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Audit Report No.16 2005-06
Performance Audit

The Management and Processing of Leave

Australian National Audit Office

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of Australia 2005

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Canberra ACT
17 November 2005

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*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *The Management and Processing of Leave*.

Following its presentation and receipt, 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'.

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. 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 Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:

The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: (02) 6203 7505

Fax: (02) 6203 7519

Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

Russell Coleman
Helen Hawken

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Abbreviations/Glossary

ANAO	Australian National Audit Office
AFP	Australian Federal Police
APS	Australian Public Service
ASC	Australian Sports Commission
AWA	Australian Workplace Agreement
CASA	Civil Aviation Safety Authority
Deeming	The term generally used to describe the process whereby employees are automatically 'deemed' to be on leave from a nominated date
DoCITA	Department of Communications, Information Technology and the Arts
ESS	Employee Self-Service
FaCS	Department of Family and Community Services
FMA Act	<i>Financial Management and Accountability Act 1997</i>
HRMIS	Human Resource Management Information System
LSL	Long Service Leave
LSL Act	<i>Long Service Leave (Commonwealth Employees) Act 1976</i>
PS	Australian Protective Service
WR Act	<i>Workplace Relations Act 1996</i>

Summary and Recommendations

Summary

Introduction

1. The introduction of accrual accounting has required entities to focus on the full costs of their operations. Amongst other things, it has meant that each entity is responsible for capturing, managing and reporting all relevant assets and liabilities, including liabilities relating to employee leave and other entitlements. In aggregate, the liabilities for employee leave and other entitlements for Australian Government entities as at 30 June 2004 was approximately \$6 billion. These liabilities relate primarily to entitlements for annual leave and long service leave. In addition to the significant costs involved, the effective management of leave has a direct bearing on the well-being and productivity of individual employees. It is therefore important that leave is managed at both a strategic and operational level as an integral part of entities' human resource management strategies.

2. The industrial relations changes brought about by the introduction of the *Workplace Relations Act 1996* (the WR Act), provided, amongst other things, entities with the authority to negotiate with staff or their representatives, a wide range of terms and conditions of employment, including annual leave arrangements. These conditions are reflected in entities' certified agreements and individual Australian Workplace Agreements (AWAs). This has enabled entities to put in place a range of leave arrangements tailored to their particular business and workforce environment and allowed them to more effectively manage the costs associated with leave entitlements. For example, many entities have taken the opportunity to rationalise the number of different categories of leave and to reduce the amount of leave that can be accumulated, and as a result, have reduced administration costs and leave liabilities.

Audit scope and objectives

3. The audit was conducted at the:
- Australian Federal Police (AFP) and the Australian Protective Service (PS);¹
 - Australian Sports Commission (ASC);
 - Department of Communications, Information Technology and the Arts (DoCITA);

¹ The AFP and Australian Protective Service (PS) were amalgamated on 1 July 2004. At the time of audit, the terms and conditions of employees of PS were contained in a separate certified agreement and AFP and PS had separate systems for the recording and processing of leave. Therefore, for the purposes of the audit, the AFP and PS have been identified as separate entities.

- Department of Family and Community Services (FaCS); and
 - Civil Aviation Safety Authority (CASA).
4. The objectives of the audit were to:
- determine whether entities had established appropriate arrangements in relation to the management of annual leave² and had effective internal controls over leave processing;
 - assess whether leave had been managed in accordance with the requirements of the respective entity's certified agreement; and
 - identify sound and better practices in the management and processing of leave.

Overall audit conclusion

5. Although all entities had in place leave arrangements in their respective certified agreements that, to varying degrees, enable the entities to manage their leave liabilities, five entities were not managing their leave entitlements in accordance with the arrangements outlined in their certified agreement. This situation contributed to annual leave liabilities increasing by approximately 18 per cent over the last three years, and meant that leave liabilities generally were higher than if the leave arrangements had been fully implemented.

6. The audit found that entities could improve their management of the risks associated with the managing and processing of leave. Not all entities had included these risks in operational risk management or fraud control plans, and those entities that had introduced an Employee Self-Service (ESS) system had not undertaken a risk assessment as part of its implementation.

7. The audit identified that, generally, entities' practices for the day-to-day management and processing of leave were adequate. Areas identified where improvements could be made in a number of entities were:

- adopting a proactive approach to managing leave for staff with high leave balances;
- more actively managing the number of unactioned leave applications recorded in their ESS systems;
- better articulating the roles and responsibilities of each of the work areas responsible for leave arrangements; and

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

- improved reporting and monitoring of leave information to senior management.

8. The audit found that differing arrangements existed for the recording of attendance by staff and, by extension, the recording of leave taken. In those entities that required attendance to be recorded, this requirement was met by staff up to the Australian Public Service (APS) 6 level, or equivalent, completing flex time records. The audit found that, generally, executive level³ staff did not record details of their attendance. The Australian National Audit Office (ANAO) testing of flex time records generally confirmed that details of leave recorded in these records had been recorded in entities' Human Resource Management Information Systems (HRMIS). Where attendance was not recorded, it was not possible to confirm that all leave taken had been accurately recorded in entities' HRMIS.

Key findings

9. The audit found that the certified agreements of each of the six entities contained leave arrangements that, to varying degrees, enabled each entity to manage their leave liabilities. Most of these arrangements had evolved over the last six to seven years, being the period that entities have been able to determine, with some exceptions, their own terms and conditions of employment in the context of their individual certified agreements.

10. The degree of flexibility and management discretion in allowing staff to accumulate annual leave balances varied between entities. The intent of each of the certified agreement arrangements is to require, or at least encourage, staff to utilise their annual leave entitlements, and therefore not to accumulate excessive leave balances, although entities had adopted different arrangements and different approaches to achieving this objective. For example, in one entity, the maximum annual leave entitlement was 30 days but senior management had the discretion to allow staff to accumulate leave beyond this limit to accommodate operational requirements. In another entity the maximum leave balance was 60 days and its HRMIS was configured so that no leave was credited to individual staff members in excess of this limit.

