstrated by the fact that in each organisation:

- only a relatively small proportion of staff had accumulated annual leave credits above the respective maximum entitlement;
- over the three year period to 30 June 2008 the movements in annual leave liabilities could be largely attributed to changes in each of the

organisation's staff numbers and pay increases rather than to increases in accumulated leave entitlements; and

- over the three year period to 30 June 2008, the average number of days of annual leave utilised per full-time equivalent staff member had increased.

14. Each of the audited organisations had developed policies and guidelines to support the management of annual leave and also had mechanisms to support managers with leave related responsibilities. Leave-related guidance was readily available on each organisation's intranet, and Human Resources staff in each of the organisations regularly provided advice or information on leave management issues.

15. The ATO and DBCDE had sound processes in place for assessing and documenting risks associated with the management and processing of annual leave. The ANAO agreed with the ABS' assessment that it did not consider there were any significant enough risks related to the management or processing of annual leave to justify inclusion in its 2008-09 enterprise risk management plan.

16. The ABS did not previously require a formal assessment of risks to be undertaken as part of business planning processes at operational levels, including an assessment specifically covering human resource-related activities. The ABS advised that each business area is now required to undertake and document a risk assessment in the development of its business plans. The ABS also advised that only allowing staff to accumulate a maximum of 40 days annual leave, together with its current annual process of deeming those staff carrying over 40 days to be on leave, lowers its risks.

Chapter 3 - The processing of annual leave

17. Each of the audited organisations had implemented systems enabling the on-line processing of annual leave applications. Despite the use of these systems, each organisation also manually processed, or had to manually adjust, a number of leave applications each month. Manual processing potentially increases the costs of administration and needs to be carefully managed.

18. Each of the audited organisations had developed a range of controls over the processing of annual leave applications, including the monitoring and follow-up of leave applications that had been submitted, but not approved.

The ANAO's testing indicated that these controls were generally operating as intended. The main shortcomings identified were:

- around 20 per cent of the annual leave applications examined in each of the audited organisations were recorded as approved after employees had commenced annual leave; and
- there were several discrepancies between the annual leave details on selected attendance records and leave data recorded in the Human Resource Management Information Systems at DBCDE and the ABS.

Chapter 4 – Monitoring and reporting of annual leave

19. Each of the audited organisations had processes for identifying and monitoring staff that had accrued excess annual leave balances. The ATO and DBCDE also monitored annual leave balances prior to the maximum level of annual leave entitlements being reached.

20. Line managers at each organisation had access, principally through the organisation's personnel system, to a range of information to assist in the management of annual leave entitlements. Line managers were also able to view on-line the annual leave balances of their staff.

21. The ATO and DBCDE regularly provided senior management with reports containing annual leave-related information. In addition, the ATO provided its Executive with an annual Certificate of Assurance, reporting conformance with its leave obligations and, in particular, the management of leave entitlements.

Better practices examples

22. Table 1 highlights examples of better practices observed at the audited organisations.

Table 1

Better practices examples

Managing annual leave
The ATO routinely communicates annual leave management issues to employees, including through its weekly staff newsletter (paragraph 2.18).
ATO's policy sets out its strategic approach for managing leave, in particular, the policy articulates the ATO's principles for the use of leave, as well as detailing the leave-related roles and responsibilities of employees and managers (paragraph 2.30).
The <i>Managers' Handbook</i> developed by the ABS provides comprehensive guidance on the principles, responsibilities and key processes for managing employee work conditions and life balance, including leave entitlements (paragraph 2.33).
Processing annual leave
The ATO's Attendance Recording System is fully integrated with its Human Resource Management Information System (paragraph 3.8).
DBCDE's procedural documentation includes comprehensive information for delegates on the factors that should be taken into account when considering an application for annual leave (paragraph 3.19).
Monitoring and reporting annual leave
The ATO and DBCDE routinely monitor their staff's annual leave balances prior to them reaching the maximum level of entitlements (paragraph 4.5).
The ATO provides its senior management with an annual Certificate of Assurance for Leave. This certificate reports on conformance with the ATO's leave obligations and the management of leave entitlements (Paragraph 4.13).

Source: ANAO.

Summary of organisations' responses to the audit report

23. The ATO, DBCDE and the Australian Public Service Commission, agreed with the recommendation in this report. The ABS agreed with qualification. The ABS agreed that timely approval of leave applications and monitoring compliance was desirable, but advised that its HRMIS does not currently have this capability. The organisations' responses to the recommendation are shown in Chapter 3. Other comments provided are shown in Appendix 1.

Recommendation

The following recommendation, based on findings from the fieldwork at the audited organisations, is likely to be relevant to other Australian Government organisations. Therefore, all Australian Government organisations are encouraged to assess the benefits of implementing the recommendation in light of their own circumstances, including the extent that the recommendation, or part thereof, is addressed by practices already in place.

Recommendation No.1

Para 3.28

The ANAO recommends that organisations routinely monitor the timely approval of annual leave applications in their leave processing systems, particularly the extent to which leave is approved in the system after it has commenced, and take appropriate action.

ABS response: Agreed with qualification

APSC response: Agreed

ATO response: Agreed

DBCDE response: Agreed

Audit Findings and Conclusions

1. Introduction

This chapter provides background information about the audit. It describes previous audit coverage of the management and processing of annual leave and explains the approach of the current audit.

Annual leave

1.1 An entitlement to paid annual leave² is a statutory minimum condition of employment in Australia. Annual leave provides employees with access to paid days away from their workplace each year. The effective management of annual leave, at both strategic and operational levels, is important in maintaining the well-being of staff, an organisation's productivity and its ability to deliver its services efficiently and effectively.³ In addition, actively managing staff's use of their annual leave entitlements can help reduce the financial risks associated with accruing leave entitlements.

1.2 It was recently reported that one in four Australian full-time employees have accrued 25 days or more of annual leave and, that in total, Australian employees have accumulated some 123 million days of annual leave entitlements, valued at \$33 billion.⁴

1.3 The Australian Government's *Consolidated Financial Statements for the Year Ended 30 June 2008* reported that there were nearly 290 000 employees working in 187 Australian Government organisations at 30 June 2008. The *Consolidated Financial Statements* also showed that the value of 'leave and other entitlements expenses' for these organisations for that year was \$2.6 billion and that the value of 'leave and other entitlement liabilities' at 30 June 2008 was approximately \$6.7 billion.⁵

² For the purposes of this audit, the ANAO has used the term annual leave. However, organisations may refer to this entitlement using other terminology such as planned leave or recreation leave.

³ Australian Public Service Commission, *State of the Service Report 2007-08*, p.147. The report is available from <<http://www.apsc.gov.au/stateoftheservice/0708/report.pdf>> [accessed on 25 May 2009].

⁴ *Australia - land of 'no leave, no life'*, article dated June 4 2009 located at <<http://au.lifestyle.yahoo.com/b/sunrise/27779/australia>> [accessed on 19 June 2009].

⁵ *Consolidated Financial Statements for the Year Ended 30 June 2008*, Commonwealth of Australia, pp.96 and 111. The report is available at <<http://www.finance.gov.au/publications/commonwealth-consolidated-financial-statements/2008.html>> [accessed on 8 June 2009]

1.4 The 'leave and other entitlements' line items in the *Consolidated Financial Statements* comprise amounts relating to both long service leave and annual leave. However, the *Consolidated Financial Statements* do not provide any disaggregation of these amounts. In order to estimate the amount of annual leave-related expenses and liabilities, the Australian National Audit Office (ANAO) reviewed the published financial statements, and in some cases, supporting accounting records for the 72 material organisations⁶ within the 187 organisations comprising the Australian Government sector.⁷ Table 1.1 shows the estimated total value of the annual leave expenses and accumulated annual leave liabilities of Australian Government organisations for the years ended 30 June 2007 and 30 June 2008.

Table 1.1

Estimated annual leave expenses and liabilities for Australian Government organisations

	2006-07 \$ (billion)	2007-08 \$ (billion)
Annual leave expenses	1.0	1.1
Annual leave liabilities	1.7	1.8

Source: ANAO, based on published financial statements and supporting accounting records.

The legislative framework for annual leave

1.5 The *Workplace Relations Act 1996* (WR Act), as amended, provided the legislative framework for Australian employers and employees to negotiate terms and conditions of employment.⁸ An important part of the framework in the WR Act was the five minimum conditions of employment, known as the *Australian Fair Pay and Conditions Standards* (AFPCS) contained in Part 7 of the

⁶ These 72 organisations were identified from the *Chart of agencies under the Financial Management and Accountability Act 1997* and the *Chart of bodies under the Commonwealth Authorities and Companies Act 1997* published by the Department of Finance and Deregulation on 1 July 2008.

⁷ These 187 organisations are listed in note 48 to the *Consolidated Financial Statements for the Year Ended 30 June 2008*.

⁸ The WR Act was repealed by the *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009*.

Act. An entitlement to paid annual leave was one of those minimum conditions.⁹

1.6 The *Fair Work Act 2009* (FW Act), which replaced the WR Act from 1 July 2009, sets out the new legislative framework for workplace relations in Australia. Section 61 of the FW Act establishes the National Employment Standards (NES).¹⁰ The NES set out ten minimum employment standards, including an entitlement to paid annual leave.¹¹ The minimum standards relating to annual leave contained in the FW Act are largely the same as those in the WR Act.¹²

Previous coverage of annual leave

1.7 Since 2006, there have been a number of reports produced by the ANAO and the Australian Public Service Commission (APSC) covering the management and processing of leave, including annual leave in Australian Government organisations. Some of these are discussed in the following paragraphs.

