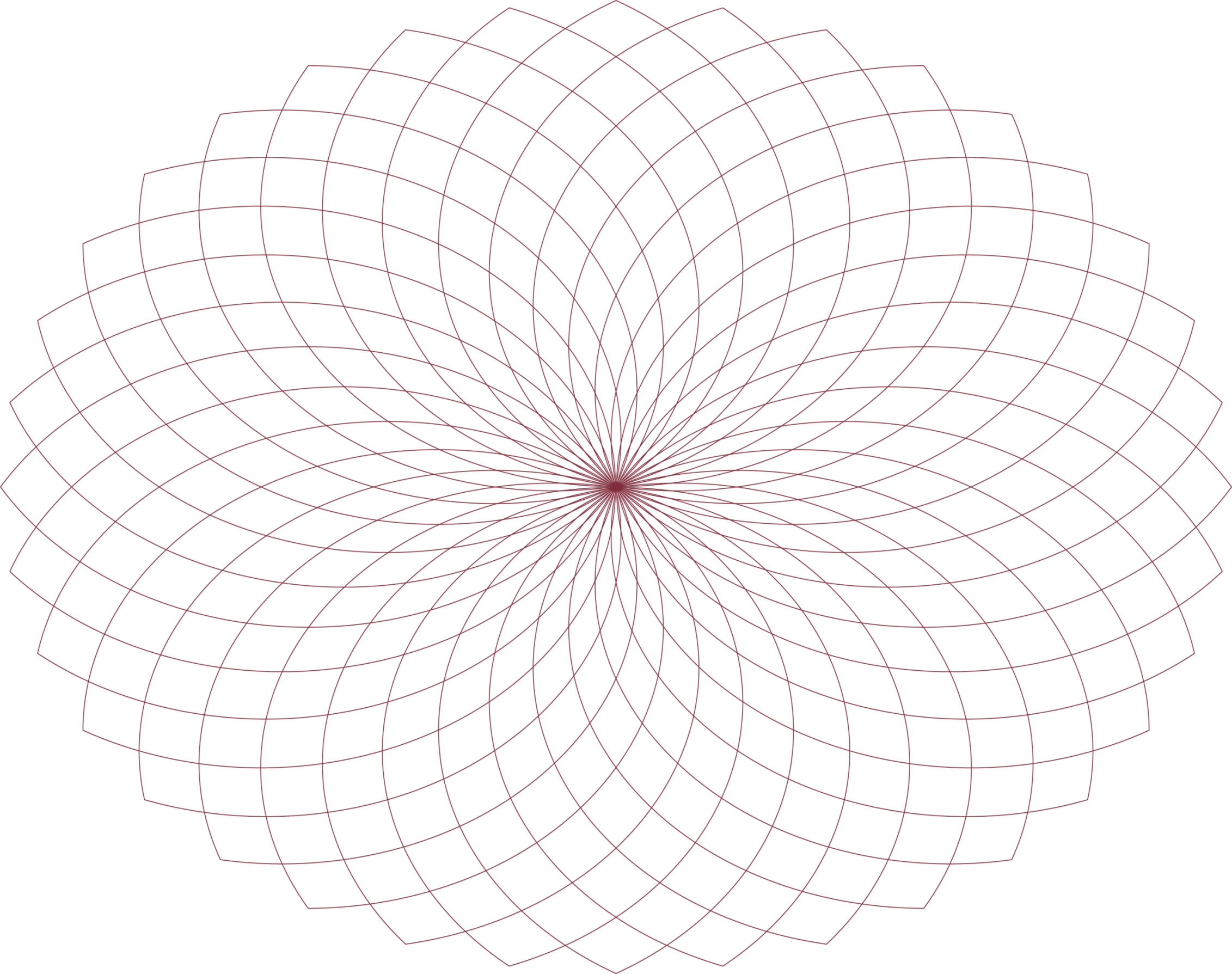
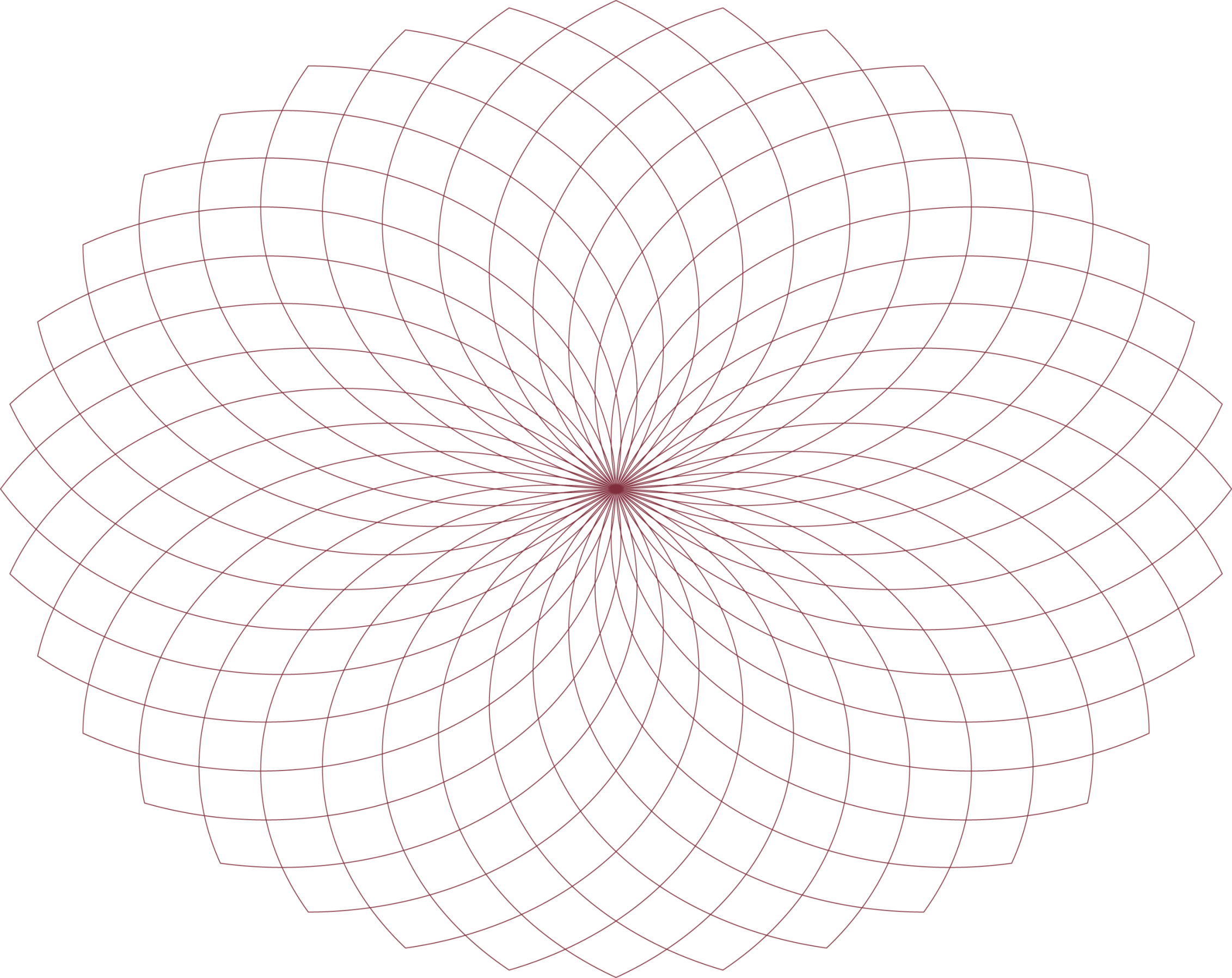
Annual Financial Management Compliance and Assurance Report