11. Only one entity had policies and practices in place that ensured full adherence to their certified agreement arrangements. This resulted in approximately five to eighteen per cent of staff in the entities audited with accumulated excess leave balances. It also resulted in a corresponding increase in leave liabilities.

³ This term is used to describe the cohort of employees with the APS designation of Executive Level staff or equivalent.

12. Most entities had not included the risks associated with the management and processing of leave, including for example, the failure to lodge leave applications for all leave taken, into relevant operational risk plans or their fraud control plans. While the majority of the audited entities had in place a risk management framework that included a fraud control plan, the ANAO considers that it is important that risks associated with leave, to the extent they are significant, be included in entities' operational risk management documents and fraud control plans.

13. The majority of entities had policies and procedures that covered the management and processing of leave. However, the audit identified that not all entities had clearly articulated the roles and responsibilities of the various work areas involved in the management and processing of leave. In some of the entities, responsibility for managing and processing of leave was shared between a number of work areas such as human resources, finance and information technology, and the respective responsibilities of each area were not always clear.

14. None of the entities that had introduced an ESS system had undertaken a formal risk assessment as an integral part of its implementation. Additionally, not all the risks associated with the implementation of such a system had been identified and controls implemented to effectively manage the risks involved. The audit identified that four of the six entities had introduced an ESS system that, amongst other things, provided the facility for leave to be applied for and approved on-line. Significantly, however, the audit found that the majority of the entities had not been alert to the risk of unactioned leave applications remaining undetected in their ESS. The ANAO identified that in a number of entities there were significant numbers of leave requests within their ESSs that had not been actioned. This situation meant that in many instances leave had been taken that was not electronically approved, and also resulted in leave liabilities being overstated, as leave entitlements had not been reduced at the time leave was taken.

15. The audit also found that, generally, leave had been approved by appropriate delegates. One entity, however, did not have in place delegations covering long service leave or adoption leave and, as a result, all leave of this type that had been taken over a period of approximately three years, had not been properly approved.

16. The audit found that differing arrangements existed for the recording of attendance by staff. In those entities that required attendance to be recorded, this requirement was met by staff up to the APS 6 level, or equivalent, completing flex time records. The audit also found that, generally, executive level staff did not record details of their attendance. ANAO testing of flex time records confirmed that, generally, leave taken had been recorded in entities'

HRMIS. Where attendance was not recorded, it was not possible to confirm that all leave taken had been accurately recorded in entities' HRMIS.

Entities' responses

17. All entities responded positively to the report. The audited entities agreed with the recommendations, or in the case of one recommendation, one entity 'agreed with qualification' and, in the case of two recommendations, one entity 'noted' the recommendations.

18. Specific comments provided by entities in relation to a number of recommendations have been included in the body of the report. No further general comments on the report were provided.

Recommendations

The recommendations are based on the findings from the audited entities. The ANAO considers that a number are likely to be relevant to all Australian Government entities. Recommendation 5 relates to entities with an Employee Self-Service system and Recommendation 6 relates to entities whose certified agreements require all staff to record details of attendance.

Recommendation No.1
Para 2.21 The ANAO recommends that entities fully implement the leave arrangements as outlined in their respective certified agreements.

Recommendation No.2
Para 2.26 The ANAO recommends that, where significant, entities include the risks associated with the management and processing of leave in relevant risk management plans and fraud control plans.

Recommendation No.3
Para 2.32 The ANAO recommends that entities develop clearly defined roles and responsibilities for line managers and the various work areas involved in the management of leave.

Recommendation No.4
Para 3.6 The ANAO recommends that entities conduct a formal risk assessment prior to implementation of an Employee Self-Service system.

Recommendation No.5
Para 3.8 The ANAO recommends that entities introduce control measures to manage the number of unactioned leave applications in their Employee Self-Service systems.

Recommendation No.6
Para 3.15 The ANAO recommends that where an entity's certified agreement requires all staff to record attendance details, entities:

- 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 entity's next certified agreement, whether existing attendance recording requirements, particularly for senior staff, remain appropriate.

Recommendation No.7
Para 4.7 The ANAO recommends that entities:

- 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.

Audit Findings and Conclusions

1. Introduction

This chapter provides background information about Business Support Process audits, and details of the objective and scope of this audit.

Background to business support process audits

1.1 This audit is part of a program of Business Support Process audits that examine business processes which support the delivery of services provided by public sector entities. They are normally conducted at a selection of organisations, under the provisions of section 18 of the *Auditor-General Act 1997* that provides for the examination of a particular aspect of the operations of the whole or part of the Australian Government sector. As the audit recommendations are framed to have general applications, the audit findings are reported to Parliament in generic terms, without being attributed to particular entities. Where appropriate, references to sound and better practices have been included in this report. In addition to this report, an individual report was provided to each of the entities examined in the audit.

Context of this audit

1.2 Employee expenses represent a significant cost to most if not all Australian Government entities. If not effectively managed entities are exposed to increasing costs associated with accruing leave entitlements. To achieve this, entities need to have in place adequate internal controls to capture, process, review and monitor staff attendance and the entitlements agreed between the entity and staff or their representatives.

Previous reviews

1.3 The Australian National Audit Office (ANAO) has not previously conducted an audit that specifically covered the management and processing of leave, particularly annual leave. Previous ANAO cross-entity audits with broad relevance to this audit include *Absence Management in the Australian Public Service*,⁴ and *Payroll Management*.⁵

1.4 Each year, the ANAO produces a report summarising the audit of control structures as part of the audit of the financial statements of major Australian Government entities.⁶ The 30 June 2004 report⁷ identified that some

⁴ ANAO Audit Report No.52, 2002–2003.

⁵ ANAO Audit Report No.19, 2001–2002.

⁶ The title of this report changed in 2004–2005 to *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*.

