Annual Leave Audit

Why are annual leave audits important?

The Holidays Act 2003 changed the rules for annual leave to be accrued, valued and consumed in weeks from 1 April 2004

Unfortunately most payroll companies and employers continued using "traditional" methods which has caused an estimated $2 billion underpayment to staff due to incorrect methods being used.

The blame for the issues lie squarely and equally with payroll developers not making their software compliant, and the Department of Labour who did little to nothing towards engaging with the payroll community to ensure the rules were being met. They have since released guidance for employers and developers, however 10 years after the fact.

So, a leave audit can help you gauge your level of exposure to this issue and hopefully give you a better understanding of how to meet your obligations going forward.

What data do I need to provide?

At the most basic level the only data required is a simple CSV containing these fields:

Illustration of a correctly formatted CSV file for leave audit

The field content is extremely important to avoid any misunderstanding.

Field name	Example	Description
EmpCode	338	The employee's ID or badge# - preferably not the employee's name (for privacy)
Start	17-11-2003	The employee's start date in DD-MM-YYYY format
Finish	29-08-2004 (or blank)	The employee's finish date in DD-MM-YYYY format, or blank if still employed
PeriodEnd	23-11-2003	The pay period end date this line refers to in DD-MM-YYYY format

Field name	Example	Description
PayCycle	W	Identifies if the pay cycle for this pay period is Weekly, Fortnightly, Monthly or 4-weekly - valid values W, F, M, 4
Pays	1	The number of pay cycles included in this pay entry (e.g. could be 2 if the employee has 1 week of work plus 1 week of annual leave paid in the same pay run)
LiableEarnings	206.80	The gross taxable earnings, including holiday pay, that contribute towards Holidays Act calculations (excludes things like ex-gratia payments)
AnnualLeaveContent	0.00	The amount of annual leave paid in the pay period (if any)
WeeksConsumed	0.000	The number of weeks recorded as being consumed in this transaction (*most payrolls won't be able to provide this information, however if it's available then an accurate backpay figure can be calculated*)
DaysPaid	5	Optional, but may be useful to illustrate average daily pay progression as an aid to checking daily leave types

You can create the content yourself using a spreadsheet.

SmoothPay can also analyse various other payroll systems direct from their database (e.g. PayGlobal, MYOB, IMS, ACE and many others).

The audit can be performed for just one staff member, all current staff or all terminated staff.

How does the audit calculate everything?

Using a number of assumptions, which need to be made clear:

- All staff are considered "irregular", as there is no way to identify the nature of the employment agreement from the data.

- This means that a week of annual leave is valued as being the best of AWE4 (average weekly earnings for the last 4 weeks) or AWE52 (average weekly earnings for the last 52 weeks - or less if the employee started sooner).

- A "salaried" employee will generally have a consistent 4 week average and the only leave valuation issue that could arise would be if the employee received a generous increase 1 week then took extensive leave the following week/s.

- A regular waged worker will generally produce an accurate assessment.

- An irregular worker who works most weeks will also generally produce an accurate assessment.

If you don't like these assumptions then we can accommodate variations, though extra data would be needed to support different calculation rules (e.g. if you wanted to use a reduced weekly divisor if the employee is absent periodically etc. however you would need to be certain that the requirements of the Act are being met - generally you'd need to do the audit yourself)

Reconstruction of leave history

As each CSV record containing a leave value is encountered, a history entry is created that determines what proportion of a week the payment represents by working out how many weeks it represents by value (*$Value / $BestWeeklyValue x 100*)

The transaction also records the employee's AWE4 and AWE52 values in effect at that time for reference.

As each anniversary passes, a leave accrual of 4 weeks is generated (*3 weeks for anniversary dates occurring before 1 April 2007*)

Current staff leave balance

The leave record reconstruction produces a running leave balance, and the resulting balance represents the employee's expected current entitlement.

> For those still using "accrue as you go" methods, or hours, days or dollars to measure leave entitlements you need to consider the balance in different terms as the Act is fundamentally different to those methods.
>
> An employee's **entitlement** is the balance of leave accrued to their last anniversary - that is, 4 weeks accrued every anniversary (not per pay or per month) LESS any leave consumed (in weeks). Effectively this is the balance of unused leave - and it may be negative if they have been permitted to use it in advance.
>
> A **termination value** is the value calculated from unused annual leave, plus earnings since last anniversary x 8% (effectively calculating 'holiday pay' for the portion of the year since last anniversary). This is only an employee's entitlement if they leave.

You can either

- use the indicated leave balance as the employee's new balance (*this may cost more in the long run, but is the easiest method*), or
- backpay the employee for the amount they should have received for each leave taken event in order to preserve their current balance (*this may cost less, but will take more time in data preparation - see Current staff backpay below*).

Current staff backpay

The resulting summary and reconstructed leave transactions will indicate a backpay value being: *(RecordedWeeks * max(awe4, awe52)) - LeavePaid*

This information is only useful if you have accurately recorded WeeksConsumed in each leave taken transaction (otherwise IGNORE IT)

Terminated staff backpay

The same leave records are reconstructed, however, as the employee has left then the calculations are adjusted slightly (*well, quite a lot really*).

