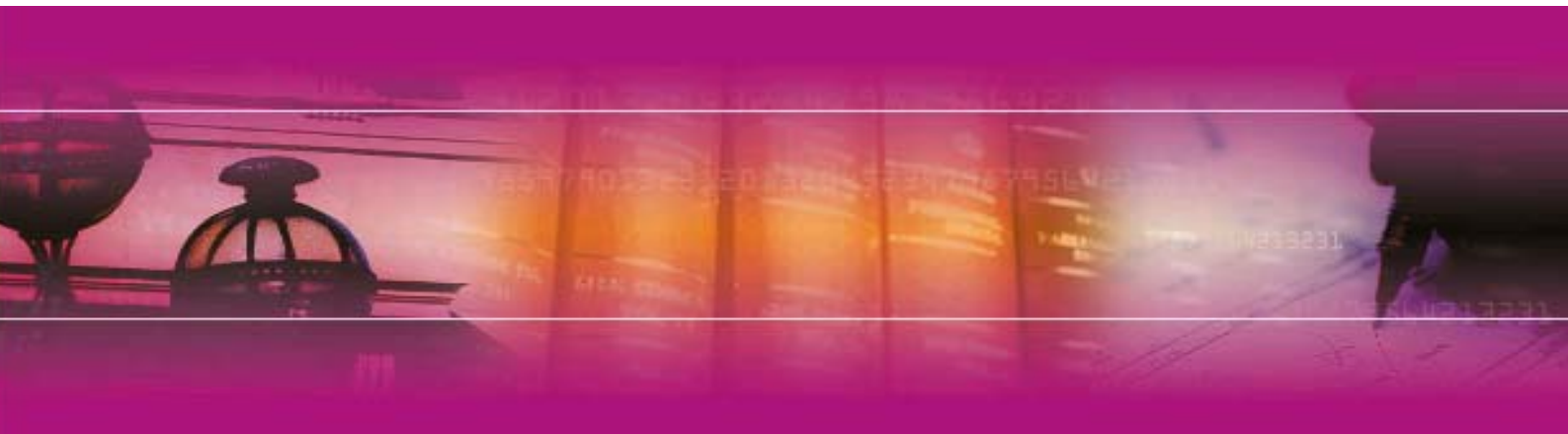


Whole of Government Financial Management Compliance Framework



Updated July 2005

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1. Introduction

The Department of Treasury and Finance (DTF) has developed a whole of Government Financial Management Compliance Framework ("Framework"). Through this Framework, Government can assist Public Sector Agencies meet their obligations and effectively monitor and review their overall performance in financial management compliance. Incorporated in to this Framework are the various financial management, taxation, purchasing card and thefts and losses compliance and reporting requirements. These were previously subject to separate compliance reporting frameworks.

The Framework responds to Government's initiative of promoting responsible financial management, and inherent in this is a process for DTF to monitor and report on the financial management obligations of Victorian Public Sector (VPS) agencies. The Framework was implemented from **1 July 2003**.

In July 2005, the separate Financial Management Compliance Framework, Taxation Compliance Framework, Thefts and Losses reporting requirements and Purchasing Card Rules for Use and Administration were integrated and streamlined into the Financial Management Compliance Framework to reaffirm the focus on these compliance obligations, whilst also achieving consistent and consolidated compliance reporting across the VPS.

The primary assurance mechanism is the annual agency certification to Portfolio Ministers (via departments), with portfolio summary certification from portfolio departments to the Minister for Finance (via DTF).

However, the annual certification process is simply the end product of a continuous assurance framework involving:

- Agency level reviews;
- Portfolio level, monitoring and review; and
- Whole of Government level, strategic monitoring and review.

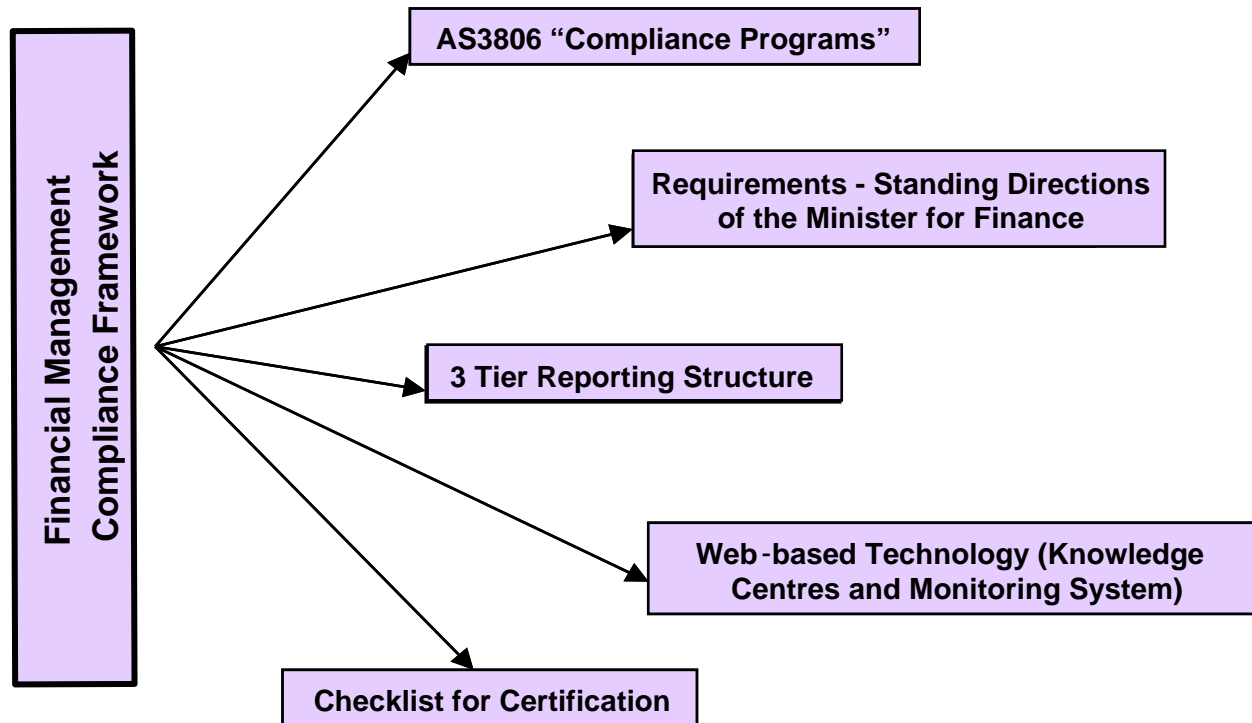
Rather than simply being a reactive review process, this Framework promotes proactive assurance, incorporating shared mechanisms for risk management, issues management and knowledge management, to facilitate efficiency and effectiveness in financial management across the VPS.