⁷ *Control Structures as part of the Audit of Financial Statements of Major Australian Government Entities for the Year Ending 30 June 2004*, Audit Report No.58 2003-04.

entities had weaknesses in the controls surrounding the recording and processing of leave. As a result, there was a potential for leave to be taken, but not recorded, resulting in extra entitlements being available to staff, to which they are not legally entitled.

Audit objectives

1.5 The objectives of the audit were to:

- determine whether entities had established appropriate arrangements in relation to the management of annual leave and had effective internal controls over leave processing;
- assess whether leave had been managed in accordance with the requirements of the respective entity's certified agreement; and
- identify sound and better practices in the management and processing of leave.

Audit scope and focus

1.6 The following entities participated in the audit:

- Australian Federal Police (AFP) and the Australian Protective Service (PS);⁸
- Australian Sports Commission (ASC);
- Department of Communications, Information Technology and the Arts (DoCITA);
- Department of Family and Community Services (FaCS) and
- Civil Aviation Safety Authority (CASA).

1.7 At each of the selected entities the audit focussed on the arrangements for annual leave and the controls over the processing of various leave types including annual, personal⁹ and long service leave.

⁸ The AFP and Australian Protective Service (PS) were amalgamated on 1 July 2004. At the time of audit, the terms and conditions of employees of PS were contained in a separate certified agreement and AFP and PS had separate systems for the recording and processing of leave. Therefore, for the purposes of the audit, the AFP and PS have been identified as separate entities.

⁹ For the purposes of this audit 'personal leave' is used to describe the entitlement to leave for unplanned purposes, for example, sick leave. The types of leave included in personal leave varied from entity to entity. For example, some entities included bereavement/emergency leave in personal leave while other entities had separate leave types for each category of leave. Entities may refer to personal leave using another term, such as, unplanned leave or sick leave.

1.8 The audit was undertaken during the period February to November 2005 in accordance with the ANAO Auditing Standards, at an approximate cost of \$258 100.

Audit criteria

1.9 The management and processing of leave in each of the selected entities was assessed against audit criteria based on three elements of the internal control framework, as outlined in the ANAO's Better Practice Guide, *Controlling Performance and Outcomes*.

1.10 In summary, the audit criteria were:

- *Control environment*—Appropriate annual leave arrangements, risk assessments, policies and procedures, delegations and suitably trained staff, are in place to enable effective management and processing of leave.
- *Control activities*—Systems and processes have been established to ensure that leave applications are processed accurately and completely and in a timely manner, in accordance with internal policies and procedures; and
- *Monitoring and review processes*—Details of leave taken and leave entitlement information is regularly communicated, or is readily available, to managers and the extent and type of leave liability is measured, monitored and reported to the Executive.

Report structure

1.11 The remainder of this report is structured into three chapters. Chapter 2 discusses leave management issues, Chapter 3 addresses the processing of leave and Chapter 4 examines the monitoring and reporting of leave entitlements.

2. Managing Leave

This chapter provides an overview of the legislative environment surrounding annual and long service leave, and discusses issues arising from the audit findings relevant to the management of annual leave within the audited entities.

Introduction

Workplace Relations Act 1996

2.1 The *Workplace Relations Act 1996* (the WR Act) provides the legislative framework within which entities manage their workplace relations responsibilities. Amongst other things, the WR Act permitted the devolution of responsibility for workplace relations to the entity level. As a consequence, for some years, employment conditions have been primarily determined through the certified agreement making process. Entities can also develop Australian Workplace Agreements (AWAs) with individual staff members. Certified agreements and AWAs enable entities to determine a broad range of terms and conditions of employment, including leave arrangements, that are tailored to their particular business and workforce environments.

Annual leave

2.2 Annual Leave is a common employment benefit that entitles employees to a paid break from their employment each year. One of the reasons for annual leave is to allow employees to rest and recuperate in order to remain fully productive. The accumulation of annual leave balances resulting from continuous attendance at work over an extended period may not provide the necessary rest and recuperation, resulting in possible health implications for the employee.

Long service leave

2.3 The key criteria in determining eligibility for long service leave (LSL) is the length of an employee's continuous service of employment. APS employees are entitled to long service leave in accordance with the provisions of the *Long Service Leave (Commonwealth Employees) Act 1976* (LSL Act) and associated *Long Service Leave (Commonwealth Employees) Regulations*. As this legislation governs all aspects of LSL for Australian Government employees, certified agreements and AWAs cannot override or vary LSL entitlements and related arrangements set out in the legislation.

2.4 The ANAO is aware that several Australian States have LSL legislation that allows some flexibility in the application of LSL.

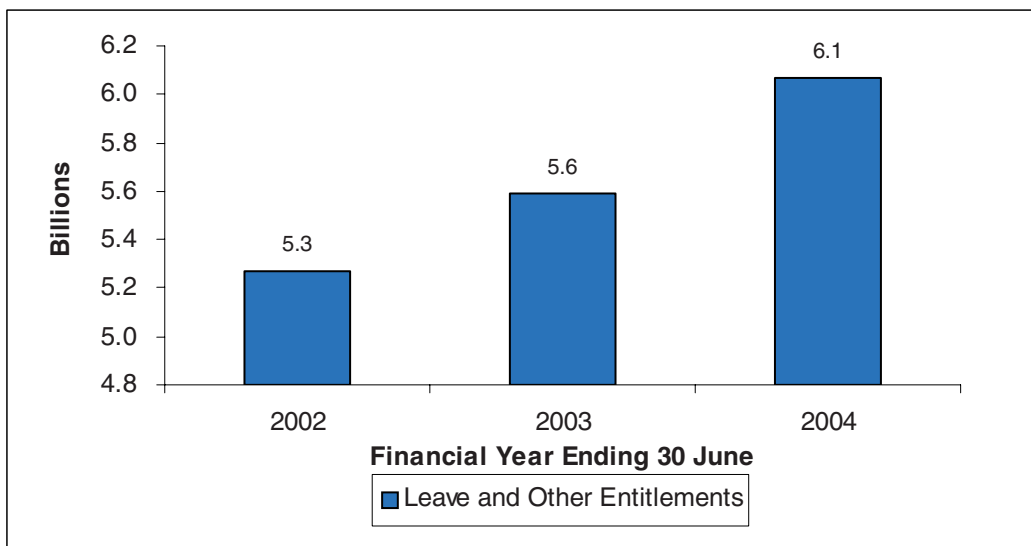
Leave liabilities

2.5 Employee benefit liabilities, including those relating to annual and LSL entitlements, are required to be reported in entities' annual financial statements each year.