ANAO Audit Report No.16 2005–06, *The Management and Processing of Leave*

1.8 In November 2005, the ANAO tabled Audit Report No.16 2005–06, *The Management and Processing of Leave*. The objectives of the audit were to:

- determine whether organisations had established appropriate arrangements in relation to the management and processing of leave and had effective internal controls over leave processing; and
- assess whether leave had been managed in accordance with the requirements of the respective organisation's collective agreement.

⁹ The AFPCS were inserted into the WR Act by the *Workplace Relations Amendment (Work Choices) Act 2005*. Apart from the entitlement to paid annual leave, the other minimum employment conditions related to basic rates of pay, maximum ordinary hours of work, personal leave and unpaid parental leave.

¹⁰ The provisions relating to the NES commence on 1 January 2010. Until then the *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* preserves the operation of the AFPCS (including the rules relating to annual leave).

¹¹ The other minimum employment standards contained in the NES relate to maximum weekly hours, requests for flexible working arrangements, parental leave, personal/carer's leave and compassionate leave, community service leave, long service leave, public holidays, notice of termination and redundancy pay and fair work information statements.

¹² Appendix 3 contains a more detailed discussion of the main differences between the annual leave-related standards in the FW Act and the WR Act.

1.9 Each of the six audited organisations had arrangements in their respective employment agreements that, to varying degrees, enabled them to manage their leave liabilities. However, five of the organisations were not managing their leave entitlements in accordance with these arrangements.

1.10 The audit considered that the audited organisations could improve the management of the risks associated with managing and processing leave, and that some leave management processes and practices could be improved. Areas identified for improvement included: adopting a proactive approach to managing staff with high leave balances; more actively managing the number of unapproved leave applications; better articulating the roles and responsibilities of the work areas involved in annual leave arrangements; and improving the reporting and monitoring of leave information to senior management.¹³

1.11 The audit made seven recommendations to improve the management and processing of leave. Appendix 2 sets out these recommendations and summarises the progress of the organisations included in this audit in implementing them.

ANAO Audit Report No.44 2007–08, *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year ending 30 June 2008*

1.12 The ANAO's Audit Report No.44 2007–08, stated that agencies should have adequate control mechanisms in place to capture and process employee data and related payments, including appropriate approval and review mechanisms. The report indicated that, during the ANAO's examination of organisations' key financial systems and controls, a number of control weaknesses in this area were noted, including a number of unapproved leave applications.¹⁴

State of the Service Report 2007–08

1.13 Section 44 of the *Public Service Act 1999* (PSA) provides that the Public Service Commissioner must produce a report each year for presentation to the

¹³ ANAO, Audit Report No.16 2005–06, *The Management and Processing of Leave*, p.10-11. Available from <<http://www.anao.gov.au/director/publications/auditreports.cfm>>.

¹⁴ ANAO, Audit Report No.44 2007–08, *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year ending 30 June 2008*, pp. 55-56. Available from <<http://www.anao.gov.au/director/publications/auditreports.cfm>>.

Australian Parliament that includes an assessment on the state of the Australian Public Service (APS). This report, known as the *State of the Service Report*, draws on a range of information sources, including a survey sent to all APS agencies employing 20 or more staff under the PSA.

1.14 The *State of the Service Report 2007–08*¹⁵ provides information on a range of human resource management issues faced by APS agencies, as well as outlining some of the key practices and achievements in 2007–08. Of particular significance to this audit was the assessment of the:

- initial impact of the additional two per cent efficiency dividend on agencies from 1 March 2008; and
- extent to which agencies had implemented the recommendations from ANAO Audit Report No.16 2005–06.

1.15 The report indicated that the majority of the agencies that responded to the Australian Public Service Commission's (APSC) survey reported that the additional efficiency dividend had had an impact on their operations. Most commonly, agencies reported a reduction in staffing levels and an associated increase in working hours for existing employees. In addition, 18 per cent of respondent agencies indicated that their employees' annual leave balances had increased due to staff being unable to take leave due to higher workloads.¹⁶

1.16 The report noted that it was important for agencies to regularly monitor workload levels and associated workforce measures to identify if excessive workloads were (or could be) adversely affecting employees' well-being and productivity. The report noted that relevant measures included:

- levels of unscheduled absences;
- accumulated flex-time balances; and
- the amount of annual leave being accrued (rather than being taken).

1.17 The report indicated that most of the agencies that responded to the APSC's survey reported that they were using a series of strategies, consistent with the recommendations in ANAO's Audit Report No.16 2005-06 to manage employees' annual leave. In particular:

¹⁵ Australian Public Service Commission, *State of the Service Report 2007–08*. The report is available at <<http://www.apsc.gov.au/stateoftheservice/0708/index.html>> [accessed on 25 May 2009].

¹⁶ APSC, *ibid.*, p.132.

- 88 per cent of respondent agencies reported that excess leave balances were monitored on a regular basis and that appropriate follow-up action was taken when required;
- 87 per cent of respondent agencies reported that line managers were provided with information to assist in the management of annual leave; and
- 80 per cent of respondent agencies' employment agreements contained a threshold annual leave entitlement above which employees were able to be directed to take annual leave or deemed to be on leave.¹⁷

Current audit

1.18 The ANAO considered it was timely to undertake this audit given the significant value of the liabilities relating to annual leave entitlements in Australian Government organisations, and the introduction of the new workplace relations system. In addition, it was considered timely to examine the progress being made by the audited organisations in implementing the recommendations in Audit Report No.16 2005-06.

Audit objective, criteria and scope

1.19 The objective of this audit was to determine whether selected Australian Government organisations had effective processes for managing the annual leave entitlements of their staff and whether systems and controls over the processing of annual leave were working as intended.

1.20 To address this objective, the audit examined the audited organisations' practices against the criteria shown in Table 1.2.

¹⁷ APSC, *ibid.*, pp.153-154.

Table 1.2**Criteria used to assess the audited organisations' practices**

Audit criteria
Arrangements are included in employment agreements to encourage the use of annual leave entitlements, and manage the level of annual leave liabilities
Annual leave arrangements in employment agreements are being implemented
Policies and training to support the management of annual leave are available
The impacts of the new <i>Fair Work Act 2009</i> on annual leave arrangements have been assessed
Risks related to the management and processing of annual leave have been identified, assessed and are monitored
Systems and controls over the processing of annual leave applications are in place
Procedures to support the processing of annual leave applications have been developed and communicated
Annual leave applications are being processed in accordance with these procedures
Arrangements are in place for the regular monitoring and reporting of annual leave-related information

Source: ANAO.

1.21 Fieldwork was undertaken in the following organisations: the Australian Bureau of Statistics (ABS); the Australian Taxation Office (ATO); and the Department of Broadband, Communications, and the Digital Economy (DBCDE). At each of the audited organisations, relevant information, systems and processes were reviewed to gain an understanding of the organisation's annual leave management and processing arrangements.

1.22 The audit did not include an examination of the:

- management and processing of long service leave and unplanned leave (such as sick leave, carers leave, and bereavement leave);
- completeness of attendance recording;
- accuracy of the calculation of annual leave liabilities; and
- arrangements for transferring leave liabilities between organisations.

Assistance to the audit

1.23 The ANAO engaged Courage Partners to assist with the audit. The audit was conducted in accordance with the ANAO's Auditing Standards at a cost to the ANAO of approximately \$295 000.

Audit reporting and structure

1.24 This audit is part of a program of cross-agency performance audits that examine processes supporting the delivery of services provided by Australian Government organisations. These audits are undertaken under the provisions of section 18 of the *Auditor-General Act 1997*, which provides for the examination of a particular aspect of the operations of the whole or part of the Australian Government sector.

1.25 As well as this introductory chapter, there are three other chapters in this report, which examine whether the audited organisations have:

- appropriate arrangements in place for the management of their employees' annual leave entitlements (Chapter 2);
- reliable systems, controls and procedures in place over the processing of annual leave applications (Chapter 3); and
- effective arrangements in place for the monitoring and reporting of annual leave-related information (Chapter 4).

1.26 In addition, Appendix 1 shows the comments on the draft audit report provided by each of the audited organisations, together with those of the APSC.¹⁸ Appendix 2 lists the seven recommendations from ANAO Audit Report No.16 2005-06, and an assessment of the audited organisations' progress in implementing them. Appendix 3 outlines the differences between the provisions in the FW Act and WR Act relating to the cashing-out and taking of paid annual leave.

¹⁸ The APSC was invited to provide comment on the draft audit report because of its role in the promotion of better practices in people management.

2. The Management of Annual Leave

This chapter examines the approaches to the management of annual leave at the audited organisations.

Introduction

2.1 Annual leave is a condition of employment that entitles employees to a paid break from their employment each year. It is important that annual leave entitlements are effectively managed at both strategic and operational levels otherwise there can be increased:

- potential for adverse occupational health and safety outcomes for staff who do not take annual leave regularly, affecting both the well-being of staff and an organisations' productivity; and
- financial risks associated with the accumulation of annual leave entitlements.

2.2 This chapter contains the ANAO's assessment of the audited organisations' practices against the following expectations:

- arrangements are included in employment agreements to encourage the use of annual leave entitlements, and manage the level of annual leave liabilities;
- annual leave arrangements in employment agreements are being implemented;
- policies and training to support the management of annual leave are available;
- the impacts of the new *Fair Work Act 2009* on annual leave arrangements have been assessed; and
- risks related to the management and processing of annual leave have been identified, assessed and are monitored.