Key Messages

- **This Framework assists VPS agencies in attaining the most effective financial management to achieve the goals of the agency whilst meeting the requirements of Government for the purposes of accountability.**
- **Accountability for compliance and reporting exists at an agency level. Departments are not to be held accountable for individual agencies. Departments are however responsible for consolidated reporting obligations on a portfolio basis.**
- **Financial compliance needs to be embedded in work practices.**
- **Compliance awareness is promoted through this Framework.**
- **Effective compliance is the primary responsibility of the Responsible Body (Board or Accountable Officer). It requires active participation of leadership teams, line managers, supervisors and executives.**
- **This Framework should be integrated with other existing agency risk management and compliance programs.**
- **This Framework utilises the best available technology to ensure effective delivery and implementation.**

Elements of the Framework

The Financial Management Compliance Framework is made up of five key elements, each discussed in the following sections of this document.



Basis of the Framework

The Framework was developed on the basis of Australian Standard AS3806 "Compliance Programs", which takes into consideration benchmarking against global "best practice". AS3806 has proven to operate effectively over a broad range of environments (both within the public sector and large corporates). In addition, the Standard is widely accepted by a range of regulatory bodies including the Australian Competition and Consumer Commission, Australian Securities and Investments Commission, various Essential Services Commissions and the Privacy Commission.

The Framework, consistent with AS3806, is based on the following five elements:

- Culture and commitment:
 - Visible and tangible commitment; and
 - Continuous improvement.
- Systems and procedures:
 - Identification of obligations;
 - Integration into day to day operating procedures for compliance; and
 - Record keeping, breach identification and rectification processes.

- Resourcing and Responsibilities:
 - Clear roles and responsibilities in relation to financial management compliance;
 - Management responsibilities and supervision; and
 - Resources and tools.
- Reporting:
 - Effective, timely internal and external reporting.
- Maintenance:
 - Education and Training;
 - Communication;
 - Ongoing monitoring and assessment
 - Periodic review; and
 - Liaison between tiers.

The Financial Management Package (FMP) underpins the Framework. The FMP consists of the *Financial Management Act 1994* (FMA), *Audit Act 1994*, Financial Management Regulations 2004, Audit (Public Bodies) Regulations 2005, Standing Directions of the Minister for Finance (“Directions”) and Financial Reporting Directions.

The purpose of the FMA is to improve financial administration and accountability and provide for annual reporting to the Parliament by all VPS agencies. The Directions supplement the FMA. This Framework is integral for this purpose.

Implementation of the Framework throughout Government is a significant proposition and it is important to emphasise that it is a reporting framework, not an accountability framework. Consequently, departmental Secretaries are only accountable for ensuring a portfolio summary report is prepared and signed on behalf of the Portfolio Ministers and forwarded to the Minister for Finance. Overall compliance responsibility **still** rests with each agency’s Responsible Body and Accountable Officer.

Objectives of the Framework

The Framework:

- Assists VPS agencies in attaining most effective financial management to achieve the goals of the agency whilst meeting Government’s accountability requirements;
- Provides Ministers with assurance that VPS agencies have implemented the appropriate systems to ensure compliance with the Directions and the effective, efficient and responsible financial management of public resources;
- Discharges the accountability of the Minister for Finance to the Parliament by ensuring that public resources are being managed in a financially responsible manner; and
- Sharpens reporting responsibilities of portfolio departments and agencies.

Key principles of the Framework

- Agencies and departments are accountable for meeting their reporting obligations;
- Departments have key portfolio roles on behalf of their Ministers to report, provide guidance on systemic issues and assist with corrective actions;
- Departments and agencies should no longer rely on the Auditor-General's Office to identify compliance issues;
- Use of best available web-based technology to improve and promote sound financial management;
- Where necessary, strengthen internal controls and mechanisms already in place within agencies and thus lead to a reduction in the potential for unexpected "surprises"; and
- Assist in ensuring that the Government (in particular, the Minister for Finance), is provided with relevant, up-to-date and accurate information on key financial management issues.