2.6 The provision for employee leave and other entitlements for the Australian Government as at 30 June 2004, was approximately \$6 billion.¹⁰ Figure 2.1 shows the Australian Government aggregate leave provisions for the financial years 2002 to 2004. During this period aggregate leave liabilities for the Australian Government have increased by approximately 15.1 per cent.

Figure 2.1

Australian government aggregate leave provisions



Source: Consolidated Financial Statements for the Years Ending 30 June 2002, 2003 and 2004.

2.7 There are a number of reasons that contribute to the increasing value of entities' accrued leave liability including:

- increases in salaries and work classifications over time;
- work pressures and/or staff shortages that prevent staff taking leave;
- staff who are reluctant to take leave particularly during periods of heavy work loads, for example, during important projects;
- staff viewing outstanding leave balances, particularly long service leave, as a supplement to superannuation; and

¹⁰ Consolidated Financial Statements for the Year Ended 30 June 2004.

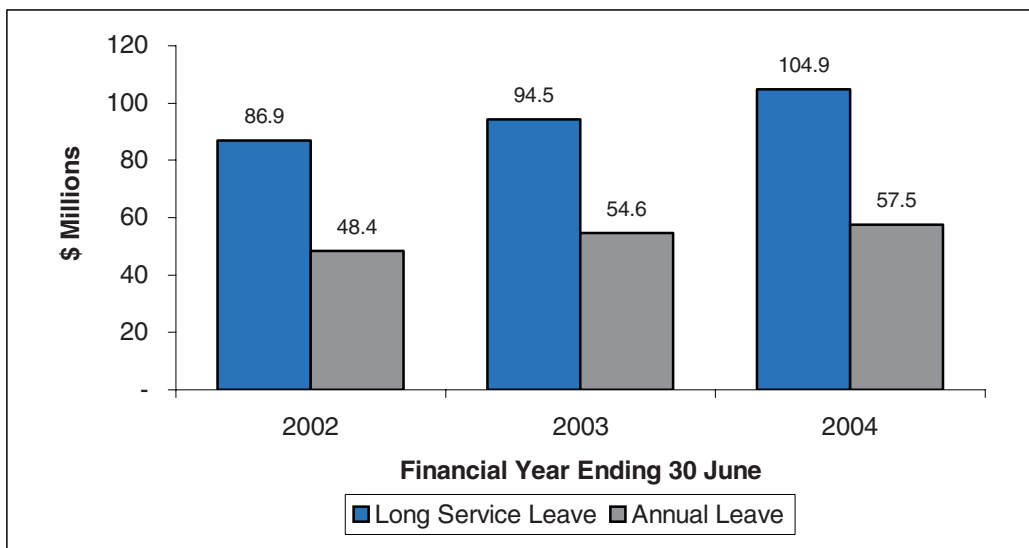
- concerns over job security that result in staff choosing to accumulate as much leave as possible; this applies particularly to long service leave.

2.8 Figure 2.2 shows the audited entities' leave liabilities for long service leave and annual leave. The audited entities' long service leave liability increased by 20.6 per cent during the period 2002 to 2004, while the annual leave liability increased by 18.8 per cent over the same period.

2.9 As can be seen from Figure 2.2, the dollar value of both the long service and annual leave liabilities for the six audited entities is substantial and, in aggregate, amounts to approximately \$105 million and \$57.5 million respectively in 2004.

Figure 2.2

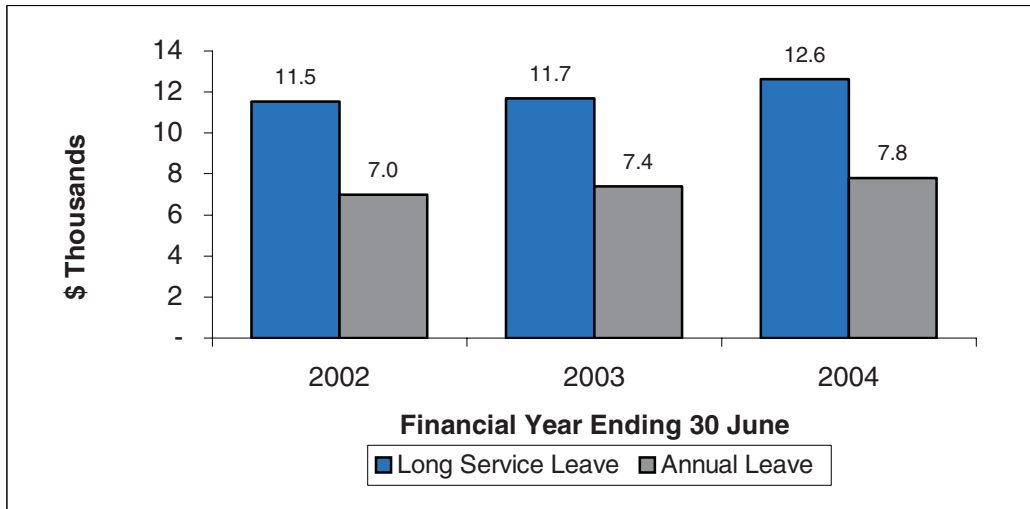
Audited entities' total leave liability



Source: Respective entity Financial Statements for the Years Ending 30 June 2002 to 2004.

2.10 Figure 2.3 shows the aggregate average leave liability per staff member,¹¹ for the six audited entities over the period 2002 to 2004. During this time there was an increase in the average long service leave and annual leave liability per staff member of 9.3 per cent and 11.6 per cent respectively.

