The Minister for Finance has issued revised Standing Directions 2016 under the *Financial Management Act*.

The Directions are designed to modernise Victoria’s public financial management.

The Directions commence on 1 July 2016.

Standing Directions

The Standing Directions of the Minister for Finance (Directions) are designed to help the VPS achieve a high standard of public financial management and accountability, consistent with the *Financial Management Act 1994* (FMA).

The Directions have not been significantly revised since 2003. Informed by consultation from September 2015 until January 2016, the Minister for Finance has now issued revised Directions.

Key changes

The key changes to the Directions include:

* implementing a **tailored framework** to address agency size and risk;
* increasing the **accountability** of key financial management roles;
* introducing new requirements for all agencies to **plan and manage performance**;
* strengthending **reporting to government** and the **portfolio role**;
* better controls and reporting for **fraud and corruption**;
* **public attestation** in annual reportsand **better compliance requirements**; and
* improving the **structure** of the Directions to increase useability and cohesiveness.

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| **Implementation**  Agencies must comply with the Directions from their commencement on 1 July 2016.  DTF will support implementation in a number of ways. The DTF website includes a new [Standing Directions of the Minister for Finance](http://www.dtf.vic.gov.au/Government-Financial-Management/Standing-Directions-of-the-Minister-for-Finance) page,[[1]](#footnote-1) with helpful information, news, resources and links to related policies. DTF is currently developing additional guidance material for publication on the website, including FAQs and a compliance checklist. The website will be updated frequently.  DTF will also present to relevant agency forums on the revised Directions.  Agencies may ask questions or seek help from DTF at the contact details below.  Portfolio Departments have a strengthened role to support their agencies under the revised Directions, and it is expected that departments will assist agencies to prepare for the revised Directions. |

Transition and exemptions

In relation to the 2015-16 compliance year, agencies are still required to complete compliance monitoring and certification under the 2003 Directions.

Exemptions from the 2003 Directions do **not** carry over to the revised Directions. Any agency that wishes to receive an exemption for the 2016-17 year should seek it as soon as possible, and with sufficient time before commencement on 1 July 2016.

While the Directions introduce public attestation of compliance in agencies’ annual reports, this requirement does not apply to the first year of operation. The first public attestation will be made in around September 2018 and relate to the 2017-18 year.

More information about the transition is provided later in this fact sheet.

Contact

To ask a question or arrange a meeting with DTF please contact [standing.directions@dtf.vic.gov.au](mailto:standing.directions@dtf.vic.gov.au) or 9651 0031.

Summary of revised Directions

The revised Standing Directions are intended to strengthen accountability, planning and decision‑making, and create a stronger flow of information between departments, agencies and government.

Summary

The Standing Directions are issued by the Minister for Finance under section 8 of the *Financial Management Act 1994*.

The Directions establish standards for financial management accountability, governance, performance, sustainability, reporting and practice for Agencies.

They apply to departments and public bodies as defined under the FMA, with some exceptions (discussed further below).

In some cases, the Directions require agencies to apply a relevant external law, standard or policy. This means that, if the agency is subject to the policy, it must comply with mandatory parts of the policy.

DTF consulted closely with agencies on the revised Directions. A summary of consultation, and the changes made as a result, is available from the [DTF website](http://www.dtf.vic.gov.au/Government-Financial-Management/Standing-Directions-of-the-Minister-for-Finance).

The Introduction of the Directions provides more information summarising the scope and content of the Directions.

The key areas of change from the 2003 Directions to the 2016 Directions are summarised below.

Tailored framework

The revised Directions are tailored to accommodate differences between agencies’ size, risk and governance.

**Departments and agencies** that are subject to the FMA as ‘public bodies’ (around 250 agencies), will be required to fully apply the Directions and Instructions. However, the Directions are less prescriptive, allowing for application tailored to the size and risk profile of the agency. For example, the requirements for recording revenue have been simplified, removing the ‘how to’ and focusing on the outcome (see Instruction 3.4: Internal control system).

**Specific classes of entities** are not required to comply with the Directions (Direction 1.2). This includes approximately 4 000 entities, most of which are very small, and have a different risk profile and structure to other agencies (that are subject to the Directions). The relevant entities are school councils, class B cemetery trusts, committees of management, volunteer units of VicSES and volunteer brigades of the Country Fire Authority (CFA).