It is ASSUMED that the last pay entry is the employee's final pay.

Any leave paid out in the last pay is discarded in the calculation - we use the balance available prior to the last pay event.

The final pay leave value is calculated according to Holidays Act rules (*see our Final Pay Calculation sheet for values A-H*).

The amount over/under-paid is calculated as being the total amount that should have been paid, less the amount actually paid.

If the amount is negative, then the employee may have been overpaid (*typically smaller amounts*).

If the amount is positive then the employee has probably been underpaid.

Limiting data to 6 years

If limitations are to be applied (*e.g. just the last 6 years*) then it is reasonable to exclude staff who terminated prior to that date, however it is not reasonable to discount (*nor does it make any sense to do so*) any leave balance accrued up to that point as it forms a critical part of the logical accrual/consume reconstruction to arrive at the correct result.

The audit result data

Here are some examples and explanations for each field in the resulting data audit CSV files.

Reconstructed leave records CSV

Employee	PeriodEnd	Paid	AWE4	AWE52	Accrued	Consumed	Balance
5886	3/04/16	151.17	222.21	205.18	0	0.68	-0.68
5886	24/04/16	418.2	189.35	201.74	0	2.073	-2.753
5556	29/03/15	218.19	639.32	425.17	0	0.341	-3.094
5556	5/04/15	218.11	631.17	425.79	0	0.346	-3.44
5556	12/04/15	101.78	570.41	418.86	0	0.178	-3.618
5556	5/07/15	375	544.42	436.4	0	0.689	-4.307
5556	16/08/15	300	617.48	454.64	0	0.486	-4.793
5556	2/09/15	0	0	0	4	0	-0.793
5556	11/10/15	225	406.24	470.28	0	0.478	-1.271
5556	25/10/15	450	461.18	479.02	0	0.939	-2.21
5556	6/12/15	238.28	390.71	480.2	0	0.496	-2.706
5556	13/12/15	100.72	383.84	486.72	0	0.207	-2.913
5556	24/01/16	120.8	316.48	477.92	0	0.253	-3.166
5556	20/03/16	60.43	586.22	456.05	0	0.103	-3.269
5556	17/04/16	304.9	452.52	454.93	0	0.67	-3.939
5556	1/05/16	224.2	390.85	451.32	0	0.497	-4.436
6149	17/07/16	91.5	111.59	177.86	0	0.514	-4.95
6149	24/07/16	106.75	113.69	171.69	0	0.622	-5.572
6149	26/03/17	91.5	224.47	162.64	0	0.408	-5.98
6149	29/03/17	0	0	0	4	0	-1.98
6149	2/04/17	232.87	199.92	162.19	0	1.165	-3.145

Each field is interpreted as follows:

Field	Description
Employee	Employee's ID or badge #
PeriodEnd	The period end date that the consume transaction occurred, or anniversary date for an accrual transaction
Paid	The amount of annual leave paid in the period

Field	Description
AWE4	The 4-week average valuation for a week as at the period end date
AWE52	The 52-week average valuation for a week as at the period end date
Accrued	If the transaction is an accrual it will show 4 (*or 3 if the anniversary was prior to 1 April 2007*)
Consumed	The proportion of a week determined by the value paid divided into the best of AWE4 and AWE52
Balance	Running balance - NOTE that for a terminated employee the last transaction is irrelevant (*assuming it was the final pay transaction*) as the final pay calculation is performed on the previous balance plus any current pay in the last payment.
Backpay	If present, this column indicates the backpay value for the transaction based on weeks actually recorded @ the best of AWE4 and AWE52 (*NOTE: some variation is to be expected due to the retrospective analysis of your payroll data rather than knowing all the facts at the time the transaction occurred*)

Current staff summary CSV

This illustrates the employee's corrected balance based on the transactions provided

Field	Description
Employee	Employee's ID or badge #
Started	Start date
FirstPay	Date of first pay found in the data supplied
LastPay	Date of the last pay found
Finished	-
LastAnniv	Employee's last anniversary date
Gap	Indicates the largest gap between pay period end dates for this employee - a large gap can indicate missing pay history, extended Leave Without Pay or Parental Leave, or a very irregular work pattern - any excessive gap may mean the results cannot be trusted (you need to analyse these separately, or use a standard variance to work out a more suitable over/under-payment)
ALAccrued	The total leave accrued in the employee's period of service
ALPaid	The total $value paid as annual leave in the employee's period of service
ALConsumed	The total annual leave consumed in the employee's period of service

Field	Description
ALBalance	Unused leave balance (*may be negative if the employee has taken leave in advance of entitlement accruing*)
AWE4	4-week average as at the last pay
AWE52	52-week average as at the last pay
TerminationValue	Current termination value based on the reconstructed leave balances and earnings since last anniversary
ALBackpay	Indicates possible total backpay (or overpayment value if negative) on actual leave recorded at the corrected best average rate. Some variation is to be expected due to rules used to retrospectively value leave. Larger variations could be due to inability of the source payroll to correctly value leave, errors in capture, or including/excluding non-accruing earnings, etc.
FPCalc	Illustrates the values used in the TerminationValue calculation (*refer to the Final Pay Calculation form for details*)
Comment	Beware any comments here as they may indicate the result should not be trusted

Terminated staff summary CSV

This illustrates the employee's over/under-payment (*due to width the columns have been split*).