¹¹ The number of employees in each entity is based on ongoing employees (full time and part time only) in all entities except one where this information was not provided in the financial statements. In this entity the total number of employees has been used.

Figure 2.3**Average leave liability per staff member**

Source: ANAO analysis.

2.11 Increasing leave liabilities have two main implications for entities. Firstly, there is a direct cost that crystallises when an employee leaves the public service and receives payment of their outstanding leave entitlement. If an entity's budget position is tight and has a large number of employees nearing retirement, cash flow difficulties may arise if the entity is faced with the need to make large payments for accrued leave. Secondly, if employees are not encouraged to take leave, and work uninterrupted for long periods, the productivity of staff may be adversely impaired.

Certified agreement arrangements

2.12 The certified agreement of each audited entity included provisions that outlined employee leave entitlements and associated arrangements. These arrangements had evolved over time, and were all intended to require, or at least encourage, staff to take their annual leave entitlements and not to accumulate large leave balances. Examples of various leave provisions contained in entity certified agreements are set out in Table 2.1.

Table 2.1

Annual leave provisions within audited entities' certified agreements

Annual Leave Provisions	
Maximum Entitlement of Annual Leave	<ul style="list-style-type: none"> ● No entitlement to annual leave in excess of a 60 day leave balance; ● Annual leave balances in excess of 30 days to be approved by the General Manager; and ● Where employment ceases, staff will be entitled to payment in lieu of their outstanding annual leave, to a maximum of 53 days.
Cashing out or Sale of Annual Leave	<ul style="list-style-type: none"> ● Option to cash out annual leave in blocks of 40 hours until a minimum specified balance is reached. ● Option to cash out one or two weeks annual leave once in each calendar year, provided that a minimum of three or two weeks annual leave respectively, has already been taken or committed to be taken in that calendar year. ● Option to sell, in advance, up to 80 hours from the staff members forthcoming leave credit. Staff electing to sell annual leave must ensure that a specified minimum balance of annual leave remains following the sale.
Purchase of Annual Leave	Option to purchase additional annual leave. In some entities this option is not open to staff with excess annual leave until the excess leave has been used.
Transfer of Annual Leave	Staff may transfer annual leave to an immediate family member who is an employee of the same organisation and whose salary composite is the same or lower than the transferring employee. An application to transfer annual leave will not be approved where the staff member transferring the leave has not taken 20 days annual leave in the past 12 months.

Source: Respective entity certified agreements.

2.13 The audit identified that entities had, in the context of determining their terms and conditions of employment, established leave arrangements that generally limit the number of days a staff member can accumulate annual leave. The audit also found that the degree of flexibility and management discretion in allowing staff to accumulate leave balances varied between entities. These arrangements generally provided a reasonable basis for entities to manage the financial implications, as well as the occupational health and safety implications of annual leave entitlements.

2.14 In contrast, because the LSL Act currently regulates all aspects of LSL for Australian Government employees, there are limited options available to entities to actively manage the cost of LSL. For example, the LSL Act provides for LSL to be taken as leave during employment, and for payment in lieu of long service leave when an employee ceases to be an employee of the APS. The

LSL Act also makes no provision for cashing out of long service leave entitlements by employees during their employment by the APS.¹² As a result, the cost of LSL to individual entities, and the Australian Government as a whole, continues to increase. As illustrated in Figure 2.2, in the three years 2002 to 2004, LSL liabilities for the audited entities had increased 20.6 per cent.¹³ The ANAO found that only one entity separately reported to senior management their LSL liabilities, and none had in place arrangements designed to encourage, to the extent possible, staff to take their LSL entitlements.

2.15 The ANAO acknowledges the limitations imposed by the LSL Act. However, given the increasing costs associated with LSL, compounded by an ageing workforce, the ANAO considers that entities should explore, within the context of their broader human resource strategies, opportunities to more actively manage their LSL liabilities by, for example, encouraging its utilisation. As a minimum, entities should include details of these financial liabilities in human resource reports to senior management.

Deeming arrangements

2.16 Table 2.2 provides a summary of each of the audited entities' annual leave arrangements.

¹² Senate Rural and Regional Affairs and Transport Legislation Committee, *Answers to Questions on Notice*, Department of Transport and Regional Services, Consideration of Senate Budget Estimates, May 2005.

¹³ This increase could be attributable to a number of factors including increases in salaries, staff numbers and individual LSL balances.

Table 2.2**Annual leave arrangements**

Entity	Annual Leave Entitlement	Maximum Annual Leave Balance ¹⁴	Deeming Provision	Cashing Out Option
FaCS	20 days	60 days	Yes	No
DoCITA	20 days	53 days	No ¹⁵	No
CASA	20 days	40 days	Yes	No
AFP	30 days ¹⁶	30 days ¹⁷	Yes	No ¹⁸
PS ¹⁹	25 days ²⁰	75 days ²¹	Yes	Yes
ASC	20 days	60 days	Yes	Yes

Source: Entity certified agreements in place at the time of the audit.

2.17 The ANAO found that four of the five entities that had deeming provisions, in their respective certified agreements, were not enforcing these provisions.

2.18 In five out of six entities, the ANAO identified annual leave balances for some staff that were in excess of the maximum allowable balance. The number of staff with excess leave balances within each of the five entities is highlighted in Table 2.3.

¹⁴ Each entity's certified agreement stated a maximum leave balance that an employee was either required, or encouraged, to keep within.

¹⁵ When an employee ceases employment with the entity, the entity will only pay out a maximum of 53 days.

¹⁶ In addition to standard annual leave, employees will accrue a further five days leave per annum on the basis of one day for two months worked.

¹⁷ Leave accruals in excess of 30 days must be approved by the General Manager and the maximum amount of annual leave that can be accrued is 40 days.

¹⁸ This entity allows for the sale, transfer and purchasing of annual leave.

¹⁹ The AFP and Australian Protective Service (PS) were amalgamated on 1 July 2004. At the time of audit, the terms and conditions of employees of PS were contained in a separate certified agreement and AFP and PS had separate systems for the recording and processing of leave. Therefore, for the purposes of the audit, the AFP and PS have been identified as separate entities.

