

DECEMBER 2022

2021-22 Financial Management Compliance Report

Effective financial governance and resource management

Prepared in accordance with the Standing Directions issued under the
Financial Management Act 1994, Instruction 5.1

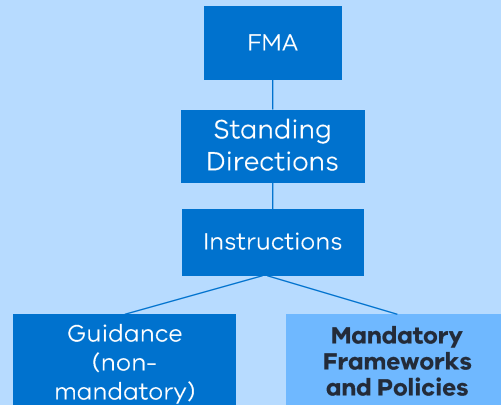
VICTORIA
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Background

The 2018 Standing Directions have strengthened departmental and agency focus on achieving a high standard of public financial management and accountability by:

- modernising Victoria's public financial management
- strengthening accountability for financial management in departments and agencies



Standing Directions

- Establish minimum financial management requirements for robust management of Victorian public resources issued under the *Financial Management Act 1994* (FMA)
- Standing Directions, Instructions and mandated Frameworks apply to all departments and agencies subject to the FMA, unless exempt

Exemptions

- The Assistant Treasurer may, by written direction, exempt agencies
- Agency exemption applications must be in writing, stating the rationale for the request and what alternative actions or procedures will be implemented to maintain the integrity of their financial management framework
- Currently, over 50 agencies have various levels of exemption ranging from full to specific. These agencies are mainly smaller-sized, lower-risk agencies, with alternative arrangements in place, many with their portfolio departments

2021-22 coverage

- 235 departments and agencies self-assessed compliance against the applicable mandatory requirements of the Standing Directions, Instructions and various Frameworks
- The majority of portfolio agencies adhered to the timelines for reporting annual compliance outcomes to portfolio departments

Roles and responsibilities

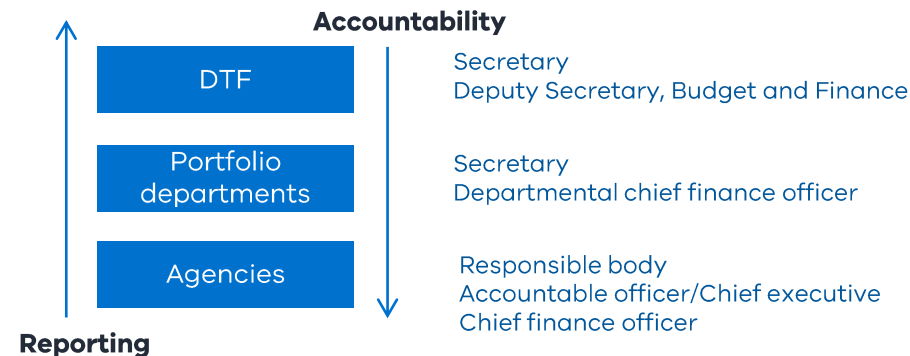
Stronger roles for:

- Portfolio departments
- Audit committees
- Internal audit

Increased accountability for:

- Responsible bodies
- Accountable officers
- Chief finance officers

- Detailed agency compliance reports are provided to portfolio departments each year
- Departments support portfolio agencies and analyse and report compliance matters to DTF
- Senior management, responsible bodies, audit committees and internal audit all have important roles in financial management:
 - Clear governance accountabilities for agency responsible bodies, accountable officers and chief finance officers
 - Agency audit committees review their agency's compliance assessment with the requirements each year
 - Agency internal audit is required to periodically review compliance with all mandated financial management requirements in detail



2021-22 whole of government compliance results

- Compliance results are expected to continue to improve over time as departments and agencies fully embed the 2018 Standing Directions and related requirements in their day to day business activities
- Agency audit committees review their agency's compliance assessment and annual report attestation statement and endorse the annual compliance report to portfolio departments
- Reported compliance deficiencies indicate departments and agencies are taking financial management legislative obligations seriously and see good financial management governance as a critical aspect of their business operations