For the year 2014‑15



The Secretary

Department of Treasury and Finance

1 Treasury Place

Melbourne Victoria 3002

Australia

Telephone: +61 3 9651 5111

Facsimile: +61 3 9651 2062

dtf.vic.gov.au

Authorised by the Victorian Government

1 Treasury Place, Melbourne, 3002

© State of Victoria 2015

[](http://creativecommons.org/licenses/by/3.0/au/)

You are free to re‑use this work under a [Creative Commons Attribution 4.0 licence](http://creativecommons.org/licenses/by/4.0/), provided you credit the State of Victoria (Department of Treasury and Finance) as author, indicate if changes were made and comply with the other licence terms. The licence does not apply to any branding, including Government logos.

Copyright queries may be directed to [IPpolicy@dtf.vic.gov.au](mailto:IPpolicy@dtf.vic.gov.au)

ISSN 2204‑9266 (pdf)

Published December 2015

If you would like to receive this publication in an accessible format please email [information@dtf.vic.gov.au](mailto:information@dtf.vic.gov.au)

This document is also available in Word and PDF format at [dtf.vic.gov.au](http://www.dtf.vic.gov.au)

# Setting the scene

## Standing Directions of the Minister for Finance (Directions)

The Standing Directions of the Minister for Finance (Directions) support the *Financial Management Act 1994* (FMA)by prescribing requirements that Victorian Government departments and public bodies must follow. These requirements aim to encourage the achievement of organisational objectives, provide a basis for continuous improvement, and ensure a consistent and sound standard of financial management performance across the Victorian public sector (VPS).

This report summarises the results of the 2014‑15 financial management compliance certification process, highlighting areas of non-compliance or partial compliance. The report also highlights areas in which agencies found difficulty achieving full compliance.

## FMCF certification process

The annual certification process monitors public sector compliance with the Directions and informs the preparation of reports to the Minister for Finance.