²⁰ Some employees are entitled to six weeks annual leave.

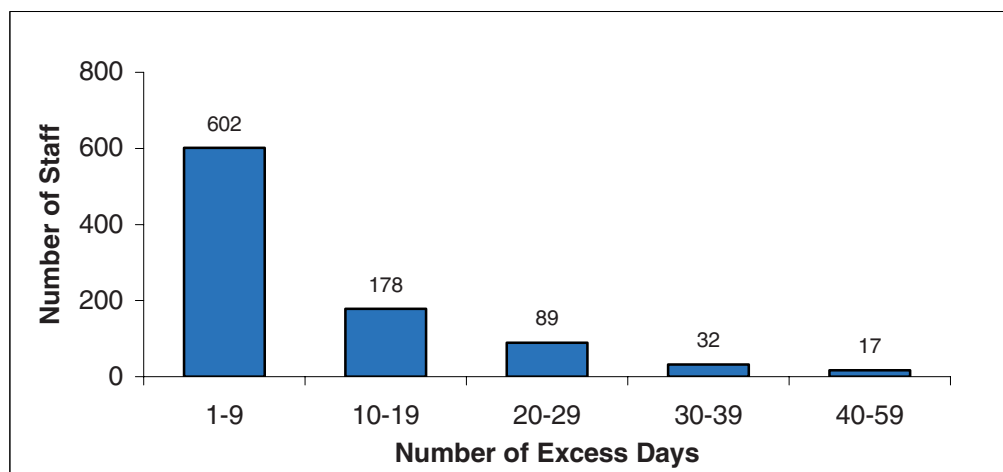
²¹ AFP PSO certified agreement. The maximum balance varies depending on the employee's classification.

Table 2.3**Excess annual leave balances for entities with a maximum allowable annual leave balance²²**

	Entity 1	Entity 2	Entity 3	Entity 4	Entity 5
Number of staff with excess annual leave balances	92	54	80	613	79
Percentage of staff with excess annual leave balances²³	4.9%	7.8%	11.4%	17.6%	5.9%

Source: ANAO analysis.

2.19 Figure 2.4 provides a breakdown of the excess leave balances across the five audited entities. Excess balances have been calculated based on certified agreement provisions.

Figure 2.4**Total number of excess annual leave days for audited entities²⁴**

Source: ANAO analysis.

2.20 The ANAO considers that to realise the full benefits of their respective certified agreements, entities should ensure full adherence to their certified agreement annual leave arrangements. In particular, where entities have deeming arrangements specified in their certified agreement, the ANAO considers that implementation of these arrangements will assist entities in

²² One entity enforced their maximum allowable annual leave balance and as a result did not have any excess leave balances.

²³ Based on the number of total employees as at 30 June 2004 (both ongoing and non-ongoing) in each entity.

²⁴ The excess has been calculated based on individual certified agreement provisions.

minimising excess leave balances and, in turn, better manage their annual leave liabilities.

Recommendation No.1

2.21 The ANAO recommends that entities fully implement the leave arrangements as outlined in their respective certified agreements.

Entities' responses

2.22 All entities agreed with the recommendation. Specific comments provided were:

Department of Family and Community Services

Agreed. In conjunction with the FaCS certified agreement currently under negotiation, the roles and responsibilities of both staff and managers in relation to leave will be clarified in guidelines designed to ensure the provisions are appropriately implemented. In particular, clear mechanisms for deeming arrangements will be put into place, as well as a cap on recreation leave accrual.

Risk management

2.23 A risk assessment is an integral part of an entity's control framework as it provides a structured basis for designing and implementing appropriate controls. Risk assessments are normally conducted at an organisational level and an operational or process level. In addition, fraud risks associated with leave should be incorporated into entities' fraud control plans.

2.24 Risks relating to the management and processing of leave that should be considered by entities in the development of a work area risk management plan include such issues as:

- a disruption to the service 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;
- personal leave, particularly unplanned leave, not being recorded and/or processed, resulting in an overstatement of leave balances and leave liabilities; and
- the escalating costs of leave liabilities, including long service leave.

2.25 The ANAO found that most entities 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.

Recommendation No.2

2.26 The ANAO recommends that, where significant, entities include the risks associated with the management and processing of leave in relevant risk management plans and fraud control plans.

Entities' responses

2.27 All entities agreed with the recommendation. Specific comments provided were:

Department of Family and Community Services

Agreed. FaCS acknowledges the need to ensure that appropriate account is taken of the risks associated with leave management. The department's 2005–2007 Fraud Control Plan includes a recommendation on leave recording, and FaCS will also ensure these issues are addressed within relevant risk management plans.

Other control issues

Policies and procedures

2.28 Two of the six entities did not have documented policies and procedures relating to the management of leave. The ANAO considers that to assist staff to understand their leave entitlements and employment conditions, as well as to better provide support for managers and delegates in the effective management of all forms of leave, entities should have in place a set of guidelines, policies and/or procedures that supports the entities' certified agreement.

2.29 The ANAO identified one entity where the electronic guidance regarding leave processing constituted sound and better practice as it provided comprehensive information to all staff, including supervisors and delegates, regarding the submission of leave applications.

Roles and responsibilities

2.30 The ANAO identified two entities that had not developed clearly articulated roles and responsibilities incorporating the Human Resources area with other work areas involved in the management and processing of leave such as Finance and Information Technology. The ANAO considers that without clearly defining the responsibilities of each work area, uncertainty

within the respective work areas regarding responsibilities may arise. For example, clearly defined work area roles and responsibilities will assist in identifying which section is responsible for periodically producing an unactioned leave report, developing the practices and procedures that give effect to the certified agreement leave arrangements, addressing systems issues with the ESS and for reporting the financial liabilities of annual and long service leave.

2.31 In most entities, responsibility for managing leave arrangements had been devolved to line managers. In some cases, however, their responsibilities were not adequately defined and they were not provided with regular details of leave balances of staff for whom they were responsible.