Benefits

Overall, this Framework assists agencies at all levels of Government attain the most effective financial management to achieve its objectives and also meet Government's financial management and reporting obligations under the Directions.

The Framework provides a number of benefits to all three tiers of Government (agency, portfolio and whole of Government). The benefits for each tier include the following:

Agencies

- Agencies have systems and procedures in place which are consistent across the VPS, to assist them in complying with a formalised framework;
- Agencies are able to identify and rectify compliance issues on a timely basis; and
- Knowledge gained by one agency is captured and disseminated to all relevant agencies, improving the efficiency and effectiveness of financial management practices.

Portfolios

- Portfolios have a mechanism in place which allows them to identify and assist in rectifying portfolio wide compliance issues and enables them to report this to their portfolio Minister; and
- The Framework ensures all portfolio agencies can report any issues to the portfolio department and provides a mechanism for rectification.

Whole of Government

- Systemic issues at whole of Government are addressed through education programs and information sessions;
- A centralised mechanism provides the Government with systemic and documented assurance that sound and responsible financial management occurs throughout the VPS and issues are identified and rectified on a timely and whole of Government basis, as required;
- Enables Government and portfolios to identify leading financial management practices and to exchange information amongst agencies; and
- Appropriate best practice use of technology for reporting to the Minister for Finance on adherence to the Framework across the VPS.

Project – Financial Management Compliance Framework

Phase 1 – Development of the Framework and Directions

Consultation was considered paramount to the success of the project. In order to achieve this an Inter-Departmental Steering Committee was established to set the strategic direction to develop a Framework. This was Phase 1 of the project and was completed in July 2002.

A report was developed which identified a leading practice Framework. At the request of the Steering Committee (with the Auditor-General's Office as an observer), the Framework was piloted to provide testing and validation of the key elements.

The pilot identified a strong compliance culture amongst VPS agencies however, some agencies required assistance in meeting their obligations.

A key role for DTF was to support all agencies in achieving compliance through the following mechanisms:

- A review and update of the Directions;
- The development of a web-based tool, which will integrate all compliance functions;
- The development of detailed supplementary materials; and
- Information and education programs.

In July 2002, the Minister for Finance and Cabinet approved the Framework. The Steering Committee also endorsed the establishment of an Inter-Departmental Working Group to drive the implementation and communication of the Framework.

Phase 2 – Implementation and Communication

In June 2003, the Minister for Finance launched the Framework to VPS agencies.

In this phase, a web tool was launched to provide VPS agencies with an easily accessible integrated system which contains the Directions, best practice guidance and a reporting facility. All agencies are required to annually certify (using a checklist) on an annual basis which is signed by the Accountable Officer of each agency. The checklist consists of statements (or Direction Requirements) to gauge adherence with the Directions. Refer to *Section 8 "Financial Management Compliance Checklist"*. In completing the checklist agencies need to refer to the detailed requirements contained in the Directions and mandatory procedures therein.

On behalf of the Minister for Finance, DTF conducts annual assurance reviews across a sample of VPS agencies to identify potential issues while also recognising areas where further assistance or guidance is required.

Another major focus of Phase 2 was the development of more detailed supplementary materials and templates to assist "smaller" agencies to discharge their obligations consistent with the requirements of the Framework. Supplementary material is developed as it is needed. This is an ongoing process.

Communications sessions are held from time to time to assist in the practical implications of implementing the Framework and Directions, whilst also providing guidance on best practice financial management.

Phase 3 – Integration of Taxation, Purchasing Card and Thefts and Losses

Feedback received from the 2003-04 certification process against the Framework identified the need to integrate some of the various compliance reporting obligations into the one compliance framework.

In July 2005, the Minister for Finance approved the integration of the Taxation Compliance Framework, Purchasing Card Rules for Use and Administration and Thefts and Losses reporting requirements into the Financial Management Compliance Framework.

The purpose of integration is to give the taxation, purchasing card and thefts and losses requirements more focus by agencies (including Audit Committees and Internal Audit) while resulting in consistent and consolidated reporting, administrative time efficiencies and savings in resources.

Integration allows for the modernisation, reinforcement and enhancement of the various compliance obligations. The previous compliance reporting obligations have not been broadened, but rather key aspects were remade as Ministerial Directions, thereby strengthening these requirements.

Role of the Auditor-General

Under the *Audit Act* 1994, the Auditor-General is responsible, on behalf of Parliament, for the external audit of the financial operations and resource management of the VPS. Accordingly, the primary role of the Auditor-General is to provide information/audit assurance to the Parliament – independently of Public Sector Agencies and the Government.

The establishment of an effective environment and Framework which establishes compliance with legislation, regulations, guidelines, policies and other requirements, is the responsibility of the Responsible Body and Accountable Officer working with management. Within the public sector, ultimate responsibility for compliance rests with the individual agency.

The Auditor-General may review and report on the adequacy of the Framework as a risk management approach and, where deemed appropriate, may review/monitor compliance of individual VPS agencies.

