

Holidays Act 2003 Assurance Framework

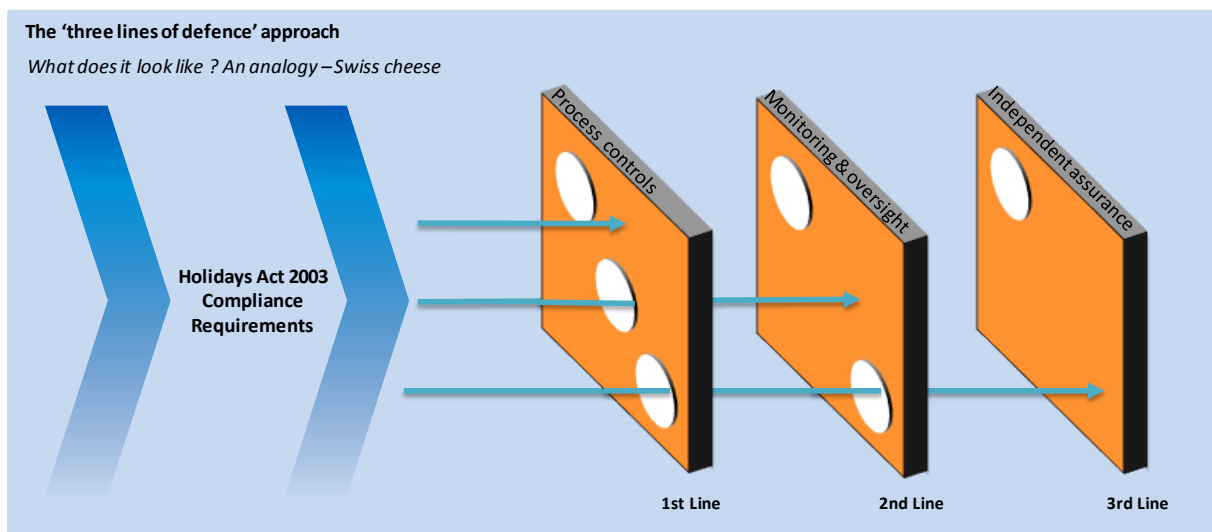
Purpose of this document

This document provides guidance on how to apply an Assurance Framework across your organisation's payroll to check for compliance with the Holidays Act 2003 ('the Act'). Although the references in this guide are specific to the Act, the Assurance Framework principles can be applied to any payroll legislative requirements.

The guide covers a range of organisations from very small to large. It is important to tailor the framework to your own requirements and use judgement when applying the principles.

What is assurance?

Assurance is a way of providing confidence to you, your employees and others that you comply with the Act. Assurance acts as the third 'line of defence' to reduce the likelihood of any compliance issues occurring. The diagram below illustrates how the 'three lines of defence' approach works.



The **first line of defence** is the most important. These are the controls you have in place to ensure that leave entitlements are calculated in line with the requirements of the Act. Controls include keeping accurate records, ensuring that you understand working arrangements, and checking that any payroll system settings are set up correctly.

Sometimes though mistakes happen and so we need additional checks to ensure that controls are working as we expect them to. This is called the **second line of defence**. Often functions such as Finance, HR, Legal, and Risk and Compliance will perform these checks. In smaller organisations, for example, this may be as simple as someone from outside of your team checking your calculation of leave entitlements.

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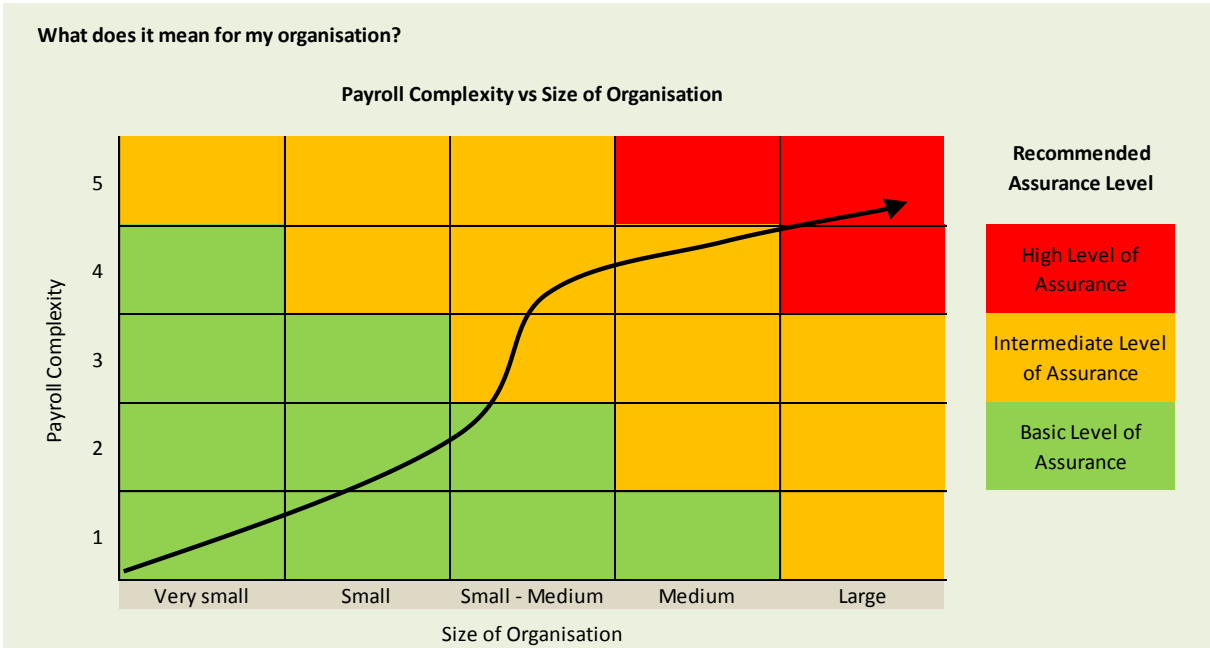
The **third line of defence** provides a level of ‘independent’ assurance, which may be through your Internal Audit function or an external party. This may be a general level of assurance, for example, if your payroll provider has obtained an independent audit of their payroll system and controls. Alternatively, it may be specific covering the effectiveness of your controls to ensure compliance with the Act.