Recommendation No.3

2.32 The ANAO recommends that entities develop clearly defined roles and responsibilities for line managers and the various work areas involved in the management of leave.

Entities' responses

2.33 All entities agreed with the recommendation. Specific comments provided were:

Department of Family and Community Services

Agreed. Guidelines have been prepared in conjunction with the certified agreement currently under negotiation to clarify the roles and responsibilities of both staff and managers in relation to leave. While the roles of the areas concerned in the management of leave are understood by the staff involved, FaCS accepts that they are not formally documented, or clearly promulgated across the department. Discussions have commenced to address this and ensure clear ownership for the entire process.

Delegations

2.34 The ANAO found that in all entities, except one, leave had generally been approved by the appropriate delegate. In one entity the ANAO found there were no delegations for LSL and adoption leave. The ANAO sought legal advice regarding the legal and/or financial implications, under the *LSL Act* and the *Financial Management and Accountability Act 1997* (FMA Act), of unauthorised leave due to the absence of delegations. The ANAO was advised that in instances where leave had been approved by an unauthorised person, that no breach of either the LSL Act, or the FMA Act and Regulations had

occurred.²⁵ Nevertheless, sound administration dictates that appropriate delegations are in place and that they are exercised appropriately. In the situation referred to above, all LSL and adoption leave had not been properly approved for a period of at least three years. The ANAO considered that in order to regularise the situation, consideration should be given to appropriately ratifying all instances of leave that have been taken but not properly approved for the period concerned. The entity concerned advised that it was currently reviewing delegations and will put into place a new instrument of delegation as soon as practicable.

²⁵ The legal advice reviewed states that in respect of the LSL Act, the Act only imposes duties on the 'approving authority'. Accordingly an unauthorised person who purports to grant leave under the Act has not breached the Act, although any purported grant of leave would be ineffective. In respect of the FMA Act and Regulations, the advice stated that the relevant provisions of this legislation is primarily concerned with the expenditure of public money. The advice indicated that it was very unlikely that a person who, without authorisation, purports to approve leave would also purport to approve a proposal to spend public money. Further, the power to approve a proposal to spend public money is separate and distinguishable from a power to approve leave.

3. Leave Processing

This chapter examines issues concerning the processing of leave applications for annual, personal and long service leave by the audited entities.

Introduction

3.1 Control activities comprise a set of specific controls that minimise the impact of risks and contribute to the efficient and effective delivery of quality outputs and outcomes. The audit included a review of controls over the processing of leave in each of the audited entities, and in particular testing of a sample of leave records and attendance records.

Processing arrangements

Employee self-service systems

3.2 Four of the entities audited had introduced an Employee Self-Service system that, amongst other things, allowed for the online application and approval of leave. At the time of the audit a fifth entity was in the process of introducing an ESS.

3.3 The audit found that there are a number of advantages of an ESS, such as the streamlining of processing arrangements and the reduction in the risk that a leave request may not be recorded in the Human Resource Management Information System. However, there were other potential disadvantages that most entities had not fully considered. The following common issues were identified.

- Long delays occurred in delegates approving leave applications. In each of the four entities that utilised an ESS, the ANAO identified numerous leave requests that had remained unactioned at the time of the audit. None of the four entities concerned had established controls to manage the risks associated with leave not being approved in a timely manner. The ANAO identified that one of the reasons for lengthy delays in delegates approving leave was due to a lack of line manager training. This often resulted in leave being taken prior to it being approved. Failure to approve leave also meant that annual leave liabilities were overstated at the time of the audit. Table 3.1 shows the number of unactioned applications, and the percentage of total staff with unactioned leave applications within entities that utilised an ESS.²⁶

²⁶ The ANAO allowed a period of time for managers within entities to electronically action leave applications prior to counting a leave application as unactioned. This period of time varied depending on each entity's systems and procedures but ranged between 21-30 days.

- Systems configuration made it difficult to identify that leave had been approved by the relevant delegate. The ANAO identified that a key risk in implementing an electronic leave system is the linkages established between individual staff members and supervisors who have the delegation to approve leave. While different approaches have been taken by entities, depending on their individual operational circumstances, the ANAO found that in two of the four entities that utilised an ESS, the risks associated with the approach adopted had not been assessed. As a result appropriate controls to address this risk had not been introduced.

Table 3.1

Number and percentage of unactioned leave applications within each entity's ESS.

	Entity 1	Entity 2	Entity 3	Entity 4
Number of unactioned leave applications	476	32	132	933
Percentage of staff with unactioned leave applications ²⁷	25.2	4.6	18.8	26.9

Source: ANAO analysis.

3.4 The audit also found that a formal risk assessment had not been undertaken by any of the entities prior to implementation of their ESS. The ANAO considers that if formal risk assessments had been undertaken issues such as those referred to above may have been identified and controls put in place to address them. The ANAO considers sound practice dictates that entities conduct a formal risk assessment prior to implementing an ESS.

3.5 In instances where an initial risk assessment is undertaken, it is also sound practice for the assessment to be reviewed in the event that significant enhancements or changes are made to the existing ESS system.

Recommendation No.4

3.6 The ANAO recommends that entities conduct a formal risk assessment prior to implementation of an Employee Self-Service system.

²⁷ This percentage has been derived using the total number of employees within the entity as at 30 June 2004.

Entities' responses

3.7 AFP, ASC and DoCITA agreed with the recommendation, while CASA 'agreed with qualification' and FaCS 'noted' the recommendation. Specific comments provided were:

Civil Aviation Safety Authority

CASA agrees with qualification. CASA is one of the entities that has introduced limited ESS for leave processing. Whilst not formally documented as a risk assessment, the project implementation did consider and address the risks involved. Prior to extending ESS to all forms of leave, a review will be conducted of the HRIS issues and future risks involved. This will be in the form of a more formal risk assessment.

Department of Family and Community Services

Noted. FaCS already has an ESS in place, and further functionality related to leave is under consideration.