The process involves agencies self-assessing compliance with the Directions and certifying to their relevant minister. Compliance results are submitted to the Department of Treasury and Finance (DTF) through the Compliance Monitoring System and this report, written for the Minister for Finance, consolidates these results. Certifying agencies are those that meet the definition of ‘public body’ in the FMA as well as providing financial data to prepare the Financial Report for the State of Victoria.

**For 2014‑15, 253 agencies self‑assessed annual compliance with 33 Direction Requirements and certified results to the relevant minister.**

The number of Requirements was reduced from 34 in 2013‑14 to 33 in 2014‑15. The former Direction Requirement 31 – *Insurance* is now covered under Direction Requirement 30 – *Risk management compliance*.

The list of certifying agencies is reviewed annually, and changes were made for the 2014‑15 certification period. The changes to the list of certifying agencies for the 2014‑15 certification period are listed in Appendix A.

## Certification descriptors

Certifying agencies use the following descriptors to self‑assess compliance against each of the 33 Direction Requirements listed in Appendix B:

* **compliant** – an agency certifies full compliance with all elements in the Direction Requirement;
* **partially compliant** – an agency certifies full compliance with the majority of elements in the Direction Requirement; and
* **non‑compliant** – an agency certifies non‑compliance with the majority of elements in the Direction Requirement.

## Assurance reviews

As annual certification is a self-assessment process, it is important that compliance results are validated. DTF conducts a number of assurance reviews of individual agencies from February to May in the year after the certification period to validate the certification results and inspect financial management practices.

A report on compliance trends, observations and systemic issues is provided to the Minister for Finance at the conclusion of the assurance reviews.

# Summary of certification results

## Whole of government compliance remains high

In 2014‑15:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **47%** | 🞧 | **48%** | 🞧 | **5%** |
| **118 agencies** indicated they were **compliant** with all applicable Direction Requirements | **121 agencies** indicated they were **partially compliant** with one or more applicable Direction Requirements | **14 agencies** indicated they were **non‑compliant** with one or more applicable Direction Requirements. |

## Compliance by portfolio

Table 1 shows compliance results in the 2014‑15 financial year by portfolio. Portfolio refers to a group of legal entities, while a ‘department’ refers to a single legal entity.

Table 1: VPS agency compliance by portfolio in 2014‑15\*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Full | Partial | Non | Total |
| Court Services Victoria (CSV) | 0 | 2 | 0 | 2 |
| Department of Economic Development, Jobs, Transport and Resources (DEDJTR) | 18 | 16 | 0 | 34 |
| Department of Education and Training (DET) | 10 | 9 | 0 | 19 |
| Department of Environment, Land, Water and Planning (DELWP) | 24 | 27 | 5 | 56 |
| Department of Health and Human Services (DHHS) | 43 | 47 | 8 | 98 |
| Department of Justice and Regulation (DJR) | 8 | 10 | 0 | 18 |
| Department of Premier and Cabinet (DPC) | 3 | 7 | 0 | 10 |
| Department of Treasury and Finance (DTF) | 10 | 3 | 1 | 14 |

\*The table excludes two certifying agencies under the Parliament.

In the 2014‑15 financial year, 239 agencies (94 per cent) achieved either full or partial compliance.

## Historical compliance

The 2014‑15, results declined compared to previous years’ compliance results. Compliance declined as a result of DTF’s stronger Treasury Risk Management compliance monitoring but results are expected to improve in succeeding years.

While the level of full and partial compliance continues to be high (averaging 94 per cent over five years), it is not necessarily expected that all agencies will achieve full compliance with all requirements and related procedures, as:

* the Direction Requirements set a stretching standard of achievement to encourage high quality financial management practice; and
* full compliance with a Direction Requirement includes satisfying all elements under each Direction Requirement.

Table 2: Historical compliance levels, by agency

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Compliance level | Agencies (% of certifying agencies) | | | | |
| 2010‑11 | 2011‑12 | 2012‑13 | 2013‑14 | 2014‑15 |
| Full | 147 (54%) | 147 (54%) | 137 (51%) | 137 (52%) | 118 (47%) |
| Partial | 108 (40%) | 115 (42%) | 123 (46%) | 115 (44%) | 121 (48%) |
| Non | 16 (6%) | 9 (3%) | 9 (3%) | 10 (4%) | 14 (5%) |

# Areas for further assessment

Appendix 2 shows a summary listing of the 33 Direction Requirements and the reported levels of partial or non-compliance for all agencies.

There are five key areas that require further attention to maintain sound financial management practices and consistent standards of performance across government.

|  |  |  |
| --- | --- | --- |
| DR | Description | 2014‑15\* |
| 12 | Policies and procedures | 15.0% |
| 17 | Disaster recovery and business continuity | 14.7% |
| 31 | Treasury risk management | 11.9% |
| 28 | Purchasing card | 8.8% |
| 4 | Audit committee | 8.4% |

**\*** Number of partial and non‑compliant agencies for the applicable Direction Requirements.

## Direction Requirement 12 – *Policies and procedures*

Thirty‑eight agencies certified partially compliant compared to 30 agencies in 2013‑14.