2.3 In assessing the audited organisations' practices against these criteria, the ANAO examined the extent to which they had implemented the following recommendations from Audit Report No.16 2005–06: No.1 (described in paragraph 2.13); No.2 (described in paragraph 2.42); No.3 (described in

paragraph 2.26); No.4 (described in paragraph 2.42) and No.6 (described in paragraph 2.6).¹⁹

Arrangements to encourage the use of annual leave entitlements are included in employment agreements

2.4 A key element in the effective management of annual leave is the inclusion of arrangements in an organisation's employment agreement(s) encouraging staff to take annual leave.²⁰ The ANAO reviewed the employment agreements of each of the audited organisations to identify arrangements relating to annual leave entitlements.

Findings of the previous audit

2.5 As previously noted in Chapter 1, Audit Report No.16 2005–06, found that the employment agreements of each of the six audited organisations included provisions relating to annual leave entitlements and arrangements for managing these entitlements. The audit concluded that these arrangements generally provided a reasonable basis for organisations to manage the financial implications, as well as the occupational health and safety implications of annual leave entitlements.

2.6 The employment agreements of three of the six audited organisations had a clause that required executive level staff to maintain records of attendance. However, the audit found that executive level staff were not generally recording their attendance, including details of their leave. The previous audit considered that organisations that required executive level staff to maintain attendance records should assess the risks of these staff not meeting this requirement, as well as considering whether the requirement remained appropriate. Specifically, the previous audit recommended:

¹⁹ The extent to which recommendations Nos. 5 and 7 have been implemented is examined in Chapter 3 and Chapter 4 respectively.

²⁰ For the purpose of this audit, unless otherwise stated, the use of the term 'employment agreements' refers to both certified and collective agreements, as well as individual employment agreements, such as Australian Workplace Agreements, determinations issued under the employing legislation, or common law arrangements.

Recommendation No.6: The ANAO **recommends** that where an organisation's collective agreement requires all staff to record attendance details, the organisation:

- assess the risks of senior staff not recording attendance and, where relevant, periodically remind such staff of their responsibility to record their attendance; and
- consider, in the context of the organisation's next collective agreement, whether existing attendance recording requirements, particularly for senior staff, remain appropriate.²¹

Findings of the current audit

2.7 Each of the audited organisations had included arrangements in their respective employment agreements to assist them to manage the annual leave entitlements of their staff and to provide a basis for minimising annual leave liabilities. Table 2.1 provides a summary of the annual leave arrangements contained in each of the audited organisations' employment agreements.

Table 2.1

Summary of annual leave arrangements in the employment agreements of the audited organisations

	Annual Leave Entitlement	Maximum Annual Leave Balance	Deeming Staff to be on Annual Leave Provision	Direction to Take Leave Provision	Cashing-out Annual Leave Provision
ABS	20 days	Yes (40 days)	Yes	No	Yes
ATO	20 days	Yes (60 days)	No	Yes	No
DBCDE	20 days	Yes (53 days)	No	Yes	Yes (SES only)

Source: ANAO analysis of audited organisations' employment agreements.

2.8 As shown in Table 2.1, each of the audited organisations included in their employment agreements a limit on the number of days a staff member can accumulate annual leave. Other arrangements for managing annual leave

²¹ ANAO, Audit Report No.16 2005–06, op. cit., p.38.

entitlements included provisions for deeming staff to be on annual leave,²² or directing staff to take annual leave, when they exceed the maximum annual leave entitlement; and providing staff with the option to cash-out part of their annual leave entitlement.

2.9 The ABS' deeming provision²³ and the ATO's direction to take leave provision²⁴ are both explicitly directive in nature and are designed to provide no flexibility for staff to accumulate annual leave entitlements beyond their respective maximum entitlements. On the other hand, DBCDE's direction to take leave provision is less explicit and its application involves individual manager's discretion.²⁵ The application of this provision is discussed further at paragraph 2.16.

2.10 The ANAO noted that at the ATO there were no leave minimisation arrangements relating to the annual leave entitlements of SES staff. The ANAO suggested that the ATO consider the benefits of applying the annual leave arrangements contained in its general employment agreement to the agreements relating to SES staff and, in particular, including a maximum annual leave balance.

2.11 The ATO and DBCDE both advised that they had considered the risks associated with, and the continued appropriateness of attendance recording requirements for executive level staff in the development of their current employment agreements. In this light, both organisations had implemented recommendation No.6 from the previous audit. This recommendation was not applicable to the ABS because its executive level staff were not required to maintain attendance records.

²² ABS' current employment agreement includes the provision for deeming staff to be on annual leave. However, the *Workplace Relations Amendment (Work Choices) Act 2005* precluded new employment agreements from including provisions relating to deeming employees to be on annual leave, rather, employers could only direct staff to take annual leave. The current ABS employment agreement was signed before this Act came into effect and therefore the Act does not apply to staff employed under that agreement.

²³ The ABS' deeming provision states that full-time employees who have accumulated more than 40 days annual leave credits on 1 June in any year will be deemed to be on annual leave until those credits have been reduced to 40 days (or less).

²⁴ The ATO's direction to take leave provision states that an employee will be directed to take annual leave where they have leave that has accrued for three years or more. Where an employee is directed to take annual leave the amount they are directed to take will be: (a) one sixth of their annual leave credit where that annual leave has accrued for three years; and (b) up to one quarter of their annual leave credit where that annual leave has accrued for more than three years.

²⁵ DBCDE's direction to take leave provision states that an employee with a planned leave balance in excess of 53 days may be directed to take up to one quarter of their planned leave.

Implementing the annual leave arrangements in employment agreements

2.12 In order to support the effective management of annual leave entitlements, organisations should fully implement those annual leave arrangements included in their employment agreements. The ANAO examined the extent to which the annual leave arrangements included in each of the organisations employment agreements (and in supporting policy and procedural documentation) were being implemented.

Findings of the previous audit

2.13 The 2005 ANAO report found that in five of the six audited organisations, the annual leave balances for some staff were in excess of the maximum allowable balance. This result indicated that four of the five organisations that had deeming provisions in their respective employment agreements were not correctly applying these provisions. Accordingly, the audit report recommended:

Recommendation No.1: The ANAO **recommends** that organisations fully implement the leave arrangements as outlined in their respective collective agreements.²⁶

Findings of the current audit

2.14 The annual leave arrangements at each of the audited organisations were largely being implemented in accordance with their respective employment agreements. The main exception was that the ABS was not monitoring the use of its cashing-out of annual leave option as required under its agreement. The ABS advised that the Committee charged with this responsibility will monitor the use of the cashing-out of annual leave option from now on.

2.15 The ANAO also identified that the ABS had incorrectly applied its deeming provision to two staff employed under individual employment agreements. In this regard, the ANAO notes that ABS' guidance material had not been updated to reflect the legislative change prohibiting the continued use

²⁶ ANAO, Audit Report No.16 2005-06, op.cit., p.30.

of deeming provisions.²⁷ The ABS advised that the staff responsible for the deeming process had been reminded of the differing treatment for personnel employed under individual employment agreements. The ABS also advised that the deeming process had been cancelled for the two cases identified by the ANAO.

Department of Broadband, Communications and the Digital Economy

2.16 DBCDE advised that decisions concerning the application of its direction to take leave provision have been devolved to line managers. It also advised that (at the time of the audit) there had not been any instances of the direction to take leave provision being used to reduce the annual leave balances of any staff.

2.17 DBCDE requires its line managers and staff to work together to ensure that staff take an appropriate amount of leave. It considers such an approach to be important to provide flexibility and also to help ensure that excess leave balances were avoided. DBCDE indicated that it considered that directing staff to take annual leave was an option that should be taken by line managers when other strategies designed to reduce an employee's annual leave balance had not worked, or the manager and employee were unable to agree on an approach to reduce the leave balance. The ANAO noted that DBCDE's *Paid Leave* policy states that it is appropriate for managers to consider directing staff to take leave in cases where the employee had either not submitted a leave plan, or had failed to apply for leave in accordance with an agreed leave plan.

Australian Taxation Office

2.18 As well as the arrangements contained in its employment agreements, the audit identified that the ATO had also implemented a number of other strategies to assist in the management of the annual leave entitlements of its staff. These strategies included:

- routinely communicating annual leave management issues to employees, including through the ATO's weekly staff newsletter;

²⁷ As mentioned earlier, under the *Workplace Relations Amendment (Work Choices) Act 2005*, deeming staff to be on annual leave was not permitted. Instead, organisations had the option of directing staff to take annual leave. The current ABS employment agreement was signed before this Act came into effect and therefore the Act did not apply to staff employed under that agreement. The Act does, however, apply to ABS staff employed under individual employment agreements that were entered into after the Act came into effect.

- requesting all staff to take annual leave around the New Year holiday period; and
- routinely monitoring SES annual leave balances (this measure was put in place as SES did not have a maximum annual leave entitlement in their individual employment agreements).

The ATO and DBCDE had fully implemented recommendation No.1 from the previous audit, and the ABS had partially implemented this recommendation.

The effectiveness of the audited organisations' arrangements

2.19 Overall, the ANAO's analysis of key annual leave-related data suggests that the arrangements used by each of the audited organisations for managing the annual leave entitlements of their staff have largely been effective. In particular, this is demonstrated by the fact that in each organisation:

- only a relatively small proportion of staff had accumulated annual leave credits above the respective maximum entitlement (Table 2.2 and Figure 2.1);
- over the three year period to 30 June 2008 the movements in annual leave liabilities could be largely attributed to changes in each of the organisation's staff numbers and pay increases, rather than to increases in accumulated leave entitlements (Table 2.3); and
- over the three year period to 30 June 2008, the average number of days of annual leave utilised per full-time equivalent staff member had increased (Figure 2.2).