Role of Internal Audit

Agencies benefit from active involvement of their Internal Auditors, or other appropriate resources, in establishing an up front understanding of the level of compliance with the Directions and the monitoring of actions to be taken to achieve compliance over time.

Role of the Audit Committee

The Audit Committee (or Responsible Body in its absence) should assume a leading role in the governance and oversight matters of the agency. The Audit Committee should become actively involved in the monitoring of financial management compliance issues and in particular the monitoring of rectification action plans in order to achieve compliance over time. The Audit Committee should work closely with Internal Audit to achieve this.

Scope of the Framework

The Framework (including purchasing card, taxation and thefts and losses) applies to all VPS agencies which meet the “public body” definition contained within section 3 of the FMA **and** which “feed” into the whole of Government consolidated “Annual Financial Report for the State of Victoria”. Consequently, the Framework applies to 300+ agencies across the State. These agencies are identified in the notes to the Annual Financial Report.

These agencies are required to apply the Financial Management Package, in particular the Standing Directions of the Minister for Finance, which form the basis of the checklist against which agencies will have to certify. Refer to *Section 7 “Monitoring and Certification Arrangements”* and *Section 8 “Financial Management Compliance Checklist”*.

Of the agencies to which the Framework applies, the purchasing card requirements are only applicable to those agencies which operate a purchasing card, while the taxation requirements are only applicable to those agencies that have an Australian Business Number (ABN) and which have Commonwealth taxation obligations (including Goods and Services Tax (GST), Fringe Benefits Tax (FBT) and Pay As You Go (PAYG)). The thefts and losses requirements are applicable to all public bodies.

Agencies that are incorporated under the *State Owned Enterprises (SoE) Act 1992* and to which Part 7 of the FMA “Accountability and Reporting” applies, or Government owned Corporations Law companies which are declared for Parliamentary tabling purposes under section 53A of the FMA, are expected to apply the Directions as best practice principles and comply with the requirements of the Framework to ensure that their respective Portfolio Minister is provided with relevant information on their financial management compliance status.

All other agencies which meet the ‘public body’ definition contained within section 3 of the FMA but are not consolidated into the “Annual Financial Report for the State of Victoria” are not required to certify against the Framework on an annual basis. However, these agencies are still required to comply with the Directions (including the financial management, taxation, purchasing card and thefts and losses requirements). Portfolio departments may choose to make alternative arrangements to monitor the compliance status of these agencies.

2. Standing Directions of the Minister for Finance

The Department of Treasury and Finance developed and issued a Financial Management Package (FMP) in 1994, comprising a *Financial Management Act 1994 (FMA)*, *Audit Act 1994*, Financial Management Regulations 2004, Audit (Public Bodies) Regulations 2005, Standing Directions of the Minister for Finance (the Directions) and Financial Reporting Directions.

The Directions form the basis of sound financial management for the State and are applicable to all agencies meeting the “public body: definition contained within section 3 in the FMA.

The Directions are updated from time to time to reflect changing financial management requirements.

Purpose of the Directions

The Directions are designed to supplement the FMA by prescribing mandatory elements (procedures) that must be complied with by Public Sector Agencies (all VPS agencies that apply the FMP) to:

- Implement and maintain appropriate financial management practices; and
- Achieve a consistent standard of accountability and financial reporting.