The majority of partially compliant agencies reported that further work is being done to develop and review policies and procedures on financial management, procurement, expenses, data management and asset management. Agencies want to ensure their policies and procedures align with the requirements.

## Direction Requirement 31 – *Treasury risk management*

Direction Requirement 31 has the poorest level of compliance, with five non‑compliant agencies and 22 partially compliant. Most agencies struggled to comply with investment requirements. In 2013‑14, there were four partially compliant agencies and one non‑compliant agency. The significant increase in non‑compliance was an outcome of DTF’s introduction of a data validation exercise, by which DTF actively identified non‑compliant agencies by cross‑referencing information.

Of the five non‑compliant agencies in 2014‑15, four are medium sized health agencies. These agencies are either in the process of transferring investments to Treasury Corporation Victoria and/or Victorian Funds Management Corporation or have pending applications with the Treasurer for exemption from certain requirements.

## Direction Requirement 4 – *Audit Committee*

Two agencies certified non‑compliant and 19 agencies certified as partially compliant, compared to two non‑compliant and 24 partially compliant agencies in 2013‑14.

One of the two non‑compliant agencies did not have an Audit Committee due to lack of funding, while the other non‑compliant agency did not have an Audit Committee as it was winding down. Some of the partially compliant agencies failed to review the Committee’s performance and to recognise independent members of the committee in their annual report. Some regionally based agencies continue to have difficulty recruiting appropriately qualified and skilled independent audit committee members.

## Direction Requirement 28 – *Purchasing card*

Twenty agencies certified partially compliant, compared to 24 agencies in 2013‑14. No agency certified as non‑compliant in 2014‑15.

The majority of the partially compliant agencies reported failure to comply with purchasing card rules and procedures such as using the purchasing card for non‑official transactions, and lacking supporting documents for transactions.