Annual leave balances

2.20 As shown in Table 2.2, the proportion of staff with excess annual leave balances was low in the three organisations. This result is a significant improvement from the previous audit, where the proportion of staff in the audited organisations with excess annual leave balances ranged from 4.9 per cent to 17.6 per cent.²⁸

Table 2.2

Excess annual leave balances in the audited organisations

	ABS	ATO	DBCDE
Approximate total number of staff	2 700	23 000	650
Number of staff with excess annual leave balances ²⁹	70	216	29 ^(A)
Percentage of staff with excess annual leave balances	2.6	1.0	4.5

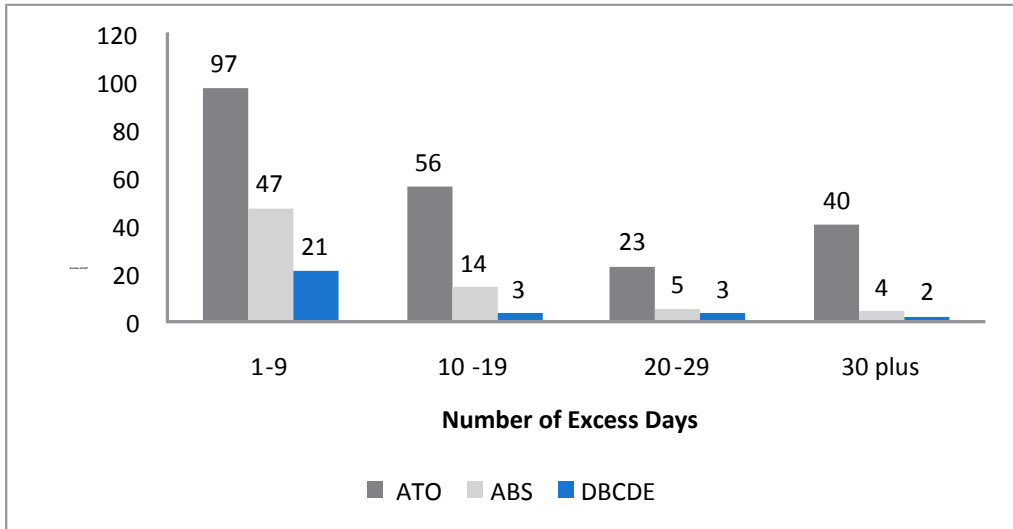
Note (A): DBCDE advised that eight of the staff identified by the ANAO with an excess leave balance at 31 October 2008 had transferred into the organisation with an accumulated annual leave entitlement that was in excess of DBCDE's maximum amount (53 days).

Source: ANAO analysis.

2.21 Figure 2.1 provides further data on the number of excess annual leave balances at each of the audited organisations. This figure shows that, for 52 per cent of the 315 staff with an excess annual leave balance, the amount of the excess was less than ten days over the respective maximum entitlement. It also shows that for a further 23 per cent of these staff, the amount of the excess was between 10 and 19 days over the respective maximum entitlement.

²⁸ ANAO, Audit Report No.16 2005–06, op.cit., p.29.

²⁹ As at 31 October 2008, except at ABS, which was at 1 July 2008 given its annual deeming process.

Figure 2.1**The number of excess annual leave days at the audited organisations³⁰**

Source: ANAO analysis.

2.22 Table 2.3 shows that there has not been any significant increase in the value of the accumulated annual leave entitlements at the audited organisations over the three financial years ending 30 June 2008. Overall, the ANAO's analysis indicated that the movement in each of the organisation's annual leave liabilities over that period is consistent with changes in each of the organisation's staff numbers and pay increases.

Table 2.3**Audited organisations' annual leave liabilities for three financial years**

Financial Year Ending 30 June	ABS (\$'000)	ATO (\$'000)	DBCDE (\$'000)
2006	22 003	140 240	6 938
2007	23 026	145 495	7 517
2008	22 615	153 974	5 443

Source: ANAO analysis.

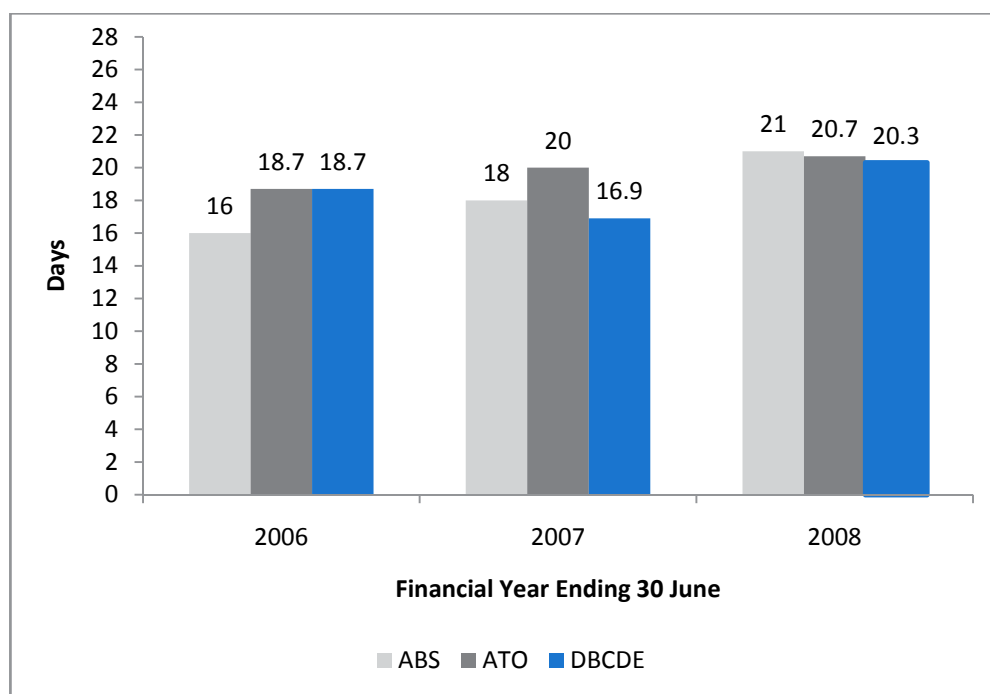
³⁰ 32 of the 40 staff at the ATO with an excess annual leave balance of more than 30 days were executive level officers and the remaining 8 were SES officers. As discussed at paragraph 2.10, the individual employment agreements for SES officers at the ATO do not contain a maximum annual leave entitlement.

Annual leave utilisation rate

2.23 Figure 2.2 sets out the average annual leave utilisation rate per employee for each of the audited organisations. The figure shows that over the period 1 July 2005 to 30 June 2008 the average number of days of annual leave utilised per full-time equivalent (FTE) staff member has increased at each of the audited organisations. These calculations indicated that at 30 June 2008 staff at each of the audited organisation were, on average, taking their full (20 days) annual leave entitlement.

Figure 2.2

Average annual leave utilisation per employee (FTE) at each of the audited organisations³¹



Source: ANAO analysis.

³¹ Following the Machinery of Government changes in December 2007 there was a 31 per cent reduction in the number of FTE staff employed by DBCDE. To account for this, the ANAO calculated the average annual leave utilisation rate for financial year ending 30 June 2008 based on average FTE data over 12 months rather than FTE data at the end of the financial year.

Policies and training to support the management of annual leave

2.24 To assist staff better understand their leave entitlements and employment conditions, as well as provide support for line managers, organisations should have policies or guidelines dealing with the management of annual leave. Such policies should include information to support the implementation of the annual leave arrangements outlined in employment agreements. In addition, targeted training and support should be provided to managers with leave-related responsibilities, to facilitate the consistent management and processing of annual leave.

2.25 The ANAO examined the extent to which each of the audited organisations had:

- developed and communicated policies or guidelines to support the management of annual leave, including the application of the arrangements outlined in their employment agreements; and
- provided training and support to managers with leave-related responsibilities.

Findings of the previous audit

2.26 The ANAO's 2005 audit found that two of the six organisations did not have documented policies and procedures relating to the management of leave. It also identified two organisations where roles and responsibilities associated with the management and processing of leave had not been clearly articulated. While in most organisations the responsibility for managing leave arrangements had been devolved to line managers, in some cases, these responsibilities were not adequately defined. Accordingly, the previous audit recommended:

Recommendation No.3: The ANAO **recommends** that organisations develop clearly defined roles and responsibilities for line managers and the various work areas involved in the management of leave.³²

2.27 Audit Report No.16 2005–06 did not address whether organisations provided training and support to managers with leave-related responsibilities.

³² ANAO, Audit Report No.16 2005–06, op.cit., p.32.

Findings of the current audit

2.28 All three of the audited organisations had developed policies or guidelines to support the management of annual leave, including the application of the arrangements in their respective employment agreements. At the time of the audit fieldwork, the policies of the ATO and DBCDE were in draft form. Both of these organisations subsequently advised that these draft policies had been finalised and communicated to staff. The policies and guidance for managing annual leave were available on each organisation's intranet.

2.29 Information contained in policies and guidelines that was common across the audited organisations included guidance on:

- the purpose of annual leave and why it should be used regularly;
- annual leave entitlements and accruals;
- applying for annual leave;
- key leave-related roles and responsibilities of employees and managers; and
- maximum annual leave balances and the management of excess balances.