Portfolio departments, VicSES and CFA will be required to establish appropriate financial management requirements for these entities (Direction 2.3.5). The requirements must have regard to the Directions, and include appropriate compliance monitoring.

**Independent offices** **of Parliament, Court Services Victoria and the Judicial College of Victoria** will be subject to the revised Directions, but relevant Directions and defined terms will be tailored to safeguard their independence from government. For example, the definition of ‘Government priorities’ for independent offices is separate, referring to their statutory functions rather than the priorities of the government of the day (Direction 1.6).

Accountability of key financial management roles

The revised Directions set out specific accountabilities for Responsible Bodies, Accountable Officers (AOs) and Chief Finance and Accounting Officers (CFOs) (Direction 2).

Note that in departments and agencies that do not have a board, the secretary/agency head has a dual role as both Responsible Body and Accountable Officer.

**Responsible bodies** (e.g. governing boards) have ultimate responsibility for implementing the Directions in their agency, and their accountabilities focus on strategic matters. Specific accountabilities include supporting the achievement of government priorities, establishing effective financial governance arrangements and keeping the responsible minister informed.

**Accountable Officers** (e.g. agency heads) have the role of promoting better financial management and reporting to the Responsible Body. Specific accountabilities include managing the proper use of public resources, ensuring financial sustainability, planning and managing performance, identifying and managing risks, establishing internal controls and meeting internal and external reporting.

In departments, AOs are also accountable to the responsible Minister, including to notify the minister of significant issues affecting performance, standing or reputation. They must also support their portfolio agencies.

**CFOs** have a strategic role for financial management. They report to the AO and, where relevant, the Responsible Body. Accountabilities include providing accurate financial and non‑financial information and reports, keeping the AO informed, providing strategic advice to management on financial issues and developing the agency’s financial management capability.

Portfolio departments and agency CFOs also have specific accountabilities to provide relevant information to one other.

Planning and performance management

The revised Directions aim to improve performance and financial sustainability by requiring a consistent approach by the VPS to planning and performance management.

The Directions require all agencies to plan and manage performance to achieve financial sustainability (Direction 4.1). In doing so, the AO must prepare plans in line with government priorities, allocate resources efficiently, establish systems to monitor and report on performance and keep the Responsible Body informed of these activities.

Departments will also be subject to the new *Performance Management Framework*, which includes more detailed rules and guidance for planning and performance management.

Reporting to government and portfolio role

The Directions require **targeted and timely reporting to Government** on financial issues and risks. Responsible bodies must keep their Minister informed of Agency activities and strategic issues with potential financial implications for the State (Direction 2.2).

Accountable Officers must be responsive to Ministerial requests for financial information, and inform them of significant issues affecting the agency’s or State’s financial management, performance, sustainability or reputation (Direction 2.3.2).

Additional reporting requirements to government and DTF are set out in Direction 5.4. There are also new requirements to report fraud and corruption, discussed further below.

**Strengthened role for portfolio departments and DTF** will improve the support provided to agencies and the information provided to government (Directions 2 and 5). The Directions include a role for DTF to support portfolio departments, and for portfolio departments to support agencies, to achieve better financial management.

Fraud and corruption

The Directions include strengthened controls and reporting for fraud and corruption to improve processes and ensure that government is informed appropriately (Direction 3.5). The 2003 Directions included prescriptive requirements to report thefts and losses that met a certain threshold, but were silent on broader issues such as corruption. The revised Directions (Direction 3.5):

* require stronger controls against fraud and corruption;
* replace annual reporting to the Minister for Finance on all thefts and losses with immediate reporting of significant and systemic incidents to the portfolio department or DTF;
* require incidents of fraud, and plans to remedy it, to be reported both internally (Audit Committee) and to Government (minister, department and the Auditor‑General).

Public attestation and compliance

The revised Directions aim to improve compliance through public attestation and strengthened audit committees and internal audit.

**Public attestation** will increase accountability and transparency. Under the 2003 Directions, agencies made an annual certification of compliance that was internal to government. There was also public attestation for risk and insurance compliance. The Revised Directions require a public attestation in annual reports in relation to all requirements in the Directions (Direction 5.1.4). This is subject to a transitional period, so for most agencies the first attestation would take place in around September 2018 and relate to the 2017‑18 year.