Data is automatically restricted to staff terminated within the last 6 years.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
	Employee	Started	FirstPay	LastPay	Finished	LastAnniv	Gap	ALAccrued	ALPaid	ALConsumed	LastAnnual	LastConsume	ALFinal	ALTotal	Owed
2	5886	20/07/15	2/08/15	24/04/16	23/04/16	20/07/15	14	0	569.37	2.753	418.2	2.073	406.34	557.51	-11.86
3	5556	2/09/14	7/09/14	1/05/16	26/04/16	2/09/15	7	4	2937.41	5.683	224.2	0.497	560.66	3273.87	336.46
4	6149	29/03/16	3/04/16	2/04/17	2/04/17	29/03/17	35	4	522.62	2.709	232.87	1.165	539.8	829.55	306.93

P	Q	R
FPCalc	Comment	
A=0.00:B=-151.17 (-0.680w):C=6968.86 since 2015-07-20:D=0.00:E=0.00:F=6968.86:G=557.51:H=406.34		
A=0.00:B=-566.71 (-1.186w):C=14092.04 since 2015-09-02:D=0.00:E=0.00:F=14092.04:G=1127.36:H=560.66		
A=0.00:B=491.01 (2.456w@199.92):C=118.92 since 2017-03-29:D=0.00:E=491.01:F=609.93:G=48.79:H=539.80		

Field	Description
Employee	Employee's ID or badge #
Started	Start date
FirstPay	Date of first pay found in the data supplied
LastPay	Date of the last pay found
Finished	Employee's termination date from the data supplied
LastAnniv	Employee's last anniversary date

Field	Description
Gap	Indicates the largest gap between pay period end dates for this employee - a large gap can indicate missing pay history, extended Leave Without Pay or Parental Leave, or a very irregular work pattern - any excessive gap may mean the results cannot be trusted (you need to analyse these separately, or use a standard variance to work out a more suitable over/ under-payment)
ALAccrued	The total leave accrued in the employee's period of service
ALPaid	The total $value paid as annual leave in the employee's period of service
ALConsumed	The total leave consumed in the employee's period of service (this total shows the reconstructed leave records total - NOTE that the last transaction entry doesn't reflect the reconstructed final pay calculation) - this is for reference but should be ignored
LastAnnual	This is the amount of annual leave paid in the employee's last pay period - it is used to determine the employee's ordinary earnings in the last pay so that the final pay calculation can be performed (and it's handy to know what it is).
LastConsumed	This is the amount of annual leave consumed in the employee's last pay period - it is used to determine the employee's actual leave balance prior to the pay period so that the final pay calculation can be performed (and it's handy to know what it is).
ALFinal	This is the result of the annual leave component of the final pay calculation (B+G)
ALTotal	Is the total annual leave value that should have been paid (ALPaid - LastAnnual + ALFinal)
Owed	The amount owed to the employee (if negative then the amount overpaid)
FPCalc	Shows the variable values used in the final pay calculation (see the Final Pay Calculation worksheet)
Comment	Beware any comments here as they may indicate the result should not be trusted

Reviewing the audit data

The CSV results show the employee's summary and leave reconstruction.

Audit comments must be regarded carefully as they may identify issues in the data, such as:

- first pay prior to start date
- large gaps in employment history (*which may result in higher than necessary averages and could be due to very irregular work patterns - perhaps the employee's contract should have been different, e.g. casual, etc.*)

The results should be regarded carefully and rechecked against original data if necessary to (dis)prove the results received.

TERMINATION PAY CALCULATION FORM

This form can be used to correctly calculate final pay for any permanent employee

Current pay value (*if any, i.e. work, unused alternative, public holidays*) **A** ☐

Value of leave remaining from last anniversary dd / mm / yyyy **B** ☐

C ☐ Liable earnings from last anniversary (*excl current pay*)

D ☐ Value "A"

E ☐ Value "B" if greater than zero, otherwise zero

F ☐ Liable earnings @ 8% = **G** ☐

Total to pay **H** ☐

Notes

A, C: Exclude discretionary payments

B: Calculated using the BEST OF:

‣ average weekly earnings for up to last 52 weeks

‣ current contract (may be averaged over last 4 weeks)

‣ agreed weekly value

If B is negative, value is determined from actual payments entries

Public Holiday Shadow: If B is positive then you need to ensure the employee is also paid for any public holidays they would normally have been paid that occur between their finish date and when their unused leave would run out.

* end*