



2003

PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL  
SPECIAL REPORT NO. 46**

**LEAVE IN GOVERNMENT  
DEPARTMENTS**

**June 2003**

*Presented to both Houses of Parliament in accordance with the provisions of  
Section 57 of the Financial Management and Audit Act 1990*

By Authority:

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26 June 2003

President  
Legislative Council  
HOBART

Speaker  
House of Assembly  
HOBART

Dear Mr President  
Dear Mr Speaker

**PERFORMANCE AUDIT NO. 46  
LEAVE IN GOVERNMENT DEPARTMENTS**

This report has been prepared consequent to examinations conducted under section 44 of the *Financial Management and Audit Act 1990*, for submission to Parliament under the provisions of section 57 of the Act.

Performance audits seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision making to the benefit of all Tasmanians.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A J McHugh'.

A J McHugh  
**AUDITOR-GENERAL**



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## **Executive summary**

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## EXECUTIVE SUMMARY

### INTRODUCTION

State Service employees are granted leave in a number of categories including:

- Recreation leave;
- Sick leave;
- Maternity leave;
- Leave in lieu of overtime;
- Bereavement leave; and
- Leave on account of special circumstances.

Leave is a significant employee cost with recreation leave estimated to be 8%, long service leave 2.5% and sick leave 2% of aggregate employee entitlement expenditure.

In addition to the magnitude of the annual cost, Employee Entitlements (i.e. accrued leave) is a substantial state liability, \$389 million (5% of total state liability) at 30 June 2002. The government department component of the liability was \$249 million.

Leave entitlements are contained in either state legislation or in federal awards or agreements.

Planning for the performance audit commenced in April 2002. Field-testing commenced in June 2002 and was completed in April 2003 with the report being finalised in May 2003.

### OBJECTIVE

Ascertain the extent to which the auditee has achieved compliance with the *State Service Act 2000*, State Service Regulations, *Long Service Leave (State Employees) Act 1994*, Ministerial and other Directions and other guidelines.

Review the effectiveness of management systems in ensuring compliance with the above requirements, including:

- On-line information available to managers and staff;
- Systems to provide warning of forthcoming excess balances;
- Leave rostering; and
- Approval and reporting.



## *SCOPE*

The audit examined compliance aspects of long service leave (LSL), recreation leave, sick leave and to a lesser extent other forms of leave. However, the main focus of the audit was excess long service leave and recreation leave balances.

## *AUDIT OPINION*

### *Aggregate leave liability*

Aggregate leave liability was accurately reported in accordance with Australian Accounting Standards, both in departmental financial statements and in whole of government statements.

The overall LSL liability stood at \$178 million at 30 June 2002 and continued to increase at a greater rate than salary increases. The steady increase has occurred despite effective measures to prevent and eliminate excess balances.

At five of the departments a substantial proportion of employees were accumulating LSL rather than taking leave when available.

We also established that employees tend to accumulate more LSL as they move closer to retirement, and estimated that the excess leave would lead to \$6.7 million of additional lump sum payments over the next 5 years.

Recreation leave was found to be only 6% above the ideal level, (i.e. where employees take all leave in the year it was credited), despite a sharp upturn in 2001/2002. Some departments had substantially higher liabilities per FTE than the other departments.

### *Testing of individual balances*

All but one absent employee sampled were covered by either an approved leave form or was taking either time off in lieu (TOIL) or flex leave. Practices for control and recording of TOIL and flex leave varied and we noted that there was no clearly defined process for control. Overall, there was evidence of a lack of control over recording of some forms of leave, but not of deliberate abuse of the system.

- We also noted examples at three separate departments, and the Department of Health and Human Services (DHHS) in particular, of leave being approved after the leave date. Regular late approval can result in leave liability being overstated.
- Some cashing out of leave was noted at the Department of Justice and Industrial Relations (DJIR) and the Department

of State Development (DSD), although the amounts were relatively small.

### *Excess balances*

Excess balances for LSL, measured at the 100-day legal benchmark, were low and had been actively reduced over the period 30 June 1999 to 30 June 2002, with all departments implementing a system to detect excess balances, and advise employees or their managers.

At the 80-day ministerial benchmark, there had also been a steady reduction, down 32% over the same period. All departments had achieved substantial reductions with the exception of DPAC, (and even DPAC had performed well against the 100-day benchmark). However, we also found that one quarter of employees that have earned more than 80 days credits did have an excess balance.

We also found that the whole of government liability could be reduced by \$6.6 million if balances greater than 80 days were completely eliminated and by \$18.6 million if balances greater than 65 days were completely eliminated.

All excess balances in excess of the 100 day benchmark had been approved by the Minister.

Excess recreation leave balances had actually increased in dollar terms over the same period, although there had been a marked decrease when measured in days, since June 2000. The average excess balance was 14.9 days which indicated that some employees continue to have very large recreation leave balances.

As with LSL, all departments had implemented systems to detect excess balances, and advise employees or their managers.

### *Sick leave*

There was no clear trend for sick leave; either upwards or downwards. Sick leave per FTE for most agencies was in an acceptable range of 4 to 6 days per FTE. The exceptions were DJIR and the Department of Health and Human Services (DHHS), both of which had their averages inflated by particular occupation groups; i.e. prison officers and nurses respectively.

Four departments had introduced measures to monitor sick leave levels and prevent abuse, including DHHS with the highest average sick leave.

We found that sick leave was correctly recorded and subject to presentation of medical certificates as required by legislation.

### *Special and other leave*

The Department of Infrastructure, Energy and Resources (DIER) and DPAC had unusually high average special leave per FTE. However, no conclusions are drawn because of the preponderance of maternity leave in the category.

The lack of comparative data in some departments, together with changed conditions for maternity leave, made it impossible to perform effective comparison with previous years. All special leave tested was found to have been approved, and for appropriate reasons.

## **MANAGEMENT RESPONSES**

All departments were asked to provide comment on the report. Responses were received from:

- DPAC;
- DHHS;
- DOE; and
- DIER.

DHHS had no comment to make on the report. DOE indicated that its expectations were reflected in the report and did not require any amendments. DPAC requested some minor amendments, which have subsequently been incorporated in this final version.

DIER commented that:

“The Agency has actively focussed on the development and implementation of a leave management strategy to reduce the total leave liability for the Agency, whilst also acknowledging the importance of effective leave management from an employee health and well-being perspective. The improvements in the Agency’s management of recreation and long service leave have been reflected in the results of this report, which is a result of an integrated management approach to the joint responsibilities that exist both for managers and employees to manage this issue effectively. Regular leave reporting together with broad education aimed at employees to ensure awareness of entitlements will see the trend of excessive leave reduction continue in DIER.”

## **LIST OF ACRONYMS AND ABBREVIATIONS**

DPIWE	Department of Primary Industries, Water and Environment
DIER	Department of Infrastructure, Energy and Resources
DHHS	Department of Health and Human Services
DJIR	Department of Justice and Industrial Relations
DPPS	Department of Police and Public Safety
DSD	Department of State Development <sup>1</sup>
DPAC	Department of Premier and Cabinet
Treasury	Department of Treasury and Finance
FTE	Full-time equivalent employee
LSL	Long Service Leave
RPA	Recreation and Penalty Allowance

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<sup>1</sup> DSD has recently been replaced by the Department of Economic Development and the Department of Tourism, Parks, Heritage and the Arts. This report refers consistently to DSD because the period reviewed is prior to 1 July 2002.

## **Introduction**

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## INTRODUCTION

### *BACKGROUND*

State Service employees are granted leave in a number of categories including:

- Recreation leave;
- Sick leave;
- Maternity leave;
- Paternity leave;
- Leave in lieu of overtime;
- Jury Service leave;
- Defence Force leave;
- Leave of absence with or without pay;
- State Service accumulated leave;
- Bereavement leave;
- Carer's leave; and
- Leave on account of special circumstances.

Leave is a significant employee cost with recreation leave estimated to be 8%, long service leave 2.5% and sick leave 2% of aggregate employee entitlement expenditure.

In addition to the magnitude of the annual cost, Employee Entitlements (i.e. accrued leave) is a substantial state liability, \$389 million (5% of total state liability) at 30/6/2002. The government department component of the liability was \$249 million.

Failure to take leave when due may adversely impact on occupational health and safety.

### *LEGISLATION*

Leave entitlements are contained in either state legislation or in federal awards or agreements.

The main legislation covering long service leave is the *Long Service Leave (State Employees) Act 1994*.

Other leave entitlements including recreation leave are covered by the *State Service Act 2000*, and are detailed in the State Service Regulations including Ministerial Directions and The State Service Wages Agreement 2001.

## MANDATE FOR THE AUDIT

Under the provisions of section 44(b) of the *Financial Management and Audit Act 1990* the Auditor-General may:

‘carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government departments or public bodies’.

The conduct of such audits is often referred to as performance auditing.

## OBJECTIVE

Ascertain the extent to which the auditee has achieved compliance with the *State Service Act 2000*, State Service Regulations, *Long Service Leave (State Employees) Act 1994*, Ministerial and other Directions and other guidelines.

Review the effectiveness of management systems in ensuring compliance with the above requirements, including:

- On-line information available to managers and staff;
- Systems to provide warning of forthcoming excess balances;
- Leave rostering; and
- Approval and reporting.

## SCOPE

The audit examined compliance aspects of long service leave (LSL), recreation leave, sick leave and to a lesser extent other forms of leave. However, the main focus of the audit was excess long service leave and recreation leave balances.