**Audit committees and internal audit** have strengthened roles that will improve and embed compliance (Direction 3.2), including:

* a stronger role for the audit committee to monitor compliance with the Directions;
* a requirement for audit committees to monitor actions taken to remedy compliance issues; and
* a requirement for internal audit to conduct detailed reviews of all requirements over a four year cycle based on an assessment of compliance risk.

Modernisation

Other changes to the Directions:

* reflect changes in the operating environment since 2003;
* utilise relevant recognised standards, and draw from the financial management framework and practices in other jurisdictions; and
* formalise existing Victorian Government policies and practices that support sound financial management, such as the *Asset Management Accountability Framework*.

Structure

The structure of the Directions, Instructions and Guidance has been streamlined to increase useability and cohesiveness. As a result, some requirements have been consolidated.

The Directions place requirements and guidance into separate documents for clarity of application, as follows:

* **Directions**: Mandatory fundamental requirements, issued by Minister for Finance;
* **Instructions**: Mandatory detailed requirements for specific areas of risk, issued by DTF under Minister’s delegation;
* **Guidance**: Non-mandatory supporting information, issued by DTF.

Further information

Further information is available from the [DTF website](http://www.dtf.vic.gov.au/Government-Financial-Management/Standing-Directions-of-the-Minister-for-Finance)or at [standing.directions@dtf.vic.gov.au](mailto:standing.directions@dtf.vic.gov.au).

Transition to 2016 Directions

The Directions commence on 1 July 2016.

There are special provisions in place for transition to the new compliance regime.

Instruction 5.1 provides more detail on the transition.

2015-16 compliance year

After the completion of the 2015-16 year, the compliance activities required under Financial Management Compliance Framework 2005 (FMCF) still apply.

This means that agencies must complete the FMCF compliance assessment on the Compliance Monitoring System (CMS); certify compliance to their Responsible Minister in accordance with the FMCF; and undergo public attestation in relation to the Victorian Government Risk Management Framework (VGRMF).

Portfolio Departments must provide a portfolio compliance summary to DTF in accordance with the FMCF.

Commencement and compliance period

The Directions commence on 1 July 2016.

A small number of Directions are subject to transitional arrangements, whereby they commence on 1 July 2017 or later. See Direction 1.4.

Agencies are required to comply with revised Directions for the entire period of each financial year. This means that compliance for 2016-17 must be assessed against the period covering 1 July 2016 until 30 June 2017.

2016-17 compliance year

The Directions establish a new process for monitoring and reporting on compliance, which is discussed further below. In relation to the 2016-17 year, all new processes are in force, with the exception of public attestation, which commences in relation to the 2017-18 year. Instead of public attestation, an internal to government trial attestation must be completed in relation to 2016-17.

Public attestation is still required in relation to VGRMF for 2016-17.

Compliance reporting

Each year from 2017, agencies must provide a compliance report to their Portfolio Department by **15 September**. The report sets out compliance, deficiencies and risks.

Portfolio Departments must provide a portfolio compliance summary to DTF by **31 October**. This covers the compliance of the department and its portfolio agencies.

DTF must report to the Minister for Finance on whole of government compliance, risks, and advice on proposed strategies to improve compliance by **15 December**.

In relation to 2016-17, these reports will include a trial attestation.

Public attestation

From 2017-18, after completing compliance reporting, all Responsible Bodies of agencies must publicly attest to compliance with applicable requirements in the FMA, the Directions and the Instructions, and disclose all material compliance deficiencies. This attestation must appear in the agency’s annual report. Instruction 5.1 sets out a template for the public attestation.

Exemptions

Exemptions from the 2003 Directions do **not** carry over to the revised Directions. Any agency that wishes to receive an exemption for the 2016-17 year should seek it as soon as possible, and with sufficient time before commencement on 1 July 2016.

Further information

Agencies are encouraged to review Instruction 5.1 to help understand the transition to compliance with the new Directions.

Further information is available from the [DTF website](http://www.dtf.vic.gov.au/Government-Financial-Management/Standing-Directions-of-the-Minister-for-Finance)or at [standing.directions@dtf.vic.gov.au](mailto:standing.directions@dtf.vic.gov.au).

1. <http://www.dtf.vic.gov.au/Government-Financial-Management/Standing-Directions-of-the-Minister-for-Finance> [↑](#footnote-ref-1)