2.30 Among the better practices observed, the ANAO noted that the ATO's policy sets out its strategic approach for managing leave. In particular, the policy articulated the ATO's principles (endorsed by the Commissioner of Taxation) for the use of leave, as well as detailing the leave-related roles and responsibilities of employees and managers. A number of additional annual leave guidelines complemented this policy.

2.31 As previously discussed in paragraph 2.15, the ABS needed to update its guidance documentation to more accurately reflect the new legislative requirements relating to deeming staff to be on annual leave. The ABS advised that it agreed with this suggestion, and will amend its policy accordingly.

2.32 DBCDE would benefit from developing guidance on the application of its direction to take leave provision. In particular, the ANAO considered that guidance would help ensure the consistent application of the arrangement, including clarifying respective roles and responsibilities. DBCDE's view is that further detailed guidance regarding the direction to take leave provision is unnecessary. DBCDE advised that because it expected the direction to take leave provision was likely to only be used infrequently, it considered the

current informal arrangements, whereby Human Resources staff are available to provide guidance on the use of the provision, to be the most cost-effective approach.

2.33 All three of the audited organisations had a range of means to support managers with leave-related responsibilities. In particular, as well as having ready access to leave-related guidance material on the organisation's intranet, Human Resources staff regularly provided advice or information on leave management issues. An example of better practice was the *Managers' Handbook* developed by the ABS. The handbook provides comprehensive guidance on the principles, responsibilities and key processes for managing employee work conditions and life balance, including leave entitlements.

2.34 The ATO was the only organisation that provided managers with training specifically targeted at leave management issues. However, DBCDE advised that Occupational Health and Safety (OHS) training provided to its senior staff during 2008-09 was designed to reinforce the importance of staff taking annual leave regularly. To raise awareness of annual leave arrangements and support the consistent processing of leave applications, organisations should assess the benefits of incorporating leave management into existing management training programs.

Each of the organisations had fully implemented recommendation No.3 from the previous audit.

Assessing the impacts of the new *Fair Work Act 2009* on annual leave arrangements

2.35 As mentioned in Chapter 1, the central element of the new workplace relations system is the *Fair Work Act 2009* (FW Act). One of the key features of the FW Act is the establishment of the National Employment Standards (NES) in Part 2-2. The NES set out ten minimum employment standards for all national system employees. Specifically, Division 6 of the FW Act contains the minimum standards relating to annual leave. The FW Act commenced on 1 July 2009, although the provisions relating to the NES do not commence until 1 January 2010.

2.36 The ANAO examined the extent to which each of the audited organisations had considered the implications of the FW Act on their respective annual leave arrangements. This matter was not covered in the previous audit.

Findings of the current audit

2.37 Within the context of developing their next employment agreements, both the ABS and the ATO had considered the impact of the FW Act on the annual leave arrangements outlined in their existing employment agreements. At the time of the audit, DBCDE advised it had not assessed the implications of the FW Act, as its current employment agreement did not expire until July 2010.

2.38 While the ABS and the ATO considered the FW Act did not significantly impact on their respective annual leave arrangements, both organisations advised that some minor changes to these arrangements were being considered. These changes are designed to reflect the inclusion of amended terms in section 93 of the FW Act relating to the cashing-out and taking of paid annual leave. These provisions in the FW Act, and how they differ from the provisions in the former *Workplace Relations Act 1996* (WR Act), are outlined in Appendix 3.

Identifying and monitoring annual leave-related risks

2.39 The identification and management of risks is a key element of an organisation's control framework. Risk assessments are normally conducted at an organisational level and at operational or process levels.

2.40 As noted in the previous audit, risks relating to the management and processing of annual leave should be considered by organisations in the development of their risk management plans (and, where appropriate, fraud control plans). Relevant risks may include:

- a disruption to the services provided by an ESS system and the resulting effects on the timeliness of processing leave applications;
- staff being unable to take leave due to work load pressures, potentially resulting in a staff member exceeding the maximum amount of leave allowed;
- annual leave not being recorded and/or processed, resulting in an overstatement of leave balances and leave liabilities; and
- the escalating costs of annual leave liabilities.³³

³³ *ibid.*, p.30.

2.41 The ANAO examined the extent to which the audited organisations had considered the risks related to the management and processing of annual leave as part of their risk management activities, and where relevant, included these in risk management plans or fraud control plans.

Findings of the previous audit

2.42 Audit Report No.16 2005–06 found that most of the audited organisations had not identified the day-to-day operational risks associated with the management and processing of leave in either their risk management plans or fraud control plans. The audit also found that none of the organisations had undertaken a formal risk assessment prior to implementing their ESS. The previous audit recommended:

Recommendation No.2: The ANAO **recommends** that, where significant, organisations include the risks associated with the management and processing of leave in relevant risk management plans and fraud control plans.³⁴

Recommendation No.4: The ANAO **recommends** that organisations conduct a formal risk assessment prior to the implementation of an Employee Self-Service system.³⁵

Findings of the current audit

2.43 The ATO and DBCDE had sound processes in place for assessing and documenting risks associated with the management and processing of annual leave. Common risks identified included: poor attendance recording; staff leaving due to onerous workloads that precluded them from taking leave; inadequate recording of leave by staff; managers not appropriately monitoring staff leave; and managers not approving leave. Where significant, leave related risks, and strategies for managing these risks, were included in risk management and fraud control plans and were routinely monitored.

2.44 Each year the ABS identifies risks (known as enterprise risks) that are strategic in nature and have the potential to significantly impact upon the organisation. The ANAO agreed with the ABS' assessment that it did not consider there were any significant enough risks related to the management or

³⁴ *ibid.*, p.31.

³⁵ *ibid.*, p.35.

processing of annual leave to justify inclusion in its 2008-09 enterprise risk management plan.

2.45 However, the ABS did not previously require a formal assessment of risks to be undertaken as part of business planning processes at operational levels, including an assessment specifically covering human resource-related activities. The ABS advised that the formal assessment of risks was incorporated into its operational planning and budgeting process in early 2009. Under these arrangements, each business area is required to undertake and document a risk assessment in the development of its business plans.³⁶ The ABS acknowledged that operational risks relating to the management and processing of annual leave will be considered as part of this process. In this regard, the ABS also advised that only allowing staff to accumulate a maximum of 40 days annual leave, together with its current annual process of deeming those staff carrying over 40 days to be on leave, lowers its risks.

The ATO and DBCDE had fully implemented recommendation No.2 from the previous audit, and the ABS had partially implemented this recommendation. As each organisation had introduced its ESS system prior to the tabling of the previous audit, recommendation No.4 was not considered relevant.

Conclusion

2.46 Overall, the three audited organisations had developed and, for the most part, implemented effective arrangements for managing the annual leave entitlements of their staff. The effectiveness of these arrangements was underlined by the fact that in each organisation, amongst other things, only a relatively small proportion of staff had accumulated annual leave credits above the respective maximum entitlements.

³⁶ ABS advised that the formal assessment of risks was part of the development of business plans for 2009–10.

3. The Processing of Annual Leave

This chapter examines the audited organisations' approaches to processing annual leave applications.

Introduction

3.1 Organisations require reliable systems and controls to support the consistent, accurate and timely processing of annual leave applications. Procedures and instructions to support the processing of annual leave should also be developed, documented and communicated to staff.

3.2 The ANAO examined whether the audited organisations had:

- systems and controls over the processing of annual leave applications;
- developed and communicated procedures to support the processing of annual leave applications; and
- processed annual leave applications in accordance with these procedures.

3.3 In assessing the audited organisations' practices, the ANAO also examined the extent to which they had implemented recommendation No.5 from Audit Report No.16 2005–06. Recommendation No.5 is outlined in paragraph 3.5.

Systems and controls over the processing of annual leave applications

3.4 Audit Report No.16 2005–06 indicated that four of the organisations audited had introduced electronic systems that, amongst other things, allowed the on-line application and approval of leave. At the time of the audit, a fifth organisation was in the process of introducing such a system.

3.5 However, the audit also found delays occurring in the approval of leave applications. In each of the four organisations where leave applications were processed on-line, the ANAO identified numerous leave requests that had been submitted and were still awaiting approval at the time of the audit. In addition, none of these organisations had established controls to manage the risks associated with leave applications not being approved in a timely manner. Accordingly, the previous audit recommended:

Recommendation No. 5: The ANAO **recommends** that organisations introduce control measures to manage the number of un-actioned leave applications in their Employee Self-Service systems.³⁷

Findings of the current audit

Systems for processing annual leave applications

3.6 The ANAO observed that since the conduct of the previous audit, advances in technology had assisted organisations to better manage and streamline the processing of annual leave applications. Each of the audited organisations had implemented systems enabling the on-line processing of a range of personnel-related information, including the submission and approval of annual leave applications. For the purposes of this audit, these systems will be referred to as Employee Self Service (ESS) systems.

3.7 There are a number of advantages of using an ESS system, such as the streamlining of processing and a reduction in the risk that leave requests may not be recorded in the organisation's Human Resource Management Information System (HRMIS). At each organisation, approved leave applications were automatically processed from its ESS system to its HRMIS.

3.8 The ANAO considered that each of the audited organisations' HRMIS captured sufficient information to enable them to maintain a record of key leave-related information. For example, the organisations audited captured data on leave type and duration, date of leave application, date of approval and the name of the approving delegate. Of the three audited organisations, only the ATO had fully integrated its Attendance Recording System with its HRMIS. This integration further reduced the risk of staff taking annual leave without submitting an annual leave application.