## CRITERIA USED

Aggregate leave liability (long service leave and recreation leave) should be:

- Accurately reported by individual agencies in accordance with accounting standards;
- Accurately reported in whole of government financial statements; and
- Comparable between agencies based on fulltime equivalent employees (FTE).

Employee leave should be:

- Properly recorded;
- Based on accurate balances; and
- Not cashed out, where no facility to do so exists.

Excess balances, (long service leave and recreation leave), in aggregate, should be:

- Minimised;
- Subject to preventative controls;
- Actively reduced;
- Unlikely to result in cash payouts on retirement and consequently increased salary costs or reduced output; and
- Not excessive for any particular occupation or demographic group.

Individual excess balances, (long service leave and recreation leave), should be:

- Supported by adequate reasons; and
- Approved by the responsible Minister.

Sick leave should be:

- Comparable between agencies, and between years;
- Actively monitored for abuse;
- Correctly recorded; and
- Subject to presentation of medical certificates as required by legislation.

Special and other leave should be:

- Comparable between agencies, and between years; and
- For appropriate reasons.

## **STANDARDS APPLIED**

This audit has been performed in accordance with Australian Auditing Standard AUS 806 (*Performance Auditing*), which states that:

‘The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity's activities have been carried out economically, and/or efficiently and/or effectively.’



This audit has included such tests and other procedures we considered necessary in the circumstances.

Detailed tests involved judgmental sampling of records rather than statistical methods. The evidence provided by these means is persuasive rather than conclusive in nature.

## **AUDIT METHODOLOGY**

Audit procedures included:

- A questionnaire to gather information and statistics from agencies;
- Detailed testing of leave records;
- Review of reports and information from payroll systems; and
- Analysis of agency and whole of government information.

## **STAKEHOLDER INPUT**

In line with the Audit Office's established practice for the conduct of performance audits, an advisory committee was convened to reflect stakeholder views. The committee provided input to the audit's methodology and reviewed the draft report upon its completion. The Auditor-General chaired the committee and its members were drawn from the following areas:

- Department of Primary Industry, Water and the Environment;
- Department of Premier and Cabinet;
- Department of Treasury and Finance;
- Tasmanian Audit Office; and
- Office of the State Service Commissioner.

## **TIMING**

Planning for the performance audit commenced in April 2002. Field-testing commenced in June 2002 and was completed in April 2003 with the report being finalised in May 2003.

## **RESOURCES**

The total cost of the audit excluding report production costs was \$127 000.



**Leave liability**

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## FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### 1 LEAVE LIABILITY

#### 1.1 LONG SERVICE LEAVE LIABILITY

The audit sought evidence that long service leave liability, as reported in agency financial statements and whole of government statements was accurate, in accordance with applicable standards and comparable between agencies on a fulltime equivalent basis.

##### 1.1.1 Comparison between agencies

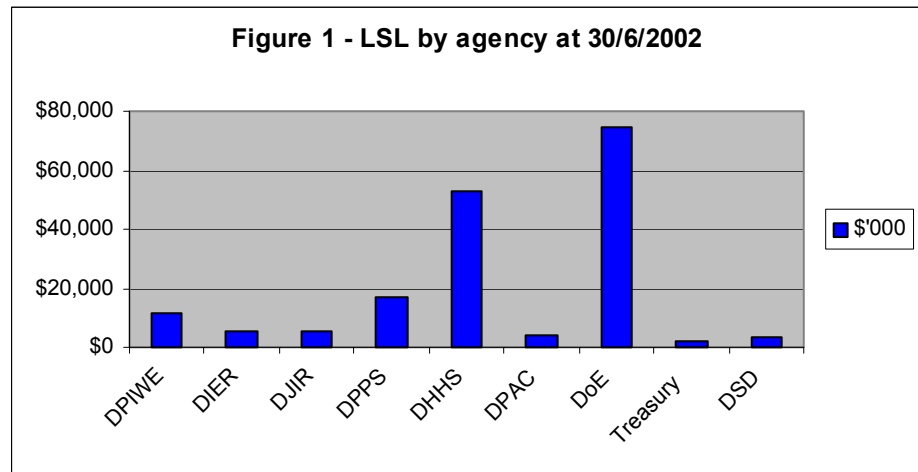
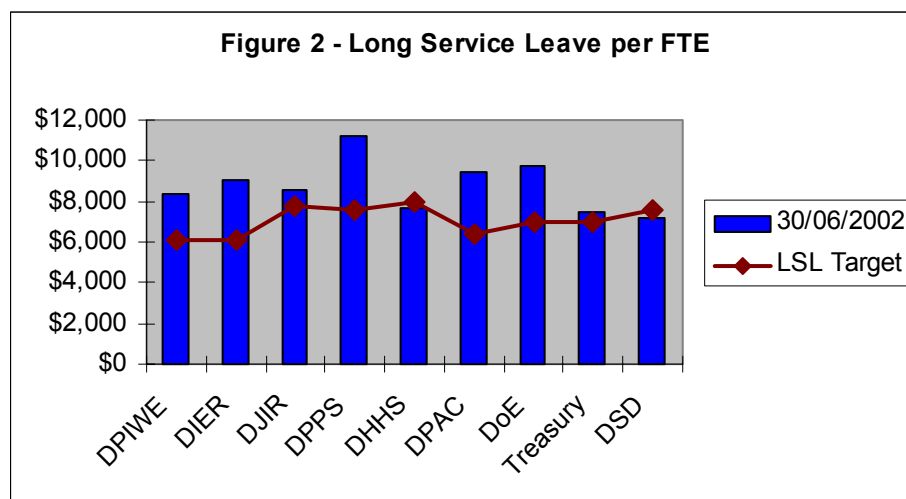


Figure 1 shows that overall LSL liability is dominated by two departments DHHS and DoE, which between them accounted for 72% of the total liability. DPPS accounts for a further 10% of the liability. The obvious conclusion is that efforts to reduce the level of LSL liability need to be concentrated on those three departments.

However, to compare the relative performance of the agencies it is better to look at liability per FTE.



In figure 2 an indicative target line has been inserted. This represents an estimate of the ideal liability per FTE for each department. The target is based on:

- The assumption that the average employee is half way towards their next long service leave (5 years);
- The assumption that employees take all long service leave at the completion of 10 years service; and
- Average salary for each agency.

Figure 2 shows that DJIR, DHHS, Treasury and DSD were close to the target, while DPIWE, DIER, DPPS, DPAC and DoE were between 37% and 49% above the target. On average, departments were 20% above the target liability.

DPPS's large liability per FTE was partly due to the Recreation and Penalty Allowance (RPA) included in a DPPS enterprise agreement in 1998. The RPA adds up to 20% of salary during periods of leave and is designed, in part, to encourage police officers to take due leave by replacing the penalties and shift allowances they did not receive while on leave. If the RPA is removed from the liability calculation, the DPPS liability per FTE is reduced to \$9 810, at a similar level to DoE (\$9 714).

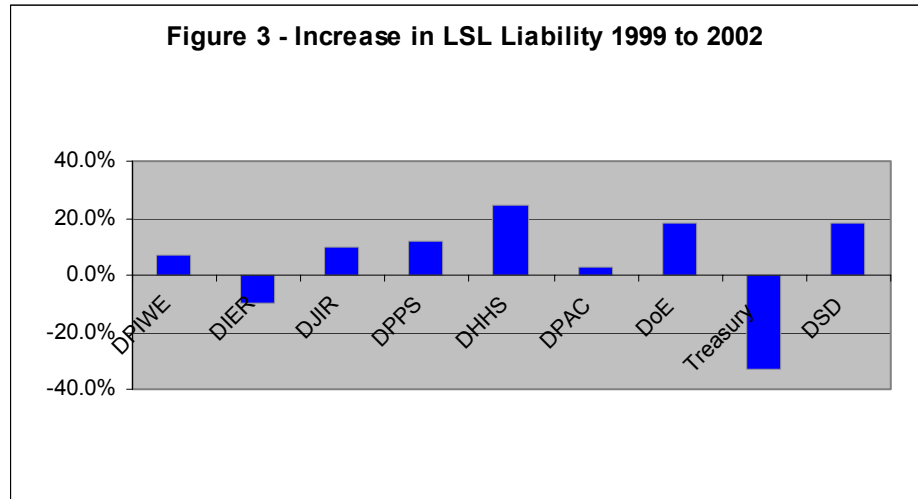


Figure 3 shows movement in liability for each agency over the past three years, and it is interesting that, of those agencies well above target, only DIER has managed to decrease its LSL liability. Despite the introduction of the RPA to encourage police officers to take due leave, the liability at DPPS continued to grow at over 4% per annum. Treasury achieved a noteworthy reduction over the three years and had the second lowest average LSL liability of all departments.