# Appendix 1: Agency changes in 2014‑15

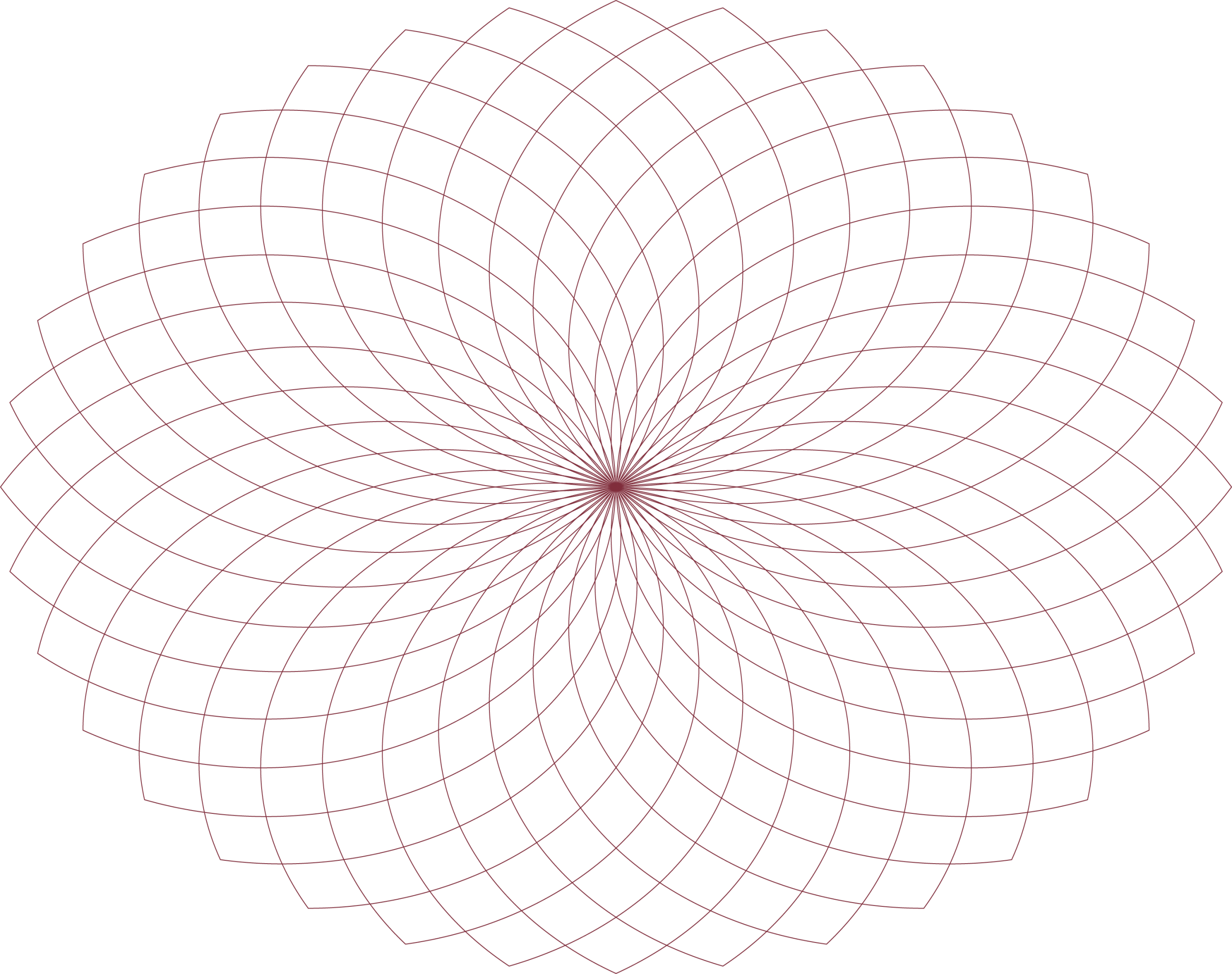
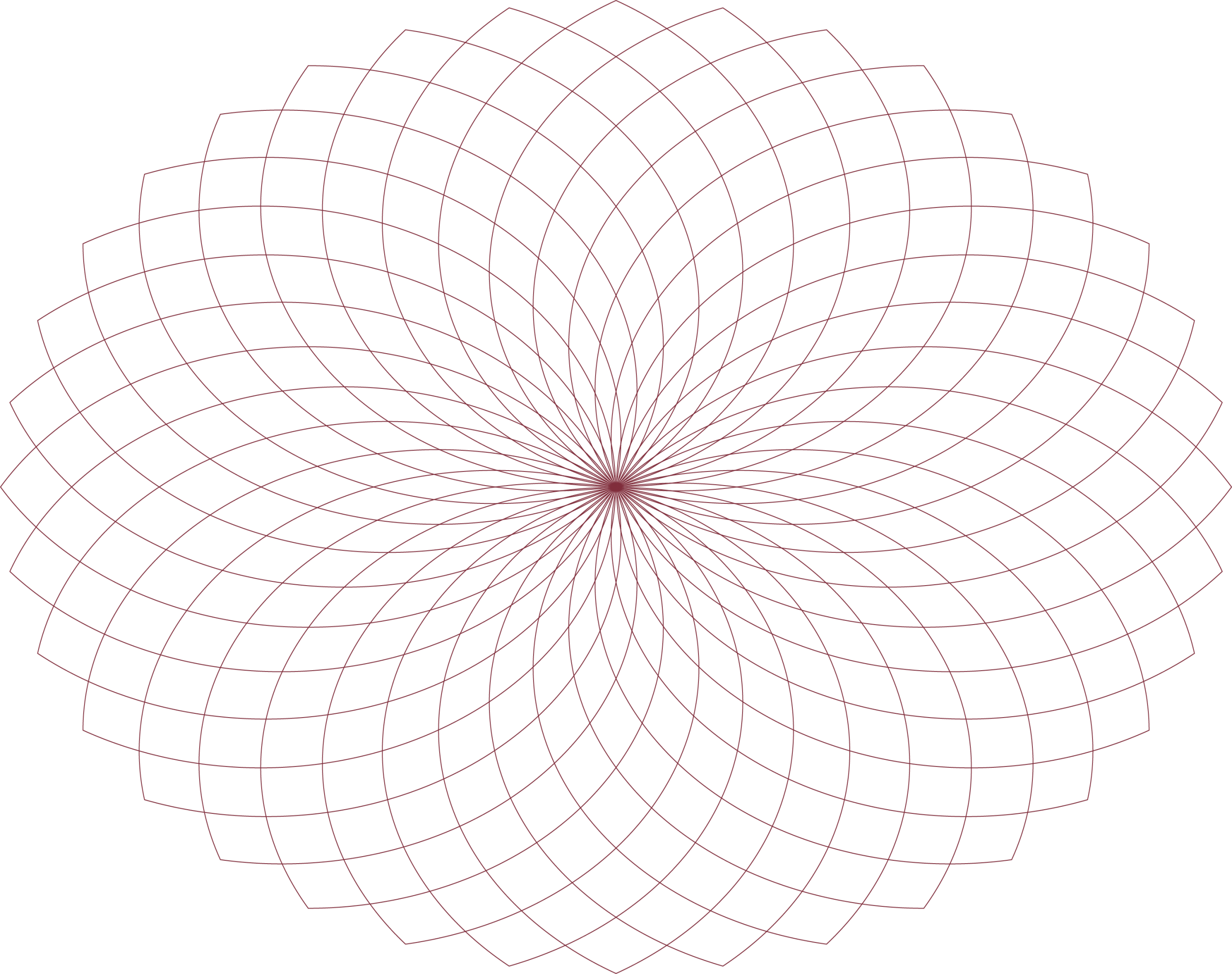
In 2014‑15 financial year, **253 agencies** (264 in 2013‑14) were required to certify compliance against the Directions. The changes in certifying agencies for the 2014‑15 certification period are listed here.