3.9 Despite the use of on-line systems, the ANAO identified that each organisation also manually processed, or had to manually adjust, a number of leave applications each month. Manual processing potentially increases the costs of administration and needs to be carefully managed. At the time of the audit, DBCDE did not routinely monitor the level or nature of these manual adjustments. However, DBCDE advised that the majority of the manual leave-

³⁷ *ibid.*, p. 36.

related adjustments processed in January 2009 related to staff, already on leave, seeking an extension or amendment to their leave arrangements. These adjustments were processed manually because the affected staff did not have access to DBCDE's systems at the time of their request. The ATO routinely monitors the level of manual adjustments as part of a fortnightly *Leave Check Program*. However, at the time of the audit it did not conduct any analysis of the nature of, or reasons for, these adjustments.

3.10 The ABS advised that shortcomings in its HRMIS and supporting leave processing databases required a high level of manual intervention by its payroll staff. The ABS acknowledged that the limitations in these systems were impacting on its ability to manage and process leave efficiently and effectively. It also advised that it was investigating options to enhance or replace the existing systems.

3.11 The ANAO considers that each organisation would be better placed to understand the need for manual variations, and identify opportunities to potentially reduce the level of manual corrections, if it routinely analysed the reasons for such interventions.

Controls over the processing of annual leave applications

3.12 Each of the audited organisations had developed a range of controls to minimise the risks associated with the processing of annual leave applications. Controls that were common across the organisations included:

- managers being required to verify (and approve) attendance records, including confirming that leave applications have been submitted for all recorded absences;
- routine monitoring and follow-up of leave applications that had been submitted, but not approved;
- annual leave applications being unable to be processed if an employee had insufficient leave credits; and
- the identification and formal authorisation of delegates to approve annual leave.

3.13 The ANAO's testing of these controls indicated that they were generally operating as intended.³⁸ As mentioned, a particular concern raised in

³⁸ Refer to paragraph 3.20 for more details of the ANAO's testing of the processing of annual leave applications.

the previous audit was the absence of controls over the approval of leave applications in the audited organisations' ESS systems and the associated high-level of unapproved leave applications. This audit noted a substantial improvement in this regard. Each of the audited organisations routinely monitored and followed up the level of unapproved leave applications, including but not limited to, applications for annual leave. In particular, each of the organisations' ESS system automatically generated e-mails to employees and their managers advising them of the need to action outstanding leave applications.

3.14 However, the frequency of these reminders varied. At DBCDE, e-mails are automatically issued if leave applications remained unapproved for one week. Further reminders are then issued every day until the leave application has been actioned. At ABS, reminders are automatically issued if a leave application had not been actioned for two weeks, with further reminders being issued on a weekly basis until the leave application was approved. At the ATO, reminder e-mails are only issued if a leave application had not been actioned for a month. Follow-up e-mails are sent fortnightly until the leave application is approved.

The three audited organisations had fully implemented recommendation No.5 from the previous audit.

Authorisation of annual leave

3.15 As previously mentioned, each of the audited organisations had identified and formally delegated certain staff to approve applications for annual leave. The ATO and DBCDE had configured their systems so that only delegated staff could approve annual leave. ABS' ESS did not have the functionality to restrict the approval of leave applications to delegated officers. The ABS' system automatically selected a delegated officer (typically the staff member's supervisor) for the purposes of approving a leave application. However, employees were able to override this selection and request any staff member to approve their leave application.

3.16 The ABS advised that it was aware of this shortcoming but it had not significantly increased the risk of fraud or error in the processing of annual leave applications. It also advised that this issue will be addressed as part of any enhancement or replacement of its ESS. The ANAO's examination of selected annual leave applications at the ABS found that each application had been approved by an officer at a higher classification level than the applicant.

Procedures to support the processing of annual leave applications

3.17 To support staff in the consistent and accurate processing of annual leave applications, organisations should have procedures setting out the processing arrangements readily available. The ANAO examined the adequacy of each of the audited organisations' procedures relating to the processing of annual leave applications. The previous audit did not address this criterion.

Findings of the current audit

3.18 Each of the organisations had developed and communicated to staff a range of procedural documentation to support the processing of annual leave applications. Documentation for each organisation contained sufficient guidance on key leave processing arrangements. In particular guidance was available on:

- attendance recording requirements;
- employee leave entitlements;
- employee obligations and responsibilities to submit leave applications for all absences;
- instructions on how to submit and approve leave applications in the ESS system; and
- information on approved delegates.

3.19 DBCDE's procedural documentation contained comprehensive information for delegates on the factors that should be taken into account when considering an application for annual leave. Examples of these factors were: the operational impact of leave; whether an employee has excess leave; the OHS-related requirements for employees to have a reasonable time away from the workplace; whether appropriate notification has been provided; and the needs and preferences of the applicant against the needs and preferences of other staff. The ANAO considers there would be benefit for other organisations including similar guidance in their procedural documentation.

Processing annual leave applications in accordance with procedures

3.20 The ANAO examined data from the audited organisations' HRMIS to ascertain the extent to which leave applications were being processed in

accordance with key internal systems and procedural documentation. In each organisation, ANAO testing focussed on establishing:

- the number of unapproved annual leave applications in the ESS system;
- the proportion of annual leave applications approved after the commencement of annual leave; and
- if annual leave recorded on staff attendance records was reflected correctly in their leave balances on the HRMIS.

Findings from the current audit

Unapproved annual leave applications

3.21 As mentioned in paragraph 3.12, each of the audited organisations had implemented controls over the monitoring and follow-up of leave applications that had been submitted, but had not been approved in their respective ESS systems. Table 3.1 sets out the results of the ANAO’s analysis of the number of unapproved annual leave applications over 30 days at the ATO and DBCDE. This test was not completed for the ABS because whilst its systems recorded the date of each annual leave application, it was unable to easily extract this data, other than on a case by case basis.

3.22 As the proportion of unapproved leave applications over 30 days was within reasonable expectations, it was considered that the controls for the monitoring and follow-up of unapproved leave applications were working effectively at both the ATO and DBCDE.

Table 3.1

Level of unapproved annual leave applications at ATO and DBCDE

	ATO	DBCDE
Number of unapproved annual leave applications over 30 days	16	7
Proportion of unapproved annual leave applications over 30 days to total monthly leave applications processed	Less than 1 per cent	3 per cent

Source: ANAO analysis.

Approval of annual leave applications after leave is taken

3.23 Procedural documentation at each of the audited organisations required annual leave applications to be submitted and approved in the organisation’s ESS system prior to the leave being taken. In each of the audited organisations, the ANAO examined annual leave transactions between 1 July

and 31 October 2008 to ascertain if annual leave applications were approved prior to annual leave being taken.

3.24 This analysis identified that employees and managers were not always complying with the requirement for annual leave to be approved in the ESS system before the leave was taken. In particular, around 20 per cent of the annual leave applications that the ANAO examined in each of the audited organisations were recorded as approved in the ESS system after employees had commenced annual leave. The audited organisations were unable to confirm if this was due to employees not submitting an annual leave application before taking leave, or because delegates were not approving leave applications in a timely manner.

3.25 DBCDE advised that, in most of the cases identified by the ANAO, it was likely that the employee's use of annual leave would have been approved verbally (or by e-mail) by the employee's manager prior to the leave being taken. DBCDE also advised the ANAO that there are valid reasons for annual leave applications not being submitted or approved in the ESS system before annual leave is taken. For example, employees who are already on leave and want to vary or extend existing leave arrangements, would generally be unable to access the organisation's ESS system.

3.26 To reduce the risks that staff may access leave to which they are not entitled, organisations should reinforce with employees and managers the importance of applications for annual leave being approved in a timely manner, and in particular, prior to the commencement of leave. Further, as far as practicable, approval should be recorded in the organisation's ESS system prior to the leave being taken. In addition, organisations need to routinely monitor the timely approval of leave applications in their leave processing systems.

3.27 There would also be benefit in organisations investigating cost-effective mechanisms for capturing details where requests for leave are initially approved outside of their ESS system (for example, approval is given verbally or by e-mail). This is particularly important in those cases where leave is approved, but not recorded in the system until after the leave has commenced.

Recommendation No.1

3.28 The ANAO recommends that organisations routinely monitor the timely approval of annual leave applications in their leave processing systems, particularly the extent to which leave is approved in the system after it has commenced, and take appropriate action.

Organisations' responses

Australian Bureau of Statistics

ABS agrees with qualification. The ABS agrees that timely approval of leave applications and monitoring compliance is desirable, but at this moment in time ABS' HRMIS does not have this capability. We are investigating other ways to ensure compliance.

Australian Public Service Commission

The Commission agrees with the recommendation.

Australian Taxation Office

Agree.

In order to implement the recommendation, we will investigate appropriate mechanisms for monitoring the approval of leave applications. The most practical approach would be to regularly extract reports from our SAP system to compare annual leave start dates and SAP processed dates. We recognise, however, that this will not give us an entirely accurate picture as the report will not necessarily provide details of the actual date that leave was approved by the manager. Nevertheless, it will provide us with a good indication of the extent of the practice, allow us to observe trends over time, and determine whether there are any relevant issues that need to be addressed.

While we believe that the proposed strategy will provide sufficient information for the ATO to monitor annual leave application approvals, given that the audit has shown that the issue of timely approval of annual leave applications exists among a number of agencies, it is suggested that perhaps AGIMO could approach payroll software vendors (such as SAP) to discuss and pursue an APS-wide solution to the issue.