### 1.1.2 Comparison between periods

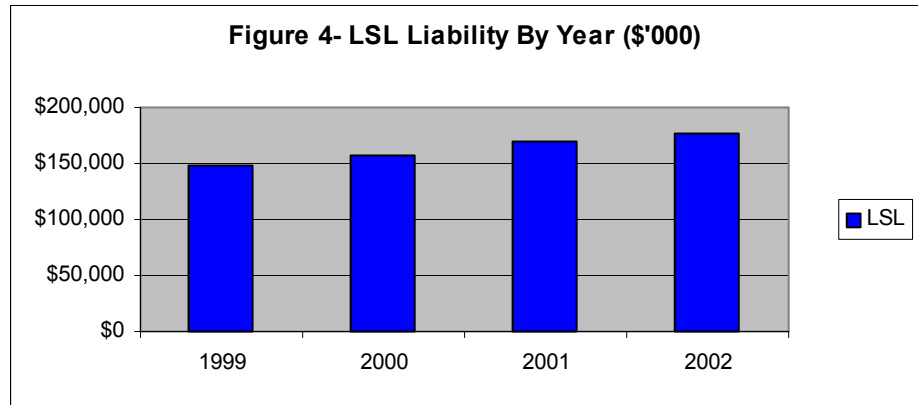
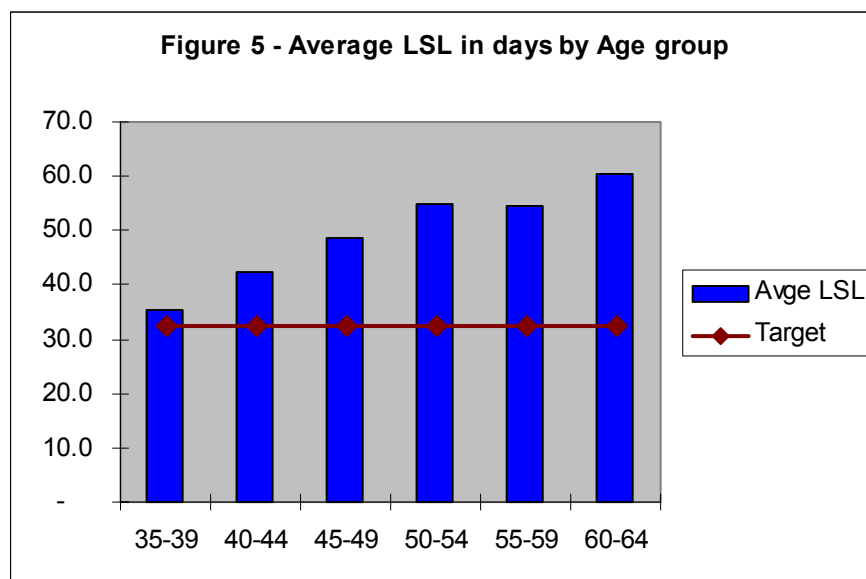


Figure 4 shows that there had been a steady increase in the total LSL liability each year since 30 June 1999. We calculated that the average annual increase was 6.8%. That increase was almost completely accounted for by an average salary increase of 5% per annum<sup>2</sup>, and average increase in FTE of 1.2%.

<sup>2</sup> Average salary increase was based on movements in average salaries calculated as total salary divided by FTE.

### 1.1.3 Summary demographics - age

Figure 5 estimates the percentage of actual LSL liability for different age groups.



Clearly the amount of LSL held increases as employees move closer to retirement with the 55-59 age group being 67% above target, and the 60-64 age group being 86% above target.

Why does this matter? The main non-monetary argument is that LSL was introduced to promote the health, well-being and productivity of employees. However, it will not have this affect if accumulated throughout an employee's career.

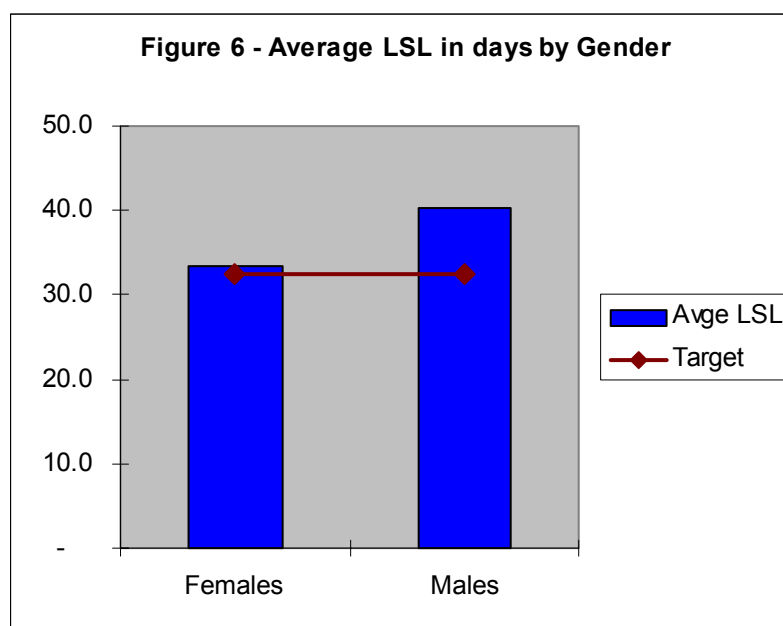
There is also a financial argument. If leave is taken when due, it is frequently possible to cover the absence using current employees, so that the cost to the employer is minimised. However if LSL is accumulated until the employee retires, the amount is usually paid out in a lump sum (87.3% of employees choose this option) at a direct cost to the State.

The value of the lump sum payments of liability in excess of the target liability was estimated to be \$6.7 million<sup>3</sup> over 5 years.

A further issue is the impact on Tasmania's credit-worthiness of having a large liability.

<sup>3</sup> The number of employees likely to retire in the next 5 years is 850 currently in the 55-59 age bracket and 550 in the 60-64 age bracket. Employees in the 55-59 bracket are on average 21.8 days above the target, while those in the 60-64 bracket average 28 days above the target liability. This translates to 33 930 extra days, of which 87.3% are expected to be paid as a lump sum on retirement. 87.3% equates to 29 620 days or \$6.7 million at average salary.

### 1.1.4 Summary demographics – gender



We also performed an analysis of LSL liability by gender, which revealed that, on average, males had 20% greater leave balances than women. We questioned whether the gender difference might be due to disparity in average years of service, and found on further analysis that, on average, males had worked for 15% longer than females. The unexplained 5% might be due to a greater propensity by males to accumulate leave, but the unexplained difference is too small to form a meaningful opinion.

### 1.1.5 Other matters

We noted that DPIWE had 7 employees over the age of 65 who were not accruing LSL at the time of the audit. This was consistent with the *Long Service Leave (State Employees) Act 1994*, which precluded employees accruing LSL after attaining the age of 65 years, but was not consistent with the *State Service Act 2000*.

Subsequent to representations by the Audit Office, the Act has recently been amended to allow employees over the age of 65 to accrue LSL.



## 1.2 RECREATION LEAVE LIABILITY

The audit sought evidence that recreation leave liability, as reported in agency financial statements and whole of government statements was accurate, in accordance with applicable standards and comparable between agencies on a full-time equivalent basis.

### 1.2.1 Comparison between agencies

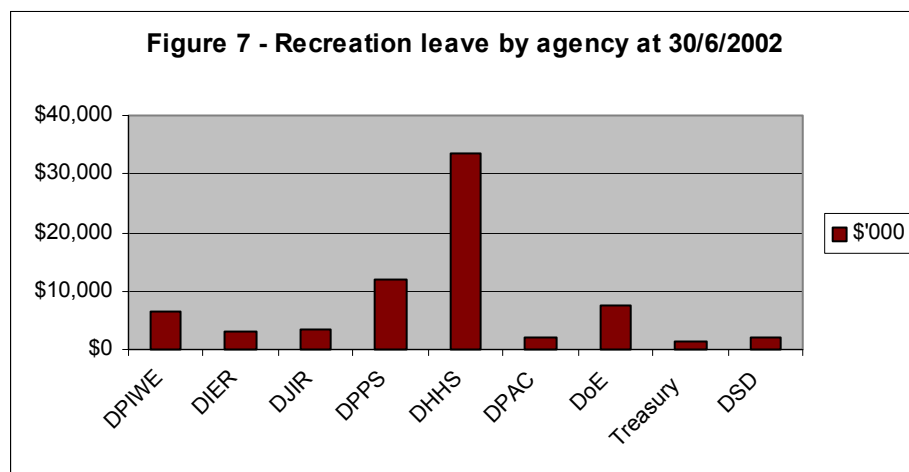
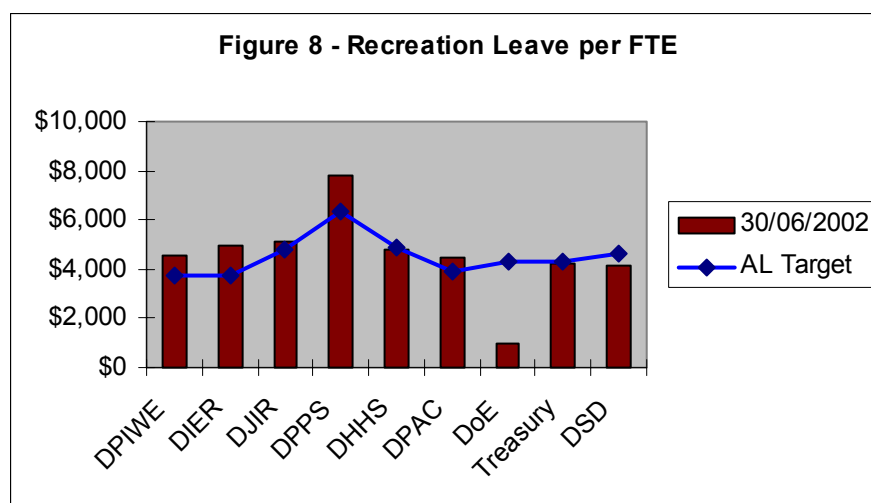


Figure 7 shows that recreation leave liability is dominated by DHHS, which accounted for 47% of the total liability. Although DPPS and DoE also have significant recreation leave liabilities, there was a more even distribution between agencies than existed for long service leave.