Recommendation No.5

3.8 The ANAO recommends that entities introduce control measures to manage the number of unactioned leave applications in their Employee Self-Service systems.

Entities' responses

3.9 All entities agreed with the recommendation. Specific comments provided were:

Department of Family and Community Services

Agreed. A more rigorous process for handling pending leave applications is being considered, one which will also inform more senior managers of outstanding leave issues. In addition, the introduction of an integrated attendance recording system will minimise the risk of unactioned approvals. Information for staff and managers on their responsibilities will also be made more readily available as part of the support for the proposed new certified agreement.

Recording of attendance

3.10 The ANAO identified three entities that had a clause in the certified agreement that required all staff to record attendance, one entity that did not require attendance records to be maintained by staff, and two entities where

staff were required to record details of time worked, as distinct from details of attendance.

3.11 The ANAO found that varying arrangements existed for the recording of attendance by staff, and by extension, the recording by staff of details of leave taken. In those entities that required attendance to be recorded, the requirement was met by staff up to the APS 6 level, or equivalent, completing flex time records.²⁸ Generally, however, staff at executive level were not recording attendance details by using, for example, a diary or other mechanism. In circumstances where attendance was not recorded, it was not possible to ascertain whether all leave taken had been accurately processed in the entity's HRMIS.

3.12 In the context of the audit, because of the absence of senior employee attendance records, it was not possible to conclude that all leave taken by executive level staff had been applied for, approved and recorded correctly in entities' HRMISs.

3.13 The ANAO considers that in entities where certified agreements require all staff to record details of attendance, each entity should:

- assess the benefits and risks of executive level staff not recording details of their attendance. This review should take into account the entity's general business environment and the extent and nature of unscheduled leave taken by this cohort; and
- periodically remind individual staff members and managers of their respective responsibilities in respect of the application and approval of leave, in particular those staff members acting in executive level positions who may not have received prior notification of attendance requirements.

3.14 In some cases the certified agreement requirement for senior staff to record attendance could be seen as being inconsistent with contemporary working arrangements. Coupled with the finding that, in the entities concerned, attendance details were generally not being recorded by senior staff, suggests that entities should consider whether the requirement for senior staff to record attendance details remains appropriate in the context of future certified agreements.

²⁸ Flex time records should record details of all leave taken. With the exception of flex leave, all leave should be processed through an entity's HRMIS.

Recommendation No.6

3.15 The ANAO recommends that where an entity's certified agreement requires all staff to record attendance details, entities:

- 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 entity's next certified agreement, whether existing attendance recording requirements, particularly for senior staff, remain appropriate.

Entities' responses

3.16 AFP, ASC, CASA and DoCITA agreed with the recommendation, while FaCS 'noted' the recommendation. Specific comments provided were:

Department of Family and Community Services

Noted. FaCS will continue to remind all staff of their obligations to record both leave and attendance, and will strongly encourage executive level staff to record attendance and absences using the new IMPACT based time recording system. FaCS does not intend to change the specific requirements in the upcoming certified agreement.

3.17 As mentioned above in those entities that required attendance to be recorded, this requirement was met by staff up to the APS 6 level, or equivalent, completing flex time records. The ANAO identified that in three entities there were several instances where flex time records were either not signed by a manager or that the manager's review of flexsheets was incomplete.

3.18 Certification of the accuracy of flexsheets by a manager is a key control designed to ensure that leave taken is recorded on the flexsheet. The non-performance of this control increases the risk that staff may take leave without submitting a leave application and therefore not having this leave recorded in the HRMIS.

4. Monitoring and reporting of leave entitlements

This chapter examines the level of monitoring and reporting of leave entitlements within entities.

Introduction

4.1 Effective management of leave liabilities requires accurate and timely reporting of leave information to management. It could be expected that summary details of leave liabilities and leave balances would be reported to senior management. In addition, details of leave taken and leave entitlement information should be available to line managers to facilitate the regular monitoring of staff leave details.

4.2 The audit assessed each entity's arrangements for the monitoring of leave entitlement information and the reporting of such information.

Monitoring and reporting of leave information

4.3 The ANAO found that five of the six entities undertook centralised monitoring of leave information to varying degrees. For example, some entities would monitor excess leave balances once a year, while others would provide managers with leave reports monthly or quarterly. Generally, line managers were also provided with leave information to allow them to hold discussions with individual staff members.

4.4 The ANAO observed better practice arrangements for the monitoring and reporting of leave in one entity. This entity's HRMIS was configured so that leave credits could not accumulate in excess of the maximum number of days permitted. Relevant leave information including LSL liabilities was also provided to senior management. The entity also monitored leave balances by providing managers with quarterly leave entitlement information and monthly leave taken reports. In addition, staff were advised six months prior to individual anniversary dates that there was the potential to forfeit leave credits unless utilised prior to the anniversary date.

4.5 The ANAO observed that those entities that were more effective in managing their leave arrangements did so by monitoring staff leave balances prior to reaching the maximum leave balance, rather than after the maximum balance was reached.

4.6 In one entity where responsibility for the management of staff leave balances had been devolved to individual line managers, the ANAO found

that some managers did not know how to access leave information in their ESS, limiting their effectiveness in monitoring leave balances.

Recommendation No.7

4.7 The ANAO recommends that entities:

- 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.

Entities' responses

4.8 All entities agreed with the recommendation. Specific comments provided were:

Department of Family and Community Services

Agreed. FaCS already has a suite of HR reports available to managers through IMPACT. Information on these reports, and on training available in their use, will be made more widely available, and the need for regular reports on leave usage will also be assessed. Managers' responsibilities will also be more clearly identified, as part of the proposed new certified agreement. FaCS also agrees with the need to provide timely and relevant data on leave to senior management as part of a suite of regularly reported HR management information. The format for these reports is currently being developed and it is anticipated that the first quarterly report, including information on leave, will be submitted in October 2005.



Ian McPhee
Auditor-General

Canberra ACT
17 November 2005

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