It is unlikely that your statutory financial audit will detect non-compliance with the Act. If you believe it does, you should make appropriate enquiries with your external auditor to understand their work in this area.

What is the right level of assurance for my organisation?

There is no ‘one size fits all’ assurance framework. The right level of independent assurance depends on the size of your organisation and the complexity of your payroll.

The larger your organisation and/or the higher your payroll complexity, the higher the level of assurance required. The Assurance Level Map provides a way of determining the recommended level of assurance for your organisation. The diagram below illustrates how you can do this.

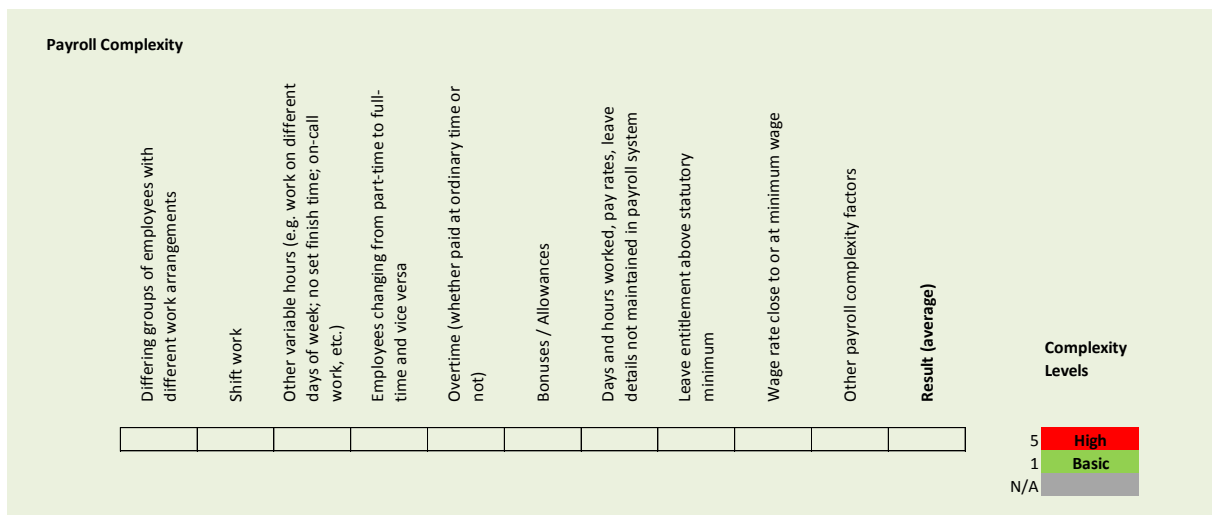


How do I work out my organisation size and complexity?

For the purposes of this guidance your organisation’s size is determined as follows:



To determine your payroll complexity, rate each of the characteristics below on a scale of 1 to 5, with 1 being basic and 5 being high. If a characteristic is not applicable then rate it as N/A. Consider any other factors such as any previous non-compliance issues or management concerns that may affect your payroll complexity. If you are not sure about how to rate these characteristics it is best that you seek professional advice.



Add up your scores to get a total and then divide by the number of applicable characteristics to calculate your average result. The higher your average result the more challenging it may be for you to comply with the Act. This is likely to mean that you will need a higher level of assurance.

What does good assurance look like?

Now that you know your recommended assurance level, the next step is to plan your assurance activities. This will vary by organisation and will depend on factors such as the level of manual calculation versus automated processes and controls in your payroll processes. Below are some examples of independent assurance activities that you may want to consider as part of your planning process.

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