To compare the relative performance of the agencies we looked at liability per FTE.



In figure 8 an indicative target line has been inserted. This represents an estimate of the ideal recreation leave liability per FTE for each department. It is based on:

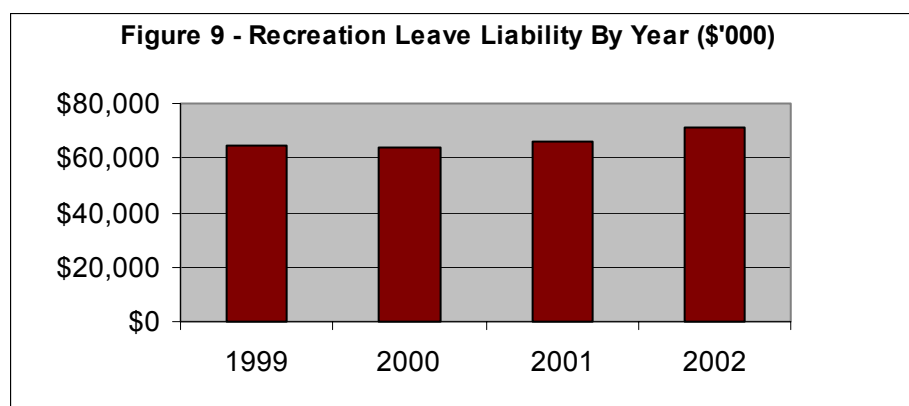
- The assumption that at 30 June employees will have earned 9 months of recreation leave credits on a pro-rata basis since their last leave credit on 1 October each year;
- The assumption that employees, on average, will have used three quarters of their previous leave credit in the 9 months to 30 June;
- Police personnel and nurses receiving 30 days of recreation leave per year instead of the standard 20; and
- Average salary for each agency.

Collectively, the departments are 23% below the target; however, the overall comparison is distorted by DoE. DoE is well below the target because teachers cannot accumulate recreation leave as all leave is taken in school holidays. When DoE is ignored, the actual collective leave liability for all departments is 6% above the target liability.

Only DPIWE (22%), DIER (32%) and DPPS (23%) are significantly over target. Of that group, only DIER has managed to decrease its recreation leave liability over the period 30 June 1999 to 30 June 2002.

As with LSL, DPPS's large liability per FTE was partly due to the Recreation and Penalty Allowance (RPA). However, even without the affect of RPA, DPPS had the highest recreation leave liability per FTE at approximately \$6 800. The next highest was DJIR at \$5 310 per FTE, however, the adjusted DPPS figure was only marginally above the target.

### 1.2.2 Comparison between periods



The average annual increase in recreation leave liability was 3.4%. However, almost all of the increase was in the 2001-2002 financial year and was largely due to three agencies; DHHS, DPPS and DSD, which recorded increases of 9%, 19% and 33% respectively. DHHS had indicated difficulties and delays in entering leave balances into its new payroll system and, as a consequence, there are doubts as to the accuracy of reported leave liabilities prior to 30 June 2002.

### 1.3 ACCURATE REPORTING

Each financial year Treasury prepares whole of government financial statements that summarise financial transactions for all government departments. We compared the underlying departmental data used to calculate the employee liability totals, with reported liabilities from separate agency financial statements.

We found that in all but three cases departmental statements matched whole of government records.

- DSD: the 2001 annual leave liability differed from the whole of government report by \$202 000. The amount reported in the financial statement did not include the superannuation and payroll tax component of approx \$195 000; and
- DJIR: the current component of LSL for 30 June 2000 was included as \$473 000 in the 2001 financial statements and whole of government statements, but as \$4 800 000 in the 30 June 2000 financial statements and whole of government statements.

We also found that information provided in response to our surveys was often inconsistent with financial statement information. Errors in the survey data have now been corrected, however, resolving these differences added significantly to the time taken for the audit.

### 1.4 PROBABILITY FACTORS

Australian Accounting Standard AAS30 outlines requirements for measurement and reporting of long service leave. The standard recognises that entitlement to long service leave arises only after a qualifying period.

For those employees who have met the qualifying period, long service leave liability is treated as a current liability based simply on the current value of the liability, including on-costs such as payroll tax.

For those employees yet to achieve the qualifying period, long service leave is calculated on the basis of the probability of the employee continuing to be employed to the end of the qualifying period. The calculation also takes into account expected inflation rates and interest rates.

The most difficult issue was the calculation of probability factors. Originally, all departments calculated probability factors based on employee numbers and movements in recent years. In 1999, Treasury provided the agencies with revised sets of probability factors.

Both departmental and Treasury factors had the deficiency that employee transfers to another state government department were

treated as a separation from the State Service, even though long service leave entitlements were not affected by the transfer. As a consequence, the probability factors understated the likelihood of an employee qualifying for LSL and hence understated the total liability.

In June 2002 Treasury recommended a 'short hand' method, which complies with AAS30 and greatly simplifies the calculation. The 'short-hand' method takes a whole-of-service perspective and avoids the abovementioned deficiency. The method was used by most agencies in the 2001-2002 financial year, but not all.

One difficulty with the 'short-hand' method is that it only applies to groups of employees, but cannot be used to calculate the liability to an individual employee. Individual liability needs to be calculated when an employee transfers from one department to another, because the transferring department pays the receiving department an amount equal to that employee's estimated long service liability. Currently, the 'long-hand' method is used for transfers, which uses the old probability factors and consequently understates the liability.

## **1.5 CONCLUSIONS - LEAVE LIABILITY**

Despite legislative and ministerial requirements to reduce the level of excess balances, and encourage employees to take due leave, the overall LSL liability stood at \$178 million at 30 June 2002 and continues to increase at above the rate of salary increases. The steady increase has occurred despite effective measures to prevent and eliminate excess balances (see section 3).

The LSL liability of five departments was substantially greater than the ideal level (i.e. where employees take long service leave as soon as due). Only one of those 5 agencies had managed to achieve a significant reduction in recent years.

We also established that employees tend to accumulate more long service leave as they move closer to retirement, and estimated that the excess leave would lead to \$6.7 million of additional lump sum payments over the next 5 years.

Recreation leave was found to be only 6% above the ideal level, despite a sharp upturn in 2001-2002. DPIWE, DIER and DPPS had substantially higher liabilities per FTE than other departments.

With minor exceptions, the underlying departmental data was consistent with departmental and whole of government financial statements.

## **Testing of individual balances**

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## 2 TESTING OF INDIVIDUAL BALANCES

**The audit sought evidence that employee leave was properly recorded, based on accurate balances, and not cashed out (except on retirement).**

### 2.1 ALL LEAVE APPROVED AND RECORDED

Our concern was that leave might be taken without being recorded because of accidental or deliberate failure to submit an approved leave form. To test whether or not this was occurring we telephoned randomly selected employees from across all departments to determine whether they were at work. The process yielded 97 absent employees, whose leave records were subsequently checked to determine if those absent employees had submitted an approved leave form.

We found only one clear instance in which leave had been taken but an approved leave form had not been submitted.

We did, however, find that a number of absent employees were on either:

- Flex leave, whereby employees can accrue credits by working more than standard hours, and use those credits for short periods of leave; and
- Time-off-in-lieu (TOIL), whereby employees without eligibility for overtime can take leave.

It was noted that some TOIL is recorded in central leave record databases, but that usually individual managers informally record the leave. Similarly, flex leave is usually controlled only by individual managers.

There is no other clearly defined process for the control of flex leave. The Second Tier Wages agreement, dated 31 March 1988 requires the parties to negotiate on an agency-by-agency basis and there is little uniformity of conditions or procedures in the Service. TOIL is required to be recorded by Ministerial Direction 1.1 of 2002.

Where leave had been recorded, we also tested whether the leave had been approved prior to the taking of the leave. We found instances where leave had been approved after it had been taken; one at DJIR, three at DPAC and numerous instances at DHHS.

Overall, there was evidence of a lack of control over recording of some forms of leave, but not of deliberate abuse of the system.

## 2.2 ACCURACY OF LEAVE RECORDS

We tested a sample of employees at each agency to determine whether leave credits had been applied, leave details accurately recorded and leave balances correctly calculated. In all departments but one we were satisfied that balances were correct.

DHHS changed to a new system during 1999 (from PERUSE to EMPOWER). We were advised that the new system was not able to produce accurate leave records for 30 June 1999 and 30 June 2000.

Our testing also highlighted many recording and posting errors in June 2001 and June 2002 balances, including:

- Leave regularly approved and recorded months after the leave had been taken;
- Leave misclassified;
- Coding errors resulting in incorrect balances; and
- Numerous negative balances.

Insufficient testing was performed during this audit to reach a conclusion on the overall accuracy of leave records at DHHS. However, the problems noted indicate there is a need for careful review of leave balances, and system changes to ensure late processing and coding mistakes do not continue to occur.

## 2.3 CASHING OUT OF LEAVE

The *State Service Act 2000*, Regulations and Ministerial Directions indicate a clear intention that leave credits accrued should be taken as leave; not paid out. The only provision for cash to be paid in lieu of recreation leave entitlements accrued is in Ministerial direction number 2 of 2001, which provides for 'cashing out' in the event of resignation, retirement, dismissal or death.