Department of Broadband, Communications and the Digital Economy

The Department agrees with the recommendation, and has commenced the implementation of processes that will further strengthen the management of leave in the Department. However, the Department notes that there are

legitimate reasons for leave to be approved after it has commenced. The employee self-service system used by the Department will not allow staff to apply for leave to which they are not entitled. Consequently, a delay in approving leave already applied for in the system does not represent a risk to the Department.

Accuracy of annual leave balances

3.29 The ANAO examined the accuracy of annual leave balances in ABS' and DBCDE's HRMIS by reconciling a sample of employee attendance records³⁹ to leave data recorded in their respective HRMIS. As previously mentioned, the ATO had fully integrated its Attendance Recording System and its HRMIS. Consequently, annual leave data was automatically transferred between these two systems.

3.30 The ANAO identified discrepancies between the annual leave details on selected attendance records and the leave data recorded in the HRMIS at both the ABS (for 12 out of the 40 employees examined) and DBCDE (for six out of the 35 employees examined). The ANAO's analysis indicated that each of these discrepancies could be attributed to record-keeping errors on attendance records.

3.31 For example, the ANAO identified instances in both organisations where staff had recorded annual leave on their attendance record, but a different type of leave was recorded on the HRMIS. Conversely, there were also cases where annual leave was recorded as being taken in the HRMIS, but was not recorded on attendance records, or a different type of leave was recorded. These discrepancies suggested that managers were not adequately reviewing the accuracy of attendance records when certifying their correctness.

3.32 In addition, the ANAO identified a further four instances (out of the sample of 35) in DBCDE where employees had periods of annual leave recorded in their attendance records that were not recorded in the HRMIS. This indicates that either those employees made an error on their attendance record, or they did not submit an application for the annual leave recorded on their attendance record. The failure to submit a leave application means that the employee's annual leave balance will not have been reduced in the organisation's HRMIS.

³⁹ The sample of employee attendance records was drawn over the period 1 July to 31 October 2008.

3.33 DBCDE investigated these instances and advised that, in three cases, the staff member had taken annual leave, but not submitted a leave application. In these cases, DBCDE advised that approved leave applications had now been processed and that leave balances were accurately recorded in the HRMIS. In the fourth case, DBCDE advised that further investigations had established that the discrepancy identified by the ANAO was the result of the dates of annual leave being incorrectly recorded. DBCDE also advised that it was satisfied that the total amount of annual leave applied for in this case was correctly recorded in its ESS system.

3.34 In order to reduce the risk of inaccurate or incomplete leave data and balances, the ANAO considers that organisations should reinforce with managers their responsibilities for reviewing and certifying attendance records. In addition, the ANAO considers there would be benefit in organisations assessing the cost and benefits of integrating their Attendance Recording System with their HRMIS.

3.35 The ABS and DBCDE both advised that the importance of the accuracy of attendance records and the associated responsibilities of staff and managers will be reinforced. DBCDE also advised that, while it continues to use a manual attendance recording system, it will introduce quarterly internal audits of a sample of attendance records to verify the details of leave recorded against details in its HRMIS. The results of these audits will be reported to its Executive Management Group and will also be discussed at fortnightly SES meetings. DBCDE further advised that when it upgrades or introduces a new HRMIS, the costs and benefits of including a time-recording function will be assessed.

Conclusion

3.36 Each of the audited organisations had implemented systems enabling the on-line processing of annual leave applications and had developed controls to minimise the risks associated with the processing of annual leave applications. Overall, the ANAO's examination indicated that controls were generally operating as intended, although around 20 per cent of the annual leave applications examined were approved in ESS systems after employees had commenced annual leave. Organisations should reinforce with employees and managers the importance of applications for annual leave being approved in a timely manner. To reduce the risks that staff may access leave to which they are not entitled, organisations need to routinely monitor the timely approval of leave applications in their leave processing systems.

4. Monitoring and Reporting of Annual Leave

This chapter addresses the approaches used by the audited organisations for monitoring and reporting annual leave balances and leave-related information.

Introduction

4.1 The effective management of annual leave requires leave entitlements to be regularly monitored and reported. As a minimum, information on annual leave balances should be reported to employees and line managers. Senior management should also be provided with annual leave-related information, such as the details of excess leave balances and the value of annual leave liabilities.

4.2 The ANAO assessed the arrangements put in place by the audited organisations to monitor and report annual leave-related information. In assessing the audited organisations' practices, the ANAO examined the extent to which they had implemented recommendation No.7 from Audit Report No.16 2005–06. Recommendation No.7 is outlined in paragraph 4.4.

Monitoring and reporting annual leave-related information

4.3 The regular monitoring and reporting of annual leave entitlement information will assist organisations to address the financial risks and attendant occupational health and safety issues, associated with their staff's annual leave entitlements.

Findings of the previous audit

4.4 The ANAO's 2005 Audit Report found that five of the six organisations monitored leave information. However, the extent of this monitoring varied, with some organisations only monitoring excess leave balances once a year. Generally, line managers were provided with information to assist them in managing the leave entitlements of staff members. However, in one organisation the ANAO found that some managers did not know how to access leave information in their ESS system, limiting their effectiveness in monitoring leave balances. The previous audit recommended:

Recommendation No.7: The ANAO **recommends** that organisations:

- monitor excess leave balances on a regular basis and take appropriate follow-up action where required;
- provide line managers with sufficient leave information to assist in the proactive management of leave; and
- enhance existing management information reporting to senior management by including details, or a summary of, excess leave balances and leave liabilities.⁴⁰

Findings of the current audit

Monitoring excess leave balances and taking appropriate follow-up action

4.5 All three of the audited organisations had processes for monitoring the annual leave entitlements of staff, including the level of excess annual leave balances. The audit identified that the ATO and DBCDE routinely monitored their staff's annual leave balances prior to them reaching the maximum level of annual leave entitlements (set out in their respective employment agreements). In contrast, the ABS identified employees with excess annual leave balances once a year (as at 1 January) and then commenced action to reduce that balance to a maximum of 40 days by 1 June.

4.6 The ATO identifies employees with large annual leave balances (40 days or more) at regular intervals. These employees and their managers are notified (via automatically generated e-mails) to reduce those annual leave balances prior to those balances exceeding the maximum leave entitlement (60 days). If no action has been taken, employees are directed to take leave when their annual leave balance exceeds the maximum entitlement.

4.7 As mentioned in Chapter 2, the responsibility for managing staff with excess annual leave balances, or with the potential to accumulate excess balances, largely falls to individual line managers at DBCDE. Line managers may take a range of actions to reduce the excess leave balances of their staff, including directing those staff to take leave. At the time of the audit, details of the actions taken and the results achieved by line managers were not being captured centrally by DBCDE.

⁴⁰ ANAO Audit Report No.16 2005–06, op.cit., p. 40.

4.8 To support line managers DBCDE identified, each quarter, those staff with excess (greater than 53 days) and large (greater than 40 days) annual leave entitlements and provided these details (by e-mail) to relevant Division Heads for action.⁴¹ DBCDE subsequently advised that it has further refined this process. Since April 2009, for those staff identified with leave entitlements greater than 40 days:

- details are provided directly to the relevant line manager, who is required to discuss options for reducing the leave balance with the identified staff;
- line managers are required to confirm with the Human Resource (HR) area that they have discussed options for reducing their staff's leave balances. If they do not provide this confirmation, the HR area will issue a reminder (by e-mail); and
- in those instances where staff are identified in two consecutive quarterly reports, the matter is escalated by:
 - providing the relevant details to the staff member's Division Head; and
 - the Assistant Secretary, People Communications and Coordination discussing the issue with the relevant line manager.

4.9 At the ABS, managers and their employees with excess leave balances are advised, on or about, 1 January each year to reduce that balance. In the period leading up to the deeming date, ABS provides a number of reminders to staff outlining the deeming process and the actions that need to be taken prior to 1 June. Employees that have not reduced their leave balance below the maximum entitlement (that is, they have an excess leave balance) are deemed to be on annual leave from 1 June each year until the annual leave balance is reduced to the maximum entitlement.

4.10 The management of the annual leave entitlements of staff will be more timely and effective where organisations monitor and take appropriate action in relation to annual leave balances prior to those balances reaching the organisation's maximum entitlement. The ANAO suggests that the ABS

⁴¹ The Department advised the ANAO that it is investigating the feasibility of its HRMIS automatically sending emails to those staff that are approaching the maximum annual leave entitlement.

consider introducing more regular monitoring of annual leave balances, particularly as its current arrangement of deeming staff (that have accumulated excess leave balances) to be on annual leave will not be allowed in its next employment agreement. As previously noted in Chapter 1, the *State of the Service Report 2007-08* also indicated the importance of regularly monitoring relevant workforce measures, such as annual leave balances, to better understand employee workload levels and well-being.

Providing line managers with sufficient annual leave-related information

4.11 Line managers at each of the audited organisations had access, principally through the organisation's ESS system, to a range of information to assist in the management of annual leave entitlements. For example, in all three organisations, managers could view the annual leave balances of their staff via the organisation's ESS system. The ATO and DBCDE also had systems which allowed managers to develop customised annual leave reports. As mentioned, line managers at each of the audited organisations were provided with the details of staff with excess leave balances. In addition, at the ATO and DBCDE, line manager were also provided with the details of staff with potential excess leave balances.

Reporting annual leave-related information to senior management

4.12 The ATO and DBCDE regularly provided their senior management with reports containing annual leave-related information. Examples of the information provided included: data on the number and names of staff with potential and excess leave balances; annual leave usage data, and financial information on employee expenses and liabilities.