|  |  |  |
| --- | --- | --- |
| **Additional agencies required to certify** | * Accident Compensation and Conciliation Service (new) * Bendigo Kangan Institute (amalgamation of Bendigo Regional Institute of TAFE and Kangan TAFE) * Court Services Victoria (new) * Department of Economic Development, Jobs, Transport and Resources[[1]](#footnote-1) * Department of Education and Training1 * Department of Environment, Land, Water and Planning1 * Department of Health and Human Services1 * Department of Justice and Regulation1 | * Federation Training (amalgamation of Advance TAFE and Central Gippsland TAFE) * Game Management Authority (new)   Waste and Resource Recovery Groups[[2]](#footnote-2)   * Barwon South West Waste and Resource Recovery Group * Gippsland Waste and Resource Recovery Group * Goulburn Valley Waste and Resource Recovery Group * Grampians Central Waste and Resource Recovery Group * Loddon Mallee Waste and Resource Recovery Group * North East Waste and Resource Recovery Group |
|  |  |  |
| **Agencies not required to certify** | * Advance TAFE (amalgamated with Central Gippsland TAFE) * Ballarat University4 * Barwon Regional Waste Management Group2 * Bendigo Regional Institute of TAFE (amalgamated with Kangan TAFE) * Calder Regional Waste Management Group2 * Central Gippsland TAFE (amalgamated with Advance TAFE) * Central Murray Regional Waste Management Group2 * Department of Education and Early Childhood Education[[3]](#footnote-3) * Department of Environment and Primary Industries3 * Department of Health3 * Department of Human Services3 * Department of Justice3 * Department of State Development, Business and Innovation3 * Department of Transport, Planning and Local Infrastructure3 | * Desert Fringe Regional Waste Management Group2 * Gippsland Regional Waste Management Group2 * Goulburn Valley Regional Waste Management Group2 * Grampians Regional Waste Management Group2 * Highlands Regional Waste Management Group2 * Kangan TAFE (amalgamated with Bendigo Regional Institute of TAFE) * Mildura Regional Waste Management Group2 * Mornington Peninsula Waste Management Group2 * RMIT University4 * South Western Regional Waste Management Group2 * Swinburne University of Technology[[4]](#footnote-4) * Victoria University TAFE Division4 |