While most departments tested had not cashed out leave, we found the following discrepancies:

- DJIR cashed out \$134 209 in 2000 and \$33 128 in 2001, mostly to prison staff; and
- DSD cashed out \$41 900 in the 2000/01 financial year.

## 2.4 *CONCLUSIONS – INDIVIDUAL BALANCES*

All but one absent employee sampled was covered by either an approved leave form or was taking either TOIL or flex leave. Practices for control and recording of TOIL and flex leave varied and we noted that there was no clearly defined process for the control. In summary, there was evidence of a lack of control over recording of some forms of leave, but not of deliberate abuse of the system.

- We also noted examples at three separate departments, and DHHS in particular, of leave being approved retrospectively. Regular late approval can result in leave liability being materially overstated.
- Some cashing out of leave was noted at DJIR and DSD, although the amounts were relatively small.



**Excess balances**

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### 3 EXCESS BALANCES

**The audit sought evidence that aggregate excess balances were at low levels, comparable between departments, being actively reduced, unlikely to result in cash payouts on retirement, and not excessive for any particular demographic group. The audit also sought evidence that individual excess balances had been approved by the responsible Minister and were supported by adequate reasons.**

#### 3.1 EXCESS BALANCES – LSL

##### 3.1.1 Legislation and directions

The *Long Service Leave (State Employees) Act 1994* specified that an employee was not entitled to be credited with more than 100 days of leave following the lapse of up to 5 years since the commencement of the Act, depending on the level of leave at the time of that commencement. It thus provided a period of time for employees with excess leave balance to reduce their leave to satisfactory levels with no penalty.

A Ministerial guideline issued by the Deputy Premier in June 2000 requested that the statutory limit of 100 days be regarded as an absolute maximum, and advised that the Budget Committee had endorsed a benchmark of 80 days as an informal management guideline.

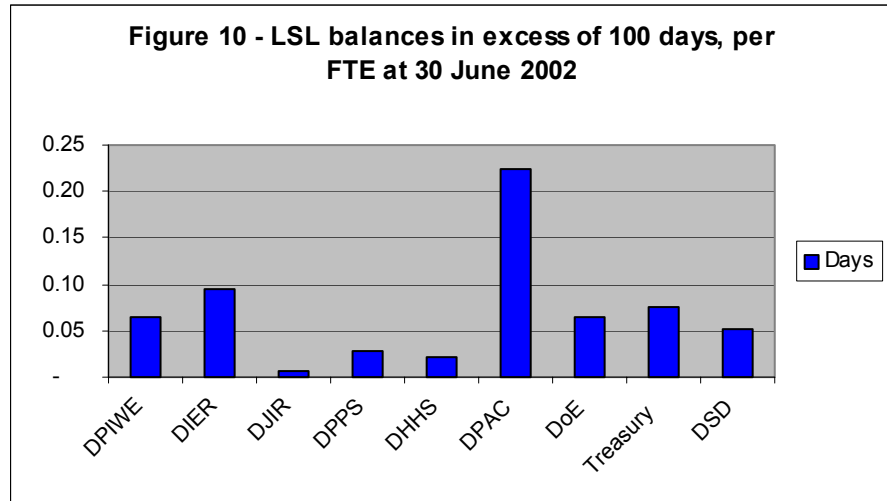
The *Long Service Leave (State Employees) Act 1994* was amended in February 2003 so that an employee is not entitled to be credited with a period of long service leave in excess of 100 days except with the express permission of the relevant Minister.

##### 3.1.2 Comparison between agencies

As stated above, excess balances are legally defined to be balances in excess of 100 days; however, a ministerial guideline is for a benchmark of 80 days.

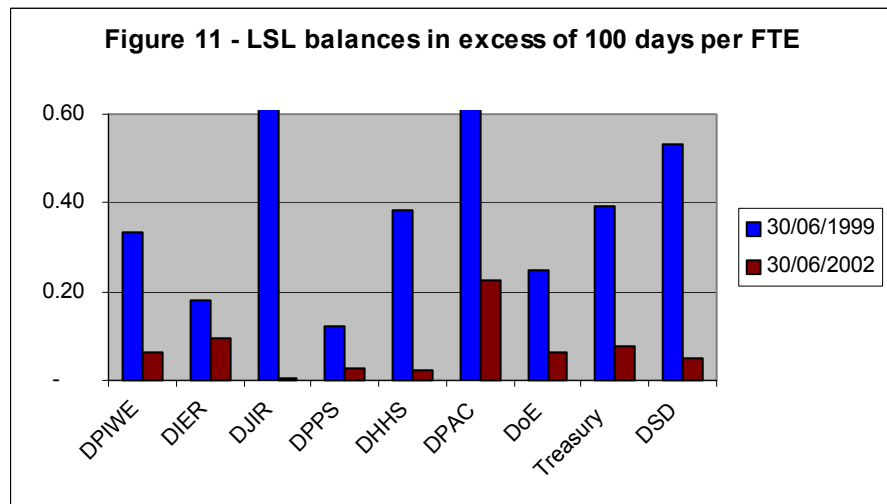
We received advice late in the audit that the statutory leave balance of 100 days was considered to have been attained on the employee's anniversary date, rather than on a pro-rata basis. Because we performed our analysis on an accrual basis, our results show marginally higher excess balances than would otherwise have been the case. Since our analyses focus on comparisons there is little detriment from the incorrect approach.

First we examined balances in excess of 100 days.



At first glance, figure 10 indicates that DPAC was unable to enforce the excess LSL provisions of the *Long Service Leave (State Employees) Act 1994*, but that all other departments have managed to reduce excess balances to acceptable levels. Further analysis of the relatively large DPAC average disclosed that 84% of the DPAC total was due to one employee. That officer works in a highly specialised role and has Ministerial approval for the excess.

The following graph illustrates that all departments including DPAC have made impressive reductions over the past 3 years.



The result was satisfactory for all agencies, which should now be well placed to meet the more stringent requirements of the February 2003 amendments to the *Long Service Leave (State Employees) Act 1994*.

Figure 12, below, shows excess balances compared with the Ministerial benchmark of 80 days.

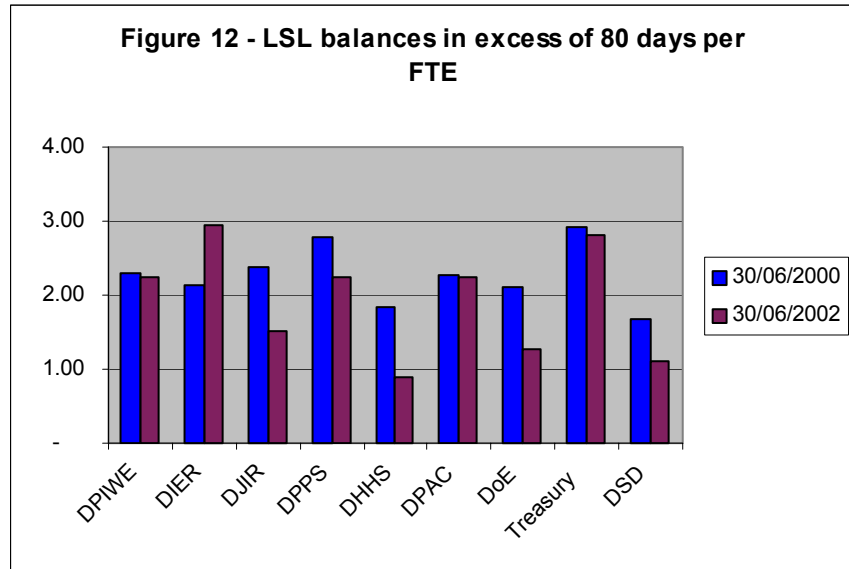
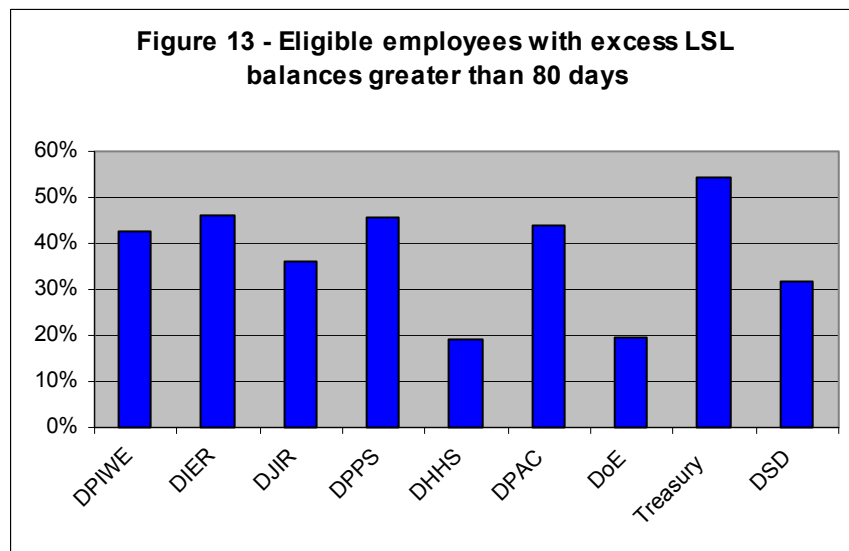


Figure 12 shows substantial reductions for most agencies. DJIR, DHHS, DoE and DSD had reductions in excess of 40% since the Ministerial direction of June 2000. The obvious exception to the trend was DIER, which increased by 37% to have the highest average excess balance of all agencies.