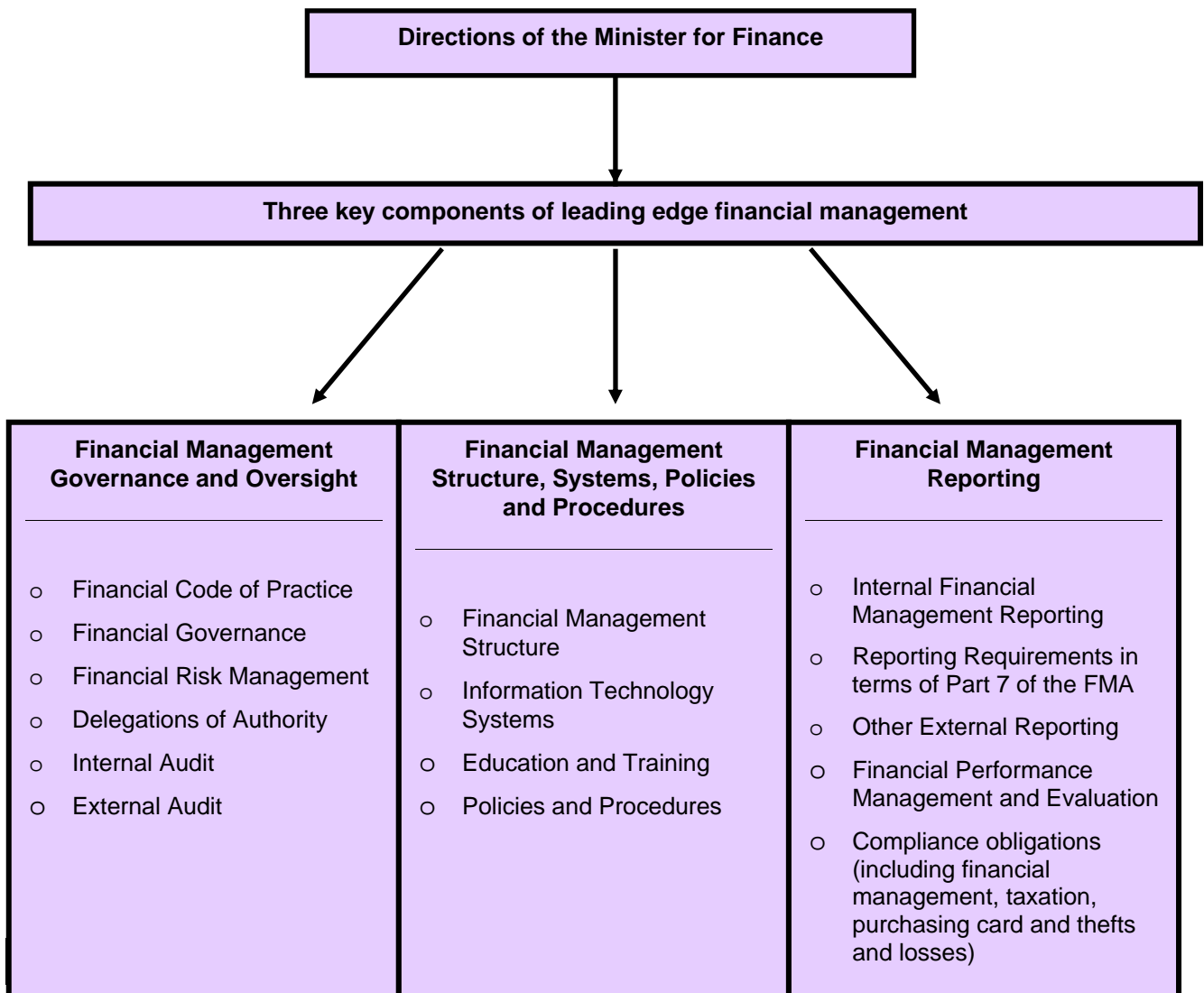
The Directions prescribe best practice, high-level requirements for financial management. This allows Public Sector Agencies to develop agency specific systems, procedures and practices, which must be tailored to their own business, approved and monitored within their own agency requirements.

Review of Directions

In 2002-2003, external consultants were engaged to undertake an independent review of the Directions in line with sound financial management principles. The Directions were redrafted in consideration of leading practice financial management principles. They set the broad financial management policies and procedures and take into account the principles espoused in *ASX Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations*, March 2003. They include requirements on issues such as the existence and role of Audit Committees, internal transactional procedures and controls (such as revenue and expenditure management), Information Technology (IT), contract management etc and are based on three key components of leading edge financial management.

The Directions are subject to ongoing review to ensure that they continue to prescribe modern best practice financial management.

Structure and Contents of Directions



The Directions are less prescriptive and are based on three high-level principles: Financial Management Government and Oversight; Financial Management Structure, Systems, Polices and Procedures; and Financial Management Reporting.

Each Direction contains the following:

- A description of the **Direction**, which is **mandatory**;
- A **Procedure**, which is **mandatory** in order to achieve compliance with the Direction;
- Where relevant, **Guidelines** which are **not mandatory** but will assist in applying the procedure; and
- Where relevant, additional **Supplementary Material** which is **not mandatory** but assists in the practical implementation of the Direction (denoted by the following symbol S)

The revised Directions became applicable from **1 July 2003** and have been amended from time to time.

3. Reporting Structure

Integrated reporting

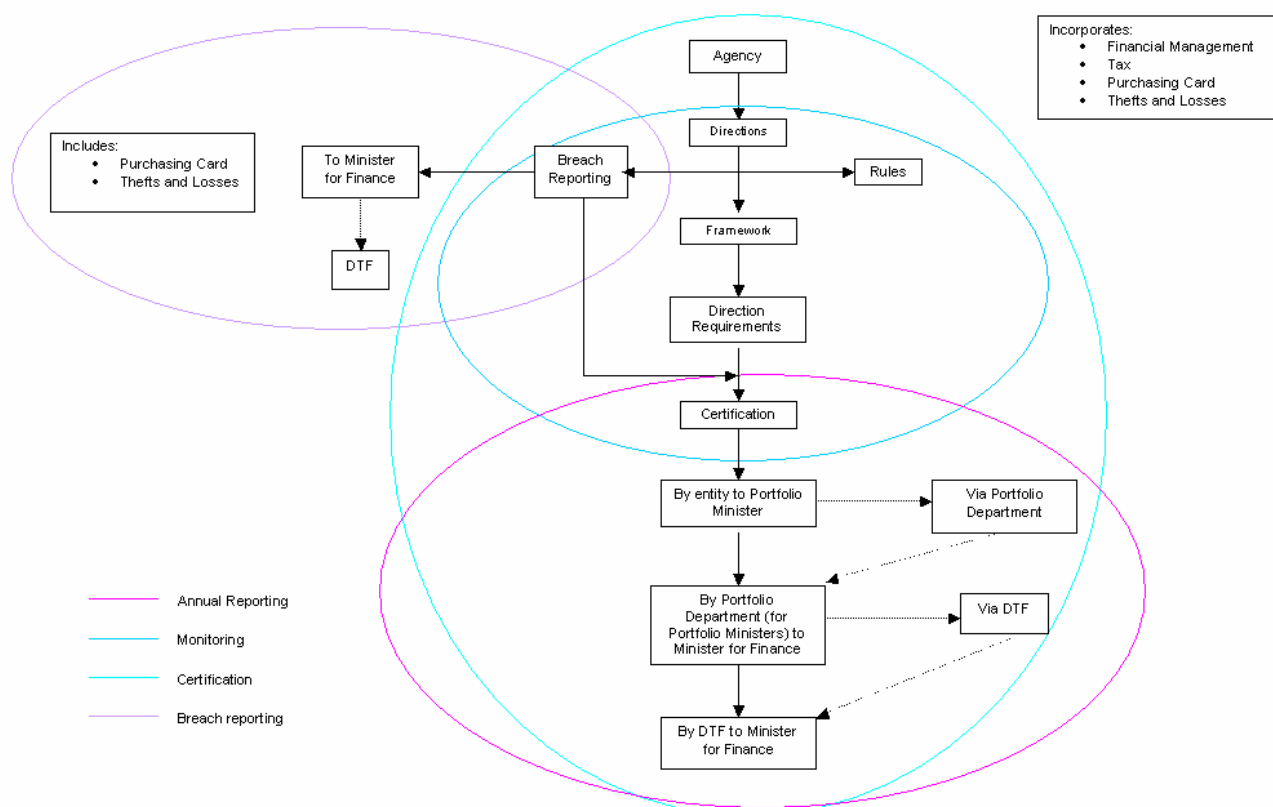
Under the integrated Framework, the various taxation, purchasing card and thefts and losses reporting requirements were incorporated into the Framework. The Standing Directions of the Minister for Finance (the Directions) have been amended to incorporate these specific requirements.