- Overall there was another reduction in the number of departments and agencies reporting material compliance deficiencies; this trend is in line with the expectation that departments and agencies focus on rectifying these material issues.
- Reported material deficiencies this year related to:
 - Direction 3.4 Internal control systems
 - Direction 4.2.3 Asset management accountability
 - Direction 4.2.1.2 Agencies subject to Victorian Government Purchasing Board coverage
- Reported compliance deficiencies include not meeting requirements in the following areas:
 - Asset management accountability
 - Development of internal control system policy and procedures
 - Risk management, including business continuity planning
 - Procurement of goods and services
 - Public construction accountability
- Non-material compliance outcomes highlighted common themes to previous years
- Where compliance deficiencies have been reported all departments demonstrated a strong commitment to working with portfolio agencies to develop capabilities and implement strategies to address these in future reporting years

Key compliance risks

- Departments and agencies identify and detail key areas of the Directions and Instructions that represent a significant compliance risk to the organisation and the strategies to manage these risks
- A significant compliance risk has the **potential** for both financial and/or reputational loss due to failure to comply with the Directions and Instructions. A significant compliance risk is not necessarily a deficiency (which is an actual instance of non-compliance), however, compliance deficiencies may be an indicator of a compliance risk

Departments and agencies identified a number of key compliance risks, describing the potential for financial or reputational loss due to failure to comply with the Directions and Instructions

In 2021-22, identified risks were largely consistent with reported compliance deficiencies and included risks in the areas of:

- Asset management accountability
- Internal control systems
- Fraud, corruption and other losses
- Risk management
- Managing financial information

These risks continue to be monitored with rectification plans implemented as necessary

Reporting and public attestation process going forward

- Financial management attestation statements of compliance with the Standing Directions and Instructions are included in annual reports from the 2017-18 year onward
- Detailed internal reporting continues to assist agencies to identify and rectify specific compliance matters
- Departments and agencies continue to work towards resolving existing compliance issues
- There has been increased focus on sharing better practices across government

Areas for focus for the 2022-23 reporting and attestation year

- Continue to prioritise resolution of material compliance deficiencies and resolve other deficiencies
- Regular monitoring of identified compliance risks to ensure appropriate remedial and mitigation actions take place
- Ongoing monitoring of the veracity of evidence supporting compliance with the Standing Directions
- Prompt reporting of significant or systemic fraud, corruption and other losses, in accordance with mandated requirements
- DTF will continue to work with departments in identifying ways to better support agencies in meeting their compliance and reporting obligations, particularly with the more complex Frameworks

Building a culture of compliance improvement

- Activities such as the establishment of communities of practice across and within departments, various sector or topic forums and the provision of guidance has helped build a culture of sharing better practices across government
- Departments and agencies are committed to developing and maintaining robust systems, and to identify other opportunities to improve compliance in the future
- DTF will continue to engage and communicate with agency stakeholders, to allow agencies to better understand the requirements set out in the public construction procurement framework
- VAGO has finalised an audit on business continuity and will conduct a performance audit in the next year on managing state significant risks. Departments and agencies, including DTF, will respond to any VAGO recommendations to improve areas of compliance identified as needing further attention

Strategies for improving future compliance

- Reported compliance deficiencies are supported by rectification strategies, ensuring issues are resolved in a timely manner
- Fraud and corruption prevention continues to be a focus for departments and agencies

Rectification

- Departments and agencies with reported compliance deficiencies will work to resolve these
- Compliance with complex and new requirements, including asset management accountability, public construction accountability and supply policies in the procurement of goods and services, still requires work
 - These will continue to be a focus in the current year and the next. Departments have a responsibility to work with and support their portfolio agencies
- DTF continues to work with departments to embed good compliance and robust financial management practices and reporting across the VPS

Fraud, corruption and other losses

- In 2021-22, a significant proportion of reports on fraud, corruption and other losses related to fraudulent behaviour and loss related to government grant applications and distributions
- Departments have implemented new checks and processes, and will continue to improve its systems, to mitigate this risk

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