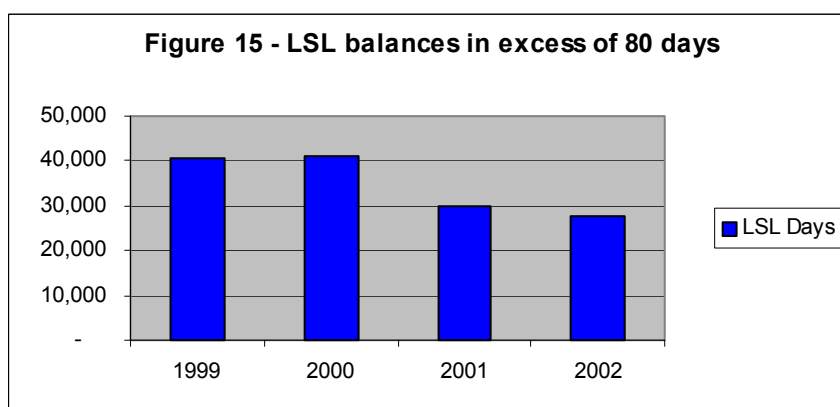
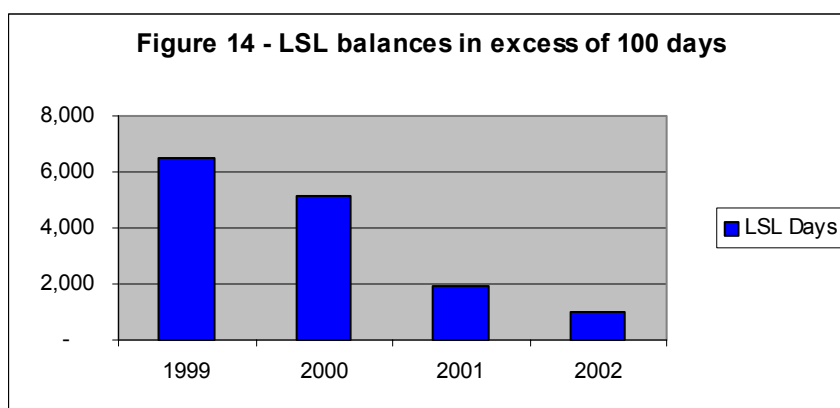
An alternative analysis considered only those employees that had earned 80 days credits, and calculated the percentage of those with balances in excess of 80 days.



Of those employees that could have LSL balances in excess of 80 days, 25% do have excess balances. The overall rate would be higher but for the relatively low percentages at the departments with the highest number of employees, i.e. DHHS and DoE.

Figure 13 shows that at six of the nine departments over a third of eligible employees have LSL balances greater than 80 days.

### 3.1.3 Comparison between periods



Figures 14 and 15 show that excess balances, (whether measured against 100 days or 80 days), have declined sharply over the period 30 June 1999 to 30 June 2002.

### 3.1.4 Action to reduce excess balances

We found that when pro rata credits were excluded there were only 4 employees with excess LSL balances at 30 June 2002. It was also noted that all departments had substantially reduced the level of excess balances since 30 June 1999. This has been achieved through a combination of clear and effectively promulgated policies, monitoring of excess balances, and the use of letters to warn employees of the possible loss of entitlements if balances were not reduced.

### 3.1.5 Effect of eliminating excess balances

Lastly, we calculated the impact on the whole of government liability of eliminating excess balances defined according to different benchmarks.

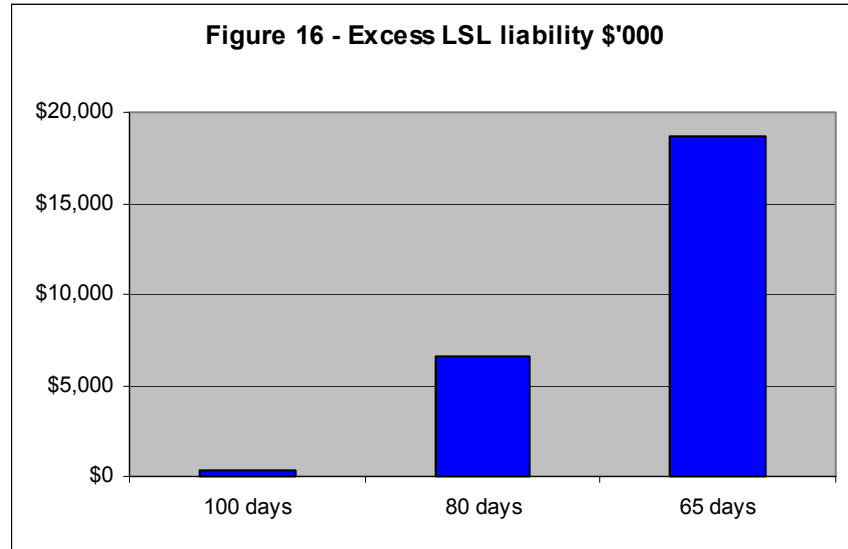


Figure 16 shows that while eliminating balances in excess of 100 days would have virtually no impact, the whole of government liability could be reduced by \$6.6 million if balances greater than 80 days were eliminated, and by \$18.6 million if balances greater than 65 days were eliminated.

### 3.1.6 Ministerial approval of excess balances

The *Long Service Leave (State Employees) Act 1994* required that LSL balances in excess of 100 days would not be allowed without an adequate reason and the approval of the responsible minister.

We tested all balances greater than 106 days as at 30 June 2002 and found that all had been approved by the relevant Minister and were supported by adequate reasons.

## 3.2 EXCESS BALANCES – RECREATION LEAVE

### 3.2.1 Legislation and guidance

The State Service Act Regulations require the Head of Agency to make such arrangements as are practicable to allow each employee in that Agency to take annual recreation leave. The Regulations also state that the total number of days of recreation leave accumulated at the end of the leave year is not to exceed leave entitlements for 2 years.

The State Service Commissioner has also commented that the intention of the legislation is that employees are to take their recreation leave within the year following its accrual.

### 3.2.2 Comparison between periods

Ideally, excess balances should be defined as balances in excess of one year's credits at the 1st of October. However, we obtained leave records as at 30th of June for each year, with an additional nine month's worth of pro-rata credits. Accordingly, the best approximation of excess balances was balances greater than 21 months worth of credits.

21 months of credits represents 35 days of credits for most employees, and 52.5 days for shift employees.

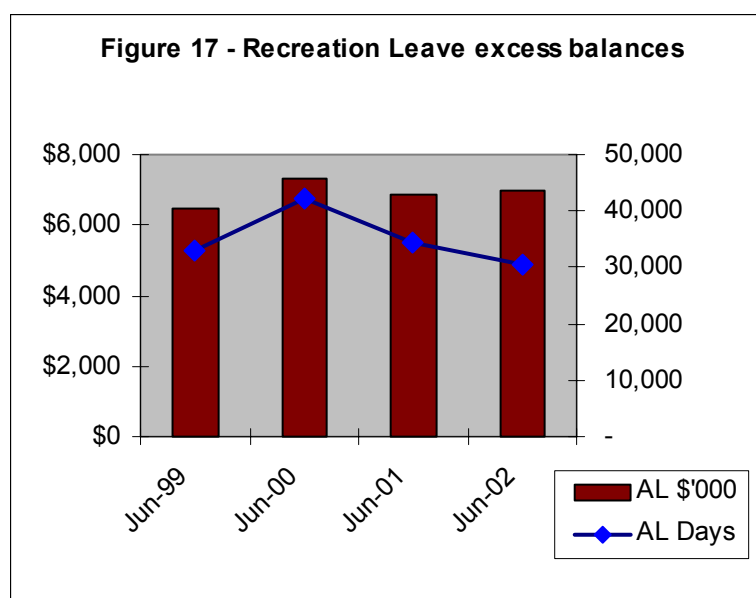
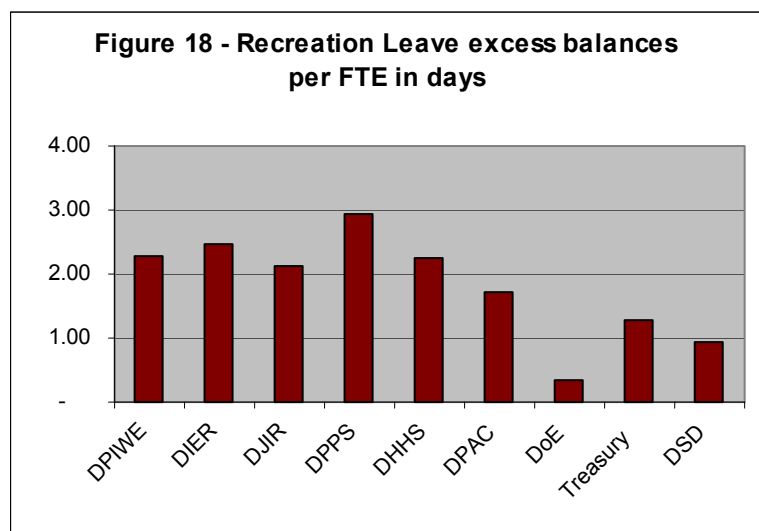


Figure 17 shows that the total liability in dollars has increased marginally over a three-year period. When measured in days, there was a sharp increase in the 1999-2000 financial year, but steady decrease in the subsequent two years.

### 3.2.3 Comparison between agencies



The main concern in figure 18 is the relatively high amount of recreation leave excess balances at DPPS. While the average excess for all departments was less than three days, it needs to be understood that the averaging process used in figure 18 includes all employees, not just those with an excess balance. This approach provides a fairer comparison between departments, but can give a misleading impression of the average excess balance. The average excess balance across all departments was 14.9 days at 30 June 2002, which indicates that there are still some very large excess balances.