4.13 The ATO also provided its Executive with an annual Certificate of Assurance for Leave, reporting conformance with its leave obligations, and in particular, the management of leave entitlements. The most recent Certificate⁴² indicated that the ATO was meeting, to a high-degree, its obligations in relation to annual leave. Of particular relevance to this audit, the Certificate provided positive assurances on the ATO's processes to address unapproved leave applications; the accuracy of leave entitlement information, and the implementation and management of the direction to take leave provision included in its employment agreement.⁴³

⁴² At the time of the audit the most recent Certificate was dated March 2008.

⁴³ Refer to paragraph 2.9.

4.14 While the ABS advised that it routinely provides reports to senior management on unplanned leave-related issues, it does not provide reports containing annual leave-related information. The ANAO considers there would be benefit in the ABS introducing the regular reporting of such information. Useful information could include details of:

- annual leave usage;
- the implementation (and success or otherwise) of the arrangements for managing annual leave outlined in employment agreements;
- the number of staff with an excess (or excessive) annual leave balance; and
- the amounts of annual leave expenses and liabilities.

The ATO and DBCDE had fully implemented recommendation No.7 from the previous audit report, and the ABS had partially implemented the recommendation.

Conclusion

4.15 Each of the audited organisations had established processes for monitoring and reporting the annual leave entitlements of their staff. In particular, the ATO and DBCDE monitored annual leave balances prior to the maximum level of annual leave entitlements being reached. The ATO and DBCDE also regularly provided their senior management with reports containing annual leave-related information. The ANAO considers there would be benefit in the ABS introducing more routine monitoring of annual leave balances and regularly reporting annual leave-related information to its Executive.



Ian McPhee
Auditor-General

Canberra ACT

15 September 2009

Appendices

Appendix 1: Responses to the proposed audit report

This appendix contains comments received on the proposed audit report that are not shown in the body of the report.

Each of the organisations selected for the audit, together with the Australian Public Service Commission, was invited to comment on the proposed audit report in accordance with the provisions of section 19 of the *Auditor-General Act 1997*.

Organisations' responses to the recommendation have been included in the main body of the report under the subheading 'Organisations' responses' directly following the recommendation.

Other responses are reproduced below.

Australian Bureau of Statistics

Participation in this audit has been useful and will add value to our human resource management policies and practices, particularly as we move forward under a new certified agreement and the removal of existing deeming provisions. As noted in the report there are a number of HRMIS issues that prevent us from achieving a higher level of compliance with the previous recommendations, particularly monitoring and reporting. However, we are implementing, and will continue to implement, a number of changes to improve our current practices.

We agree with the recommendation in the report with qualification. Timely approval of leave applications and monitoring compliance is desirable, but at this moment in time our HRMIS capability to assist in this process is limited.

Australian Public Service Commission

Timely management of annual leave accruals is an important component of workforce planning and management. Agencies need to ensure effective leave management arrangements are in place for annual leave to be planned for in advance and not managed on a reactive basis, adversely impacting on the organisation's productivity or employee well-being.

The Commission provides better practice advice on leave management through the publications *Turned Up and Tuned In* and *Fostering an Attendance Culture*. Both discuss employee well-being and leave management providing managers

with some good tools to assist them to develop a healthy attendance culture in which taking annual leave is an important part.

Australian Taxation Office

The Tax Office recognises the importance of managing annual leave and ensuring that the current policies, controls and processes continue to be applied by managers and employees. We agree with the recommendation of the audit and will progress strategies to address the more timely approval of leave.

In order to implement the recommendation we will investigate appropriate mechanisms for monitoring the approval of leave applications. The most practical approach would be to regularly extract reports from our SAP system to compare annual leave start dates and SAP processed dates. We recognise, however, that this will not give us an entirely accurate picture as the report will not necessarily provide details of the actual date that leave was approved by the manager. Nevertheless, it will provide us with a good indication of the extent of the practice, allow us to observe trends over time, and determine whether there are any relevant issues that need to be addressed.

Since the commencement of the audit into the management and processing of annual leave, we have been actively reinforcing the message of the timely approval of leave through a number of channels. For example, the message has been incorporated in manager and team leader training in relation to the 2009 General Employees and Executive Level 2 Agency Agreements.

Department of Broadband, Communications and the Digital Economy

The Department is committed to the ongoing health and well-being of staff and encourages the regular use of planned leave. The Department is aware of the importance of ensuring flexibility for staff when taking their leave and enables staff to use their leave in a way that best suits both the Department's and their personal circumstances. The Department has in place systems and processes for the management of leave that:

- as required, are effective and efficient;
- are appropriate for an organisation of this size;
- maintain a low excess leave liability; and

- address all relevant recommendations from ANAO Audit Report No.16 2005–06, *The Management and Processing of Leave*.

In this report (paragraph 3.11) the ANAO suggests that the audited organisations could identify opportunities to reduce the amount of leave variations and corrections manually processed, if these transactions were routinely monitored and analysed.

While this may be applicable to the other organisations in the audit it is not the case for this Department. The reasons for manual processing and variations are understood well by the Department. Generally, the reasons relate to planned and unplanned leave adjustments required by staff who are already on planned or unplanned leave, and the entry of leave credits when staff transfer into the Department. The Department does not consider that there is scope to significantly reduce the number of leave related transactions that are manually processed.

Other additional measures to be implemented will include:

- reinforcing with staff and managers their responsibilities regarding the management of leave records (information campaign initiated in June 2009);
- a new 'attendance record' management and storage procedure;
- quarterly internal audits (commencing first quarter 2009–10) comprising a random sampling of:
 - attendance records and leave types recorded in the automated leave system; and
 - executive level staff to certify that their records in the automated leave system are correct.
- reporting of the above mentioned quarterly internal audit findings to the Department's Executive Management Group, beginning first quarter 2009–10.

Appendix 2: Summary of progress against the recommendations in ANAO Audit Report No.16 2005–06

Recommendation	Summary of Progress
Recommendation No.1 - The ANAO recommends that organisations fully implement the leave arrangements as outlined in their respective collective agreements	Fully implemented - ATO and DBCDE Partially implemented - ABS
Recommendation No.2 - The ANAO recommends that, where significant, organisations include the risks associated with the management and processing of leave in relevant risk management plans and fraud control plans	Fully implemented - ATO and DBCDE Partially implemented - ABS
Recommendation No.3 - The ANAO recommends that organisations develop clearly defined roles and responsibilities for line managers and the various work areas involved in the management of leave	Fully implemented - all organisations
Recommendation No.4 - The ANAO recommends that organisations conduct a formal risk assessment prior to implementation of an Employee Self-Service system	Not applicable as each of the organisations had implemented its ESS system prior to Audit Report No.16 2005–06.
Recommendation No.5 - The ANAO recommends that organisations introduce control measures to manage the number of un-actioned leave applications in their Employee Self-Service systems.	Fully implemented - all organisations
Recommendation No.6 - The ANAO recommends that where an organisation's collective agreement requires all staff to record attendance details, the organisation: <ul style="list-style-type: none"> • assess the risks of senior staff not recording attendance and, where relevant, periodically remind such staff of their responsibility to record their attendance; and • consider, in the context of the organisation's next collective agreement, whether existing attendance recording requirements, particularly for senior staff, remain appropriate. 	Fully implemented - ATO and DBCDE Not applicable - ABS

Recommendation	Summary of Progress
<p>Recommendation No.7 - The ANAO recommends that organisations:</p> <ul style="list-style-type: none"> • monitor excess leave balances on a regular basis and take appropriate follow-up action where required; • provide line managers with sufficient leave information to assist in the proactive management of leave; and • enhance existing management information reporting to senior management of human resources by including details, or a summary of, excess leave balances and leave liabilities 	<p>Fully implemented - ATO and DBCDE Partially implemented - ABS</p>

Source: ANAO, based on fieldwork at the audited organisations.

Appendix 3: Summary of differences between the *Fair Work Act 2009* (FW Act) and the former *Workplace Relations Act 1996* (WR Act) in relation to the cashing-out and taking of paid annual leave

Section 93(2)(a) of the FW Act requires that terms relating to the cashing-out of annual leave in an award or enterprise agreement must provide that employees retain a minimum entitlement of four weeks annual leave after cashing-out any of their leave entitlement. This requirement is different to the WR Act, which did not set a minimum remaining entitlement, but provided (in section 233(2)) that employees could only cash-out up to two weeks annual leave each year.

In relation to taking paid annual leave, section 93(3) of the FW Act provides that an award or enterprise agreement may include terms that require an employee, or enable an employer to direct an employee, to take paid annual leave in particular circumstances, but only if that requirement is reasonable. Section 93 of the FW Act does not define the circumstances when such a direction may be given. However, the FW Bill Explanatory Memorandum indicates that these circumstances may include the employer requiring an employee to take annual leave to reduce an excessive leave accrual or if the employer shuts down the workplace, for example over the Christmas/New Year period.

The Explanatory Memorandum also says that in assessing the reasonableness of a direction to take annual leave, the following considerations are likely to be relevant:

- the needs of both the employee and the employer;
- any agreed arrangement with the employee;
- the custom and practice in the business;
- the timing of the requirement or direction to take leave; and
- the reasonableness of the period of notice given to the employee to take leave.

This requirement is different to the WR Act, which stated that employees must take annual leave during a particular period if directed to do so by an employer in the following situations:

- the employer shuts down the business in which the employee works - Section 236(5); or
- the employee has an excessive annual leave credit (defined in the Act as more than 8 weeks for an employee working 38 hours per week) – Section 236(6).

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