# Appendix 2: Level of compliance with Direction Requirements

| Direction Requirement No. | Standing Directions of the Minister for Finance | Requirement | Compliance (number of agencies and percentage) | | | |
| --- | --- | --- | --- | --- | --- | --- |
| Compliant | Partial | Non | Not Applicable |
| **1** | 2.1 – Financial code of practice | A ‘Financial Code of Practice’ exists covering areas required by the Directions, and is overseen by effective management with regards to its implementation, monitoring of compliance with its requirements, and dealing with breaches. | 241 | 10 | 1 | 1 |
| 95.2% | 4.0% | 0.4% | 0.4% |
| **2** | 2.2 – Financial governance | **Responsible Body** | 248 | 5 | – | – |
| The Responsible Body is responsible for the governance and oversight of financial management and undertakes the duties set out in the Directions. It meets often enough to undertake an effective financial governance role. | 98.0% | 2.0% | – | – |
| **3** | 2.2 – Financial governance | **Formal statements** | 246 | 5 | 2 | – |
| For agencies: The Accountable Officer and the Chief Finance and Accounting Officer (CFAO) have, in the last 12 months, made formal statements to the Responsible Body (Board) that the Agency’s financial reports present fairly the results and financial condition of the Agency and is founded on sound risk management, internal compliance and control systems. | 97.2% | 2.0% | 0.8% | – |
| For departments: The CFAO has, in the last 12 months, made a formal statement to the Audit Committee and the Accountable Officer, that the Agency’s financial reports present fairly the results and financial condition of the Agency and is founded on sound risk management, internal compliance and control systems. |  |  |  |  |
| **4** | 2.2 – Financial governance | **Audit Committee** | 230 | 19 | 2 | 2 |
| An Audit Committee has been constituted and has a membership that is consistent with the criteria specified in Direction 2.2. The Audit Committee has functioned within the parameters of a Charter, which has been approved by the Responsible Body and provided to each member of the Audit Committee. It has had direct access to:   * internal and external auditors; * the Accountable Officer; * the CFAO; and * the public sector agency’s management (through the Accountable Officer).   Where an Audit Committee does not exist, a written exemption must be obtained from the Minister for Finance and the Responsible Body undertakes the functions of an Audit Committee. | 90.9% | 7.5% | 0.8% | 0.8% |
| **5** | 2.3 – Financial risk management | The public sector agency has a financial risk management policy and internal control system in place which addresses the risks associated with the financial management of the public sector agency. The financial risk profile has been critically reviewed by the Responsible Body in the last 12 months. | 246 | 7 | – | – |
| 97.2% | 2.8% | – | – |
| **6** | 2.4 – Authorisations | The Responsible Body has adopted financial authorisations which conform to the requirements of the Directions and these authorisations have been reviewed by the Responsible Body in the last 12 months. | 242 | 11 | – | – |
| 95.7% | 4.3% | – | – |
| **7** | 2.5 – Internal audit | An internal audit function exists and works within the parameters of a Charter and an internal audit plan, both of which have been approved by the Audit Committee, or Responsible Body in the absence of an Audit Committee, and are consistent with the requirements of the Directions. A private meeting with the internal auditors has been held at least once in the last 12 months.  Where an Internal Audit function does not exist, a written exemption must be obtained from the Minister for Finance. | 241 | 8 | 2 | 2 |
| 95.2% | 3.2% | 0.8% | 0.8% |
| **8** | 2.6 – External audit | The Audit Committee, or Responsible Body in the absence of an Audit Committee, has taken the actions required by Direction 2.6 in respect of external audit for the financial year (or part thereof) just ended, including inviting the external auditor to all relevant meetings and making time available to meet privately to discuss audit related issues at least once in the last 12 months. | 250 | 3 | – | – |
| 98.8% | 1.2% | – | – |
| **9** | 3.1.1 – Public sector agency financial management team structure | Roles and responsibilities for positions in the financial management team structure, and the prerequisite skills, qualifications and experience have been defined and documented. | 250 | 1 | – | 2 |
| 98.8% | 0.4% | – | 0.8% |
| **10** | 3.1.2 – Chief Finance and Accounting Officer | **CFAO credentials** | 247 | 5 | 1 | – |
| The prerequisite skills, qualifications and experience for the CFAO are clearly defined and documented together with position description, role, duties, rights and responsibilities. | 97.6% | 2.0% | 0.4% | – |
| **11** | 3.1.2 – Chief Finance and Accounting Officer | **CFAO endorsement** | 248 | 5 | – | – |
| The CFAO has endorsed financial information submitted to the Accountable Officer, Responsible Body and/or other senior executive forums in the public sector agency. | 98.0% | 2.0% | – | – |
| **12** | 3.1.3 – Policies and procedures | There are documented and communicated policies and procedures covering the requirements of the Directions (including all relevant requirements in Section 3.4 of the Directions) in respect of financial administration and management. | 215 | 38 | – | – |
| 85.0% | 15.0% | – | – |
| **13** | 3.1.4 – Chart of accounts | The CFAO or their delegate has established, maintained and distributed a Chart of Accounts, which meets the requirements of the Directions. | 252 | 1 | – | – |
| 99.6% | 0.4% | – | – |
| **14** | 3.1.5 – Managing outsourced financial services | **Outsourcing governance** | 169 | 13 | 1 | 70 |
| All outsourced finance functions or services are governed by contracts, service level agreements or other documented arrangements, each of which has been reviewed for compliance in the past 12 months. | 66.8% | 5.1% | 0.4% | 27.7% |
| **15** | 3.1.5 – Managing outsourced financial services | **Audit scrutiny** | 160 | 14 | – | 79 |
| All finance functions or services outsourced during the financial year (period) just ended were subjected to a cost benefit analysis, approved by the Responsible Body, and detailed in the form of a contract, service level agreement or equivalent which allows for internal and external audit scrutiny. | 63.2% | 5.5% | – | 31.3% |