### 3.2.4 Action to reduce excess balances

The level of recreation leave balances had not reduced to the same degree as LSL. During testing, it was apparent that there had been a concerted effort by managers to reduce LSL. This translated into higher balances of recreation leave as employees were reducing LSL balances to the detriment of recreation leave balances, particularly in the 1999-2000 financial year. Nevertheless, the steady decline in recreation leave excess balances since June 2000 was evidence of successful action by the departments.



### **3.3 WARNING SYSTEMS**

We established that all departments had some form of warning system, for both LSL and recreation leave, to:

- Identify either forthcoming or current excess balances; and
- Provide a letter or report to either the employee or his/her manager, advising of the excess, and of the need to take leave.

The systems had generally been implemented in recent years.

### **3.4 CONCLUSION – EXCESS BALANCES**

Excess balances for LSL, measured at the 100-day legal benchmark, were low and had been actively reduced over the period 30 June 1999 to 30 June 2002, with all departments implementing a system to detect excess balances, and advise employees or their managers.

At the 80-day ministerial benchmark, there had also been a steady reduction, down 32% over the same period. All departments had achieved substantial reductions with the exception of DPAC, (and even DPAC had performed well against the 100-day benchmark). However, we also found that one quarter of employees that have earned more than 80 days credits did have an excess balance.

We also found that the whole of government liability could be reduced by \$6.6 million if balances greater than 80 days were completely eliminated and by \$18.6 million if balances greater than 65 days were completely eliminated.

All excess balances in excess of the 100 day benchmark had been approved by the Minister.

Excess recreation leave balances had actually increased in dollar terms over the same period, although there had been a marked decrease when measured in days, since June 2000. The average excess balance was 14.9 days which indicated that some employees continue to have very large recreation leave balances.

As with LSL, all departments had implemented systems to detect excess balances, and advise employees or their managers.



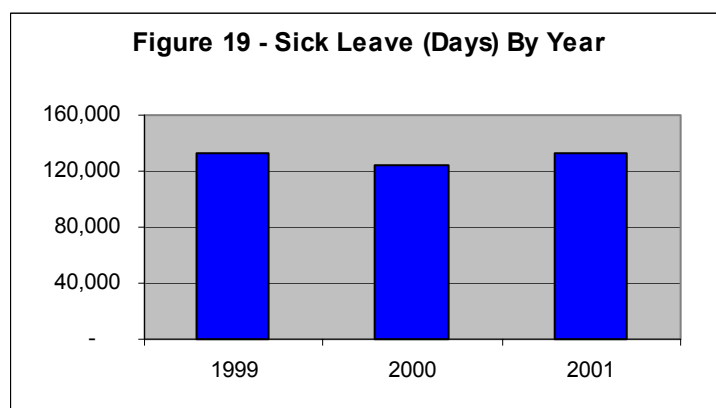
**Sick leave**

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## 4 SICK LEAVE

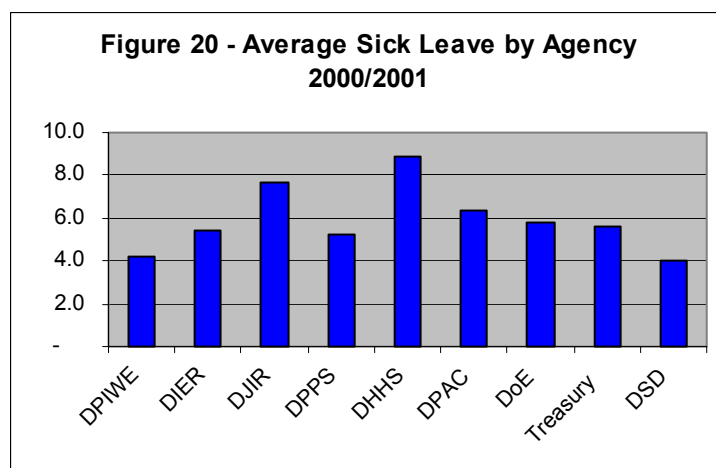
The audit sought evidence that sick leave was comparable between agencies, and between years, actively monitored for abuse, correctly recorded, and subject to presentation of medical certificates as required by legislation.

### 4.1 COMPARISON BETWEEN PERIODS



No clear trend emerges from figure 19 with the number of sick days<sup>4</sup> falling from 1999 to 2000, and then increasing back to 1999 levels in 2001. The average in 2001 was 6.7 days per FTE.

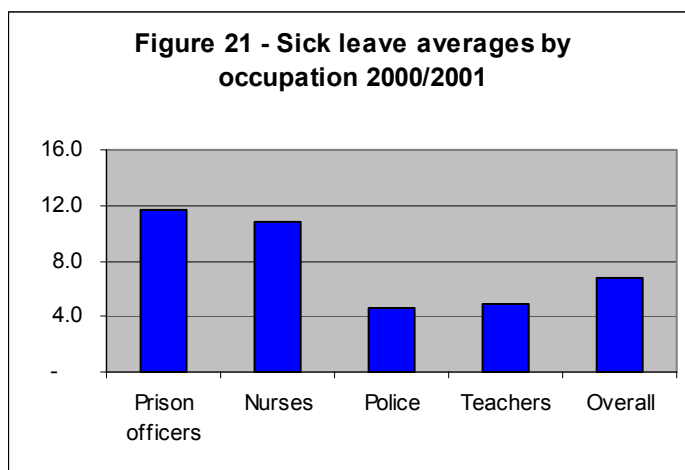
### 4.2 COMPARISON BETWEEN AGENCIES



Average sick leave per year for most departments was between 4 and 6 days. We found that DJIR and DHHS had substantially higher average sick leave and further noted that the higher figures were consistent with previous years.

<sup>4</sup> The number of sick days is net of maternity leave. In February 2001, 12 weeks maternity leave was granted on full pay in the Wages Agreement 2001. Previously maternity leave was taken either as sick leave or leave without pay.

We then reviewed some particular employment categories.



We found that prison officers and nurses took unusually high levels of sick leave. A possible explanatory factor is that employees who receive allowances while at work (e.g. shift allowance) might be less likely to take sick leave. However, figure 21 provides no evidence of this tendency, with prison officers, nurses and police all being in receipt of various allowances.

Excluding prison officers from the DJIR calculation resulted in average sick leave of 6.7, which was similar to other departments. Excluding nurses from the DHHS calculation produced an average of 8.4 days per FTE, which was still considerably higher than other departments.

### 4.3 *MONITORING AND ATTEMPTS TO REDUCE USE OF SICK LEAVE*

The general approach used by most agencies was to make section managers responsible for management of the use of sick leave. Specific policies or agency-level surveys had not been used. Departments with no high-level strategy were DPIWE, DIER, DoE and DJIR. Those departments that have introduced specific measures to attempt to reduce the level of sick leave included:

- DSD
  - Flu vaccinations.
- DPPS
  - Monthly reporting of sick leave statistics to managers;
  - Comparison against benchmarks; and
  - Performance reviews.

- DPAC
  - Preventative measures to improve health and safety; and
  - Monthly reporting of sick leave statistics to managers.
- Treasury
  - Quarterly report on sick leave to the executive committee.
- DHHS
  - Policy on sick leave for nurses outlining conditions and defining the department's position;
  - Regular reports to cost centre managers; and
  - Some individual monitoring.

#### **4.4 RECORDING OF LEAVE, MEDICAL CERTIFICATES**

We tested a sample of instances of sick leave at all agencies. Other than two missing applications for sick leave, and one missing medical certificate we found that sick leave was authorized, properly recorded, and that medical certificates had been obtained where required. We also noted that the Empower system used by most agencies provided an automatic reminder if certificates were not provided in the required period.

#### **4.5 CONCLUSION – SICK LEAVE**

There was no clear trend for sick leave; either upwards or downwards. Sick leave per FTE for most agencies is in an acceptable range of 4 to 6 days per FTE for most agencies. The exceptions were DJIR and DHHS, both of which had their averages inflated by particular occupation groups; i.e. prison officers and nurses respectively.

Four departments had introduced measures to monitor sick leave levels and prevent abuse, including DHHS with the highest average sick leave.

We found that sick leave was correctly recorded and subject to presentation of medical certificates as required by legislation.

## **Special and other leave**

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## 5 SPECIAL AND OTHER LEAVE

**The audit sought evidence that special leave was comparable between agencies, and between years, correctly classified and only granted for appropriate reasons.**

### 5.1 BACKGROUND

This category includes a number of separate categories of leave, which we have grouped as follows:

Leave on account of special circumstances (special leave)      The *State Service Regulations 2001* give the Heads of Agency discretion to grant leave on account of special circumstances:

- In the event of the serious illness of a relative of the employee;
- In the case of other pressing necessity relating to the employee; or
- To enable the employee to participate in a sporting or cultural event at a national or international level.

Maternity leave      As from 1 February 2001 under the State Services Wages agreement 2001, an eligible female employee is entitled to a maximum of 52 weeks leave of absence. Up to 12 weeks of this period is paid leave.

Paternity Leave is also available but only as leave without pay.

Bereavement leave      Ministerial Direction No. 2 of 2001 allows that in the event of the death of a relative of an employee, the relevant Head of Agency may grant up to 5 days paid leave.