The integrated Framework also explicitly incorporates the reporting of breaches/unauthorised use of purchasing cards and instances thefts and losses to the Minister for Finance as required by the Directions. However, agencies are still required to report to their respective portfolio minister as to whether they have observed the taxation, purchasing card and thefts and losses requirements contained within the Directions through the Framework's certification process. As a result, the previous requirements for a separate annual assurance letter to the Minister for Finance on Purchasing Card Rules for Use and Administration and the annual Taxation Compliance Framework certification have been removed.

The agency certification letters and departmental portfolio summary reports now incorporate financial management, taxation, purchasing card and thefts and losses reporting.

To support the integrated Framework, lower level rules for taxation, purchasing card and thefts and losses still exist together with additional guidance to ensure that agencies understand and observe the revised requirements for breach and incident reporting. Further information on rules and breach reporting can be found in the Taxation Compliance Rules, Purchasing Card Rules for Use and Administration and Thefts and Losses Rules.

The diagram that follows illustrates the operation of the integrated Framework.



The following are the specific benefits of the integration of the Framework:

Whole of Government

- Increased confidence in Government financial management operations and reporting structures;
- Overall review of all financial management compliance obligations, including purchasing card and thefts and losses, as part of the Compliance Assurance Reviews including the conducting of separate tax assurance reviews;
- Clear, concise and comprehensive reporting to the Minister for Finance;
- Greater attention and focus to all attributes of financial management compliance and the implementation of a financial management compliance culture throughout Government;
- Strengthening of the existing taxation and purchasing card requirements and incorporation of these requirements together with thefts and losses into the Framework;
- Maintenance and clarification of the various compliance requirements whilst simultaneously ensuring consistency; and
- The implementation of an encompassing and modern Framework.

Portfolio

- Additional compliance information provided on purchasing card breaches and instances of thefts and losses;
- Clear, concise and comprehensive reporting to portfolio ministers; and
- Reduction in the administrative burden of separate compliance reporting processes.