| **16** | 3.2.1 – Information technology management | The Responsible Body has reviewed the use of Information Technology used for financial management in the last 12 months to assess information technology risks and their impact on financial management. | 243 | 8 | – | 2 |
| 96.0% | 3.2% | – | 0.8% |
| **17** | 3.2.2 – Information technology operations | There are documented and tested back up, disaster recovery and business continuity procedures in place that are commensurate with the public sector agency’s financial management needs. | 215 | 36 | 1 | 1 |
| 85.0% | 14.2% | 0.4% | 0.4% |
| **18** | 3.2.3 – Security | A formal assessment has been undertaken in the last 12 months of whether financial management information that is sensitive to the public sector agency and stakeholders is adequately controlled and secured. | 231 | 20 | 1 | 1 |
| 91.3% | 7.9% | 0.4% | 0.4% |
| **19** | 3.2.4 – Development | A business case was prepared and approved in accordance with the Directions for the development of any proposed financial management system developments during the year. |  |  |  |  |
| 73.1% | 2.0% | – | 24.9% |
| **20** | 3.2.5 – Change control | A change control process was followed for changes made to financial management systems. | 203 | 2 | 1 | 47 |
| 80.2% | 0.8% | 0.4% | 18.6% |
| **21** | 3.3 – Education and training | The training and education needs for the financial management team have been reviewed by the CFAO or their delegated authority in the last 12 months, and an appropriate program developed to address the training and education needs of financial management staff. | 244 | 5 | 1 | 3 |
| 96.4% | 2.0% | 0.4% | 1.2% |
| **22** | 4.1 – Internal financial management reporting | Requirements for internal financial management reports have been identified and relevant reports have been produced and distributed at regular intervals throughout the financial year. | 251 | 2 | – | – |
| 99.2% | 0.8% | – | – |
| **23** | 4.2 – Reporting requirements in terms of Part 7 of the *Financial Management Act 1994* | The financial statements and report of operations have been prepared in accordance with Part 7 of the *Financial Management Act 1994* and in the required timeframes. | 249 | 3 | – | 1 |
| 98.4% | 1.2% | – | 0.4% |
| **24** | 4.3 – Other external reporting internal financial management reporting | All external reporting requirements have been identified and relevant reports delivered completely, accurately and in a timely manner. | 250 | 3 | – | – |
| 98.8% | 1.2% | – | – |
| **25** | 4.4 – Financial performance management and evaluation | The Responsible Body has developed financial key performance indicators (KPIs) working with management, and there is monitoring and reporting of performance against these to the Responsible  Body and/or the Accountable Officer. | 248 | 4 | – | 1 |
| 98.0% | 1.6% | – | 0.4% |
| **26** | 4.5.1 – Compliance with Directions | The public sector agency has met its financial management compliance obligations including:   * conducting an annual review of financial management compliance; and * identifying and rectifying financial management compliance issues. | 246 | 7 | – | – |
| 97.2% | 2.8% | – | – |
| **27** | 4.5.2 – Taxation compliance obligations | The public sector agency has met its taxation compliance obligations by:   * conducting an annual review of taxation compliance; * developing and maintaining taxation policies and procedures; * developing and implementing a taxation education program; and * identifying and rectifying taxation compliance issues. | 238 | 13 | – | 2 |
| 94.1% | 5.1% | – | 0.8% |
| **28** | 4.5.3 – Purchasing card compliance obligations | The public sector agency has:   * established its own facility account; * ensured only one card to cardholders; * ensured cards are used for official business and Government purposes; * obtained supporting documentation and ensured that expenditure is approved by an appropriate financial delegate; * ensured cardholders hold a financial delegation; * ensured that all individual card limits do not exceed $25 000; * ensured adequate monitoring and security procedures are in place; * included in the internal audit program a review of the card scheme and the use of cards issued; and * notified the Minister for Finance of any instances of unauthorised use either annually or as appropriate. | 206 | 20 | – | 27 |
| 81.4% | 7.9% | – | 10.7% |
| **29** | 4.5.4 – Thefts and losses compliance obligations | The public sector agency has notified the Minister for Finance and the Auditor‑General of any instances of thefts and losses and provided an incident report as required by the Directions. | 198 | 7 | – | 48 |
| 78.3% | 2.7% | – | 19.0% |
| **30** | 4.5.5 – Risk management compliance | The Responsible Body must ensure the public sector agency complies with the mandatory requirements set out in the Victorian Government Risk Management Framework. | 236 | 17 | – | – |
| 93.3% | 6.7% | – | – |
| **31** | 4.5.6 – Treasury risk management | All borrowings, investments and financial arrangements undertaken by the public sector agency conform to the requirements or exceptions outlined in Direction 4.5.6. | 200 | 22 | 5 | 26 |
| 79.1% | 8.7% | 2.0% | 10.2% |
| **32** | 4.5.7 – Foreign exchange risk management | The public sector agency has ensured foreign exchange risks are effectively identified, assessed, monitored, and managed in accordance with the requirements outlined in Direction 4.5.7. | 124 | 1 | – | 128 |
| 49.0% | 0.4% | – | 50.6% |
| **33** | 4.5.8 – Commodity risk management | The public sector agency has ensured that commodity risks are effectively identified, assessed, monitored, and managed in accordance with the requirements outlined in Direction 4.5.8. | 112 | – | – | 141 |
| 44.3% | – | – | 55.7% |





[dtf.vic.gov.au](http://www.dtf.vic.gov.au/)

1. Effective 4 December 2014, several departments were created as part of machinery of government changes. [↑](#footnote-ref-1)
2. Effective 2 April 2014, 12 Regional Waste Management Groups were replaced with six larger Waste and Resource Recovery Groups as part of governance and institutional reforms. [↑](#footnote-ref-2)
3. Effective 4 December 2014, these departments ceased to exist and their functions transferred to other Victorian government departments. [↑](#footnote-ref-3)
4. Effective 1 January 2014, these universities are no longer included in the Victorian whole of government consolidated financial statements due to the *Education and Training Reform Amendment Act 2013*. [↑](#footnote-ref-4)