Other leave      Other forms of paid leave include:

- Defence leave;
- Study leave; and
- Jury leave.



## 5.2 COMPARISON BETWEEN AGENCIES

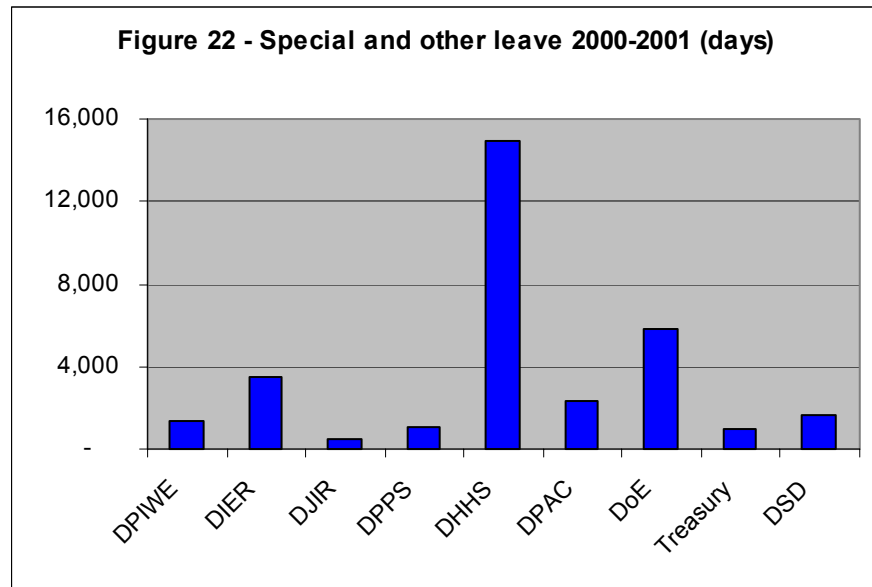


Figure 22 shows that DHHS accounted for nearly half the special and other leave taken in the 2000-2001 financial year. However, since DHHS is the largest department, a fairer comparison is to compare days per FTE.

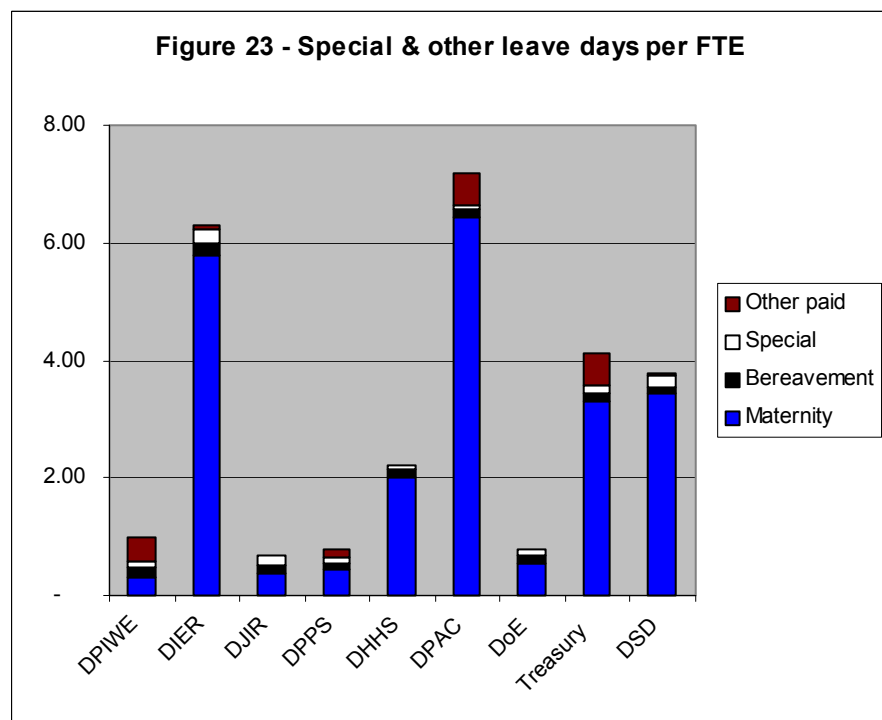
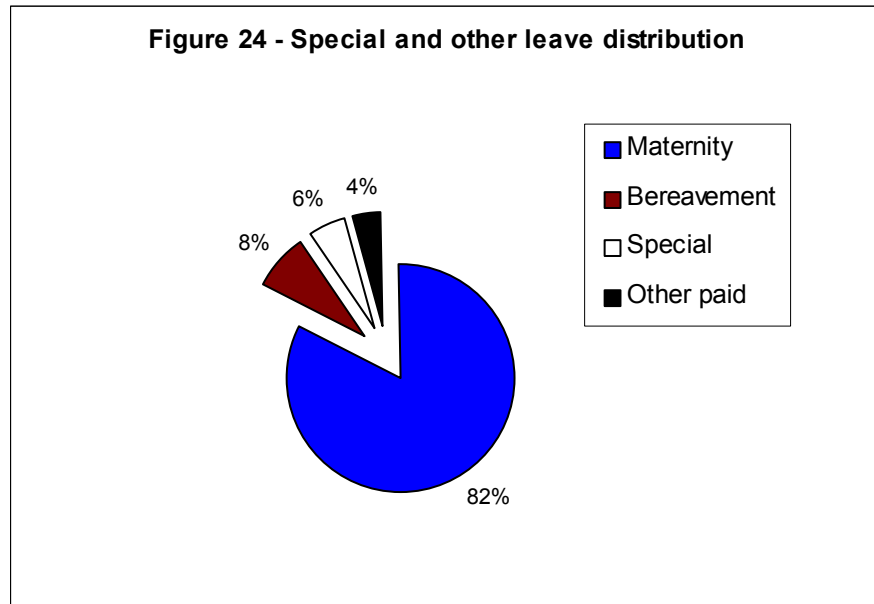


Figure 23 indicates that DIER and DPAC employees took substantially more special and other leave than employees in other departments. When the type of special and other leave was taken into consideration we found that approximately 90% consisted of maternity leave at both agencies.

The distribution across all agencies is shown in figure 24.



Given the high proportion of special and other leave, and the unavoidable nature of the leave, we considered it unlikely that useful conclusions would be reached from further analysis of this area.

### **5.3 COMPARISON BETWEEN PERIODS**

Good comparative data was not available in some departments. This, together with the changed conditions for maternity leave, made it impossible to perform effective comparison with previous years.

### **5.4 DETAIL TESTING**

We tested a sample of special and other leave at all departments for authorisation and appropriateness of reasons given. No discrepancies were noted.

### **5.5 CONCLUSION – SPECIAL LEAVE**

DIER and DPAC had unusually high average special leave per FTE; however, no conclusions were drawn because of the preponderance of maternity leave in the category. The lack of comparative data in some departments together with changed conditions for maternity leave made it impossible to perform effective comparison with previous years. All special leave tested was found to have been approved, and for appropriate reasons.

## **Recent reports**

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## RECENT REPORTS

1998	SPECIAL REPORT NO. 25	THE YEAR 2000 - ARE WE READY?
1998	SPECIAL REPORT NO. 26	CAPITALISATION AND REPORTING OF ROAD ASSETS IN TASMANIA
1998	SPECIAL REPORT NO. 27	USE OF MOTOR VEHICLES IN GOVERNMENT AGENCIES
1998	SPECIAL REPORT NO. 28	PAYMENT OF ACCOUNTS IN GOVERNMENT AGENCIES
1999	SPECIAL REPORT NO. 29	COMPETITIVE TENDERING AND CONTRACTING BY GOVERNMENT DEPARTMENTS
1999	SPECIAL REPORT NO. 30	THE YEAR 2000: COMING READY OR NOT
2000	SPECIAL REPORT NO. 31	LITERACY AND NUMERACY IN TASMANIAN GOVERNMENT SCHOOLS
2000	SPECIAL REPORT NO. 32	ASSISTANCE TO INDUSTRY
2000	SPECIAL REPORT NO. 33	FOOD SAFETY
2000	SPECIAL REPORT NO. 34	PROCUREMENT IN TASMANIA GOVERNMENT DEPARTMENTS
2001	SPECIAL REPORT NO. 35	SOFTWARE LICENSING
2001	SPECIAL REPORT NO. 36	COLLECTION OF RECEIVABLES AND LOANS IN TASMANIAN GOVERNMENT DEPARTMENTS
2001	SPECIAL REPORT NO. 37	ARCHIVES OFFICE OF TASMANIA
2001	SPECIAL REPORT NO. 38	THE IMPLEMENTATION OF GOODS AND SERVICES TAX IN GOVERNMENT AGENCIES AND LOCAL GOVERNMENT ENTITIES
2001	SPECIAL REPORT NO. 39	BANK ACCOUNT RECONCILIATIONS
2002	SPECIAL REPORT NO. 40	ENVIRONMENTAL MANAGEMENT AND POLLUTION CONTROL
2002	SPECIAL REPORT NO. 41	KEEPING SCHOOLS SAFE
2002	SPECIAL REPORT NO. 42	FOLLOW UP OF PERFORMANCE AUDITS 1997-1998
2002	SPECIAL REPORT NO. 43	ORAL HEALTH SERVICE: SOMETHING TO SMILE ABOUT?
2002	SPECIAL REPORT NO. 44	MANAGING COMMUNITY SERVICE ORDERS
2002	SPECIAL REPORT NO. 45	BUSINESS NAMES AND INCORPORATED ASSOCIATIONS: WHAT'S IN A NAME