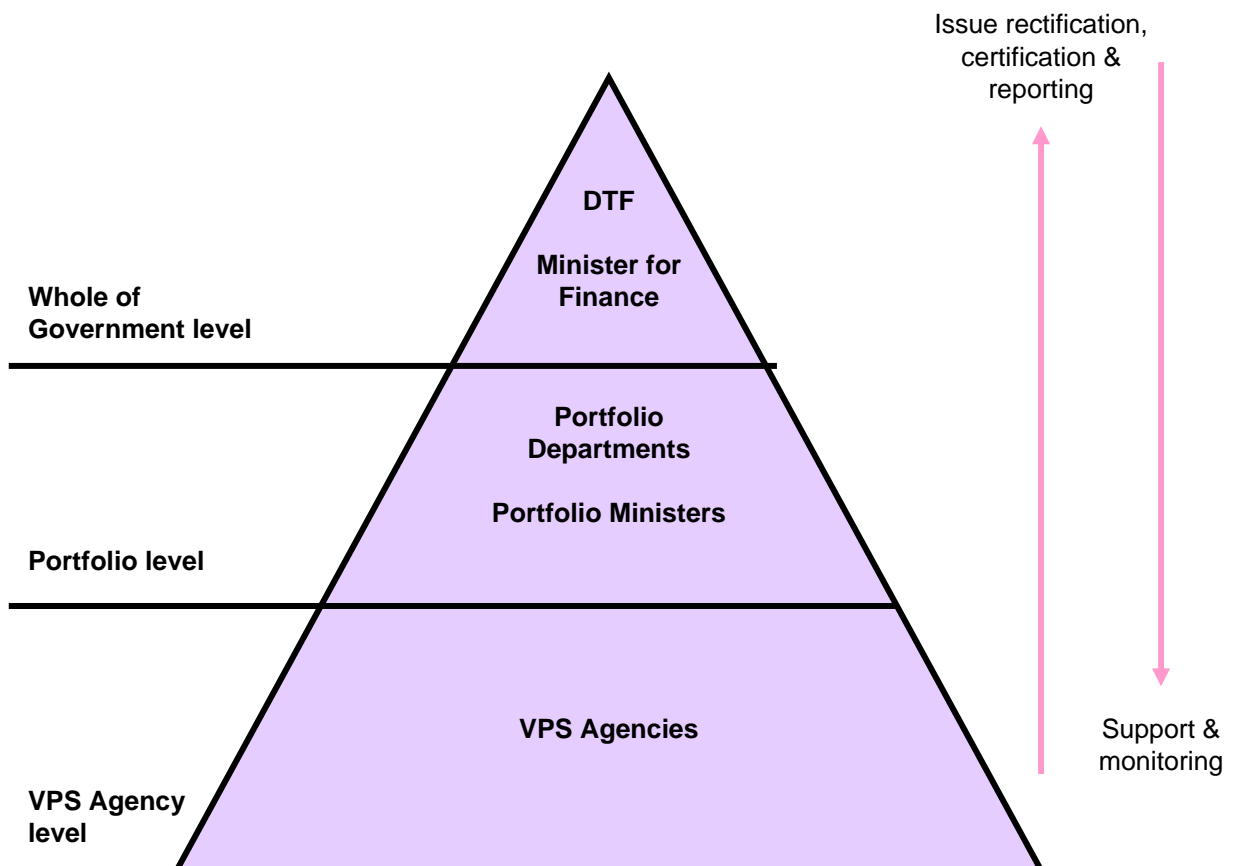
Agency

- More focus and attention particularly on taxation, purchasing card and thefts and losses compliance by agencies, Audit Committees and Internal Audit;
- Clarification and improvement in the level of understanding of the taxation, purchasing card and thefts and losses compliance requirements;
- Reduction in the administrative burden of separate compliance reporting processes;
- Consistency across the financial management compliance obligations, therefore reducing ambiguity and confusion;
- Reconfirmation of their financial management compliance obligations; and
- Clear, concise and comprehensive reporting to agency management.

Tiered responsibilities

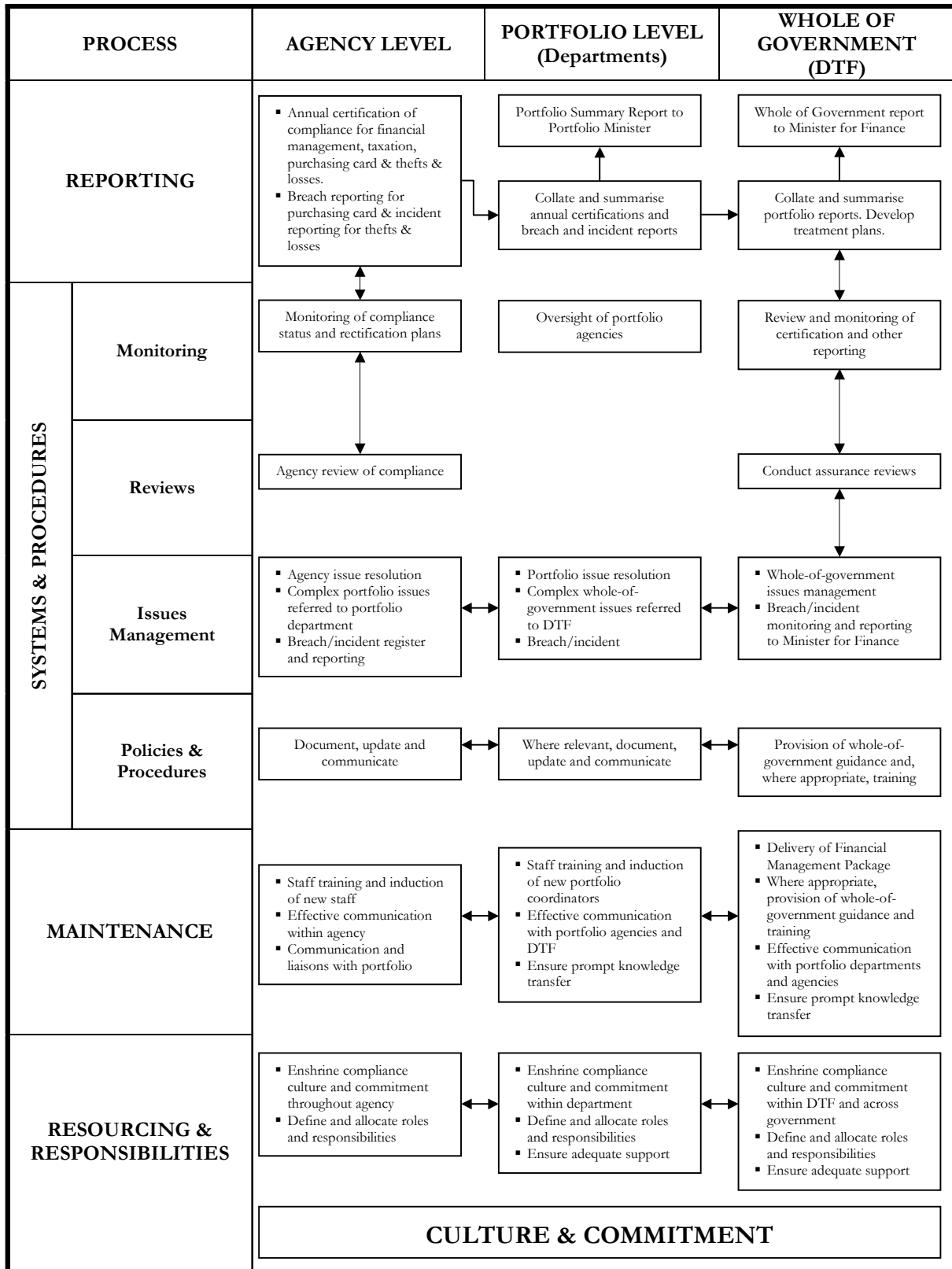
The Government has endorsed the three-tier responsibility structure which is outlined below:

Tier	Responsibility
Whole of Government	Minister for Finance is responsible to the Parliament for assisting the Government in meeting its obligations under the Financial Management Package
Portfolio	Responsible for reporting portfolio agency compliance issues to the Minister for Finance via DTF and for briefing Portfolio Ministers.
Agency	Responsible for compliance with the Financial Management Package and reporting to the Portfolio Minister (via the portfolio department)



4. Process Map

The process map below outlines the roles and responsibilities of each of the three tiers of Government against each element of the Framework. The inter-relationships are explained further in Section 5 “Roles and Responsibilities for each tier of Government”.



5. Roles and Responsibilities for each Tier of Government

Reporting (including Certification)

<i>Agency</i>	Complete a certification checklist on an annual basis and provide a certification letter to their Portfolio Minister.
	Reporting of instances of thefts and losses and purchasing card breaches
<i>Portfolio</i>	Collate agency statements, briefing Portfolio Ministers and provide a portfolio summary to the Minister for Finance.
	Exception based reporting to be prepared as portfolio summary: <ul style="list-style-type: none"> • Agencies not providing certification (and why); • Summary of key portfolio risks/issues identified and action taken; and • Summary of training/knowledge management activity undertaken and planned.
<i>Whole of Government (DTF)</i>	DTF collates and summarises portfolio summary reports and provides a consolidated report to the Minister for Finance.
	Summary results of DTF assurance reviews are included in the report to the Minister for Finance.
	A summary of DTF and portfolio training and other knowledge management activities undertaken.

Systems and Procedures

Monitoring	
<i>Portfolio & Whole of Government (DTF)</i>	Use of certification statements and portfolio summary reports to build risk profiles of agencies to assist in monitoring risks.
	Exception reporting to enable identification of agencies where some form of risk-based review may be warranted.
	Information in agency certification letters and portfolio summary reports with regard to issues/queries referred by agencies to provide insight into agencies potentially requiring guidance, education and training support.
Reviews	
<i>Agency</i>	Undertake an annual internal review of compliance.
	Responsible Bodies (Boards)/Accountable Officer (CEOs) may choose to include an annual financial management review (including the requirement for a separate annual taxation review) as an adjunct to their internal audit programs.

<i>Portfolio</i>	Appropriate form of review of agency certification data.
<i>Whole of Government (DTF)</i>	DTF (on behalf of the Minister for Finance) to conduct an annual review of each portfolio's financial management compliance review activities (which may include portfolio agencies), with the aim of identifying problem areas and assisting agencies to rectify issues.
	Appropriate form of financial management assurance reviews (including specific tax assurance reviews) to assess strategic risks and review compliance of all VPS agencies.
	Reviews focus on ensuring appropriate risk management and knowledge management mechanisms are in place.
	The agency level review focuses on assessing the quality of controls and review mechanisms in place.
Issues Management	
<i>Agency</i>	Agencies to undertake their own efforts to resolve operational issues in meeting their financial management compliance obligations.
	If an issue has relevance to other VPS agencies, it should be logged on the Financial Management Knowledge Centre or Tax Knowledge Centre websites – Issues Management System, via the portfolio department.
<i>Portfolio</i>	Portfolios to assist in the resolution of issues common to a number of portfolio agencies, ensuring that the identification and resolution of the issue is communicated to all affected agencies.
	Any issue which has whole of Government implications (i.e. affects agencies across portfolio boundaries) should be referred to DTF.
<i>Whole of Government (DTF)</i>	DTF is responsible for the resolution of whole of Government issues and for ensuring communication of such issues to all potentially affected agencies.
	DTF will provide whole of Government assistance in the form of: <ul style="list-style-type: none"> • Guidance, training, education and communications sessions and/or information newsletters on major issues; • Dissemination of information through the Financial Management and Tax Knowledge Centres websites; and • Promotion of a shared approach to resolution of common issues (such as the Issues Management System).
Policies and Procedures	
<i>Agency</i>	Develop a fully documented policy and procedures framework to enable compliance with the Directions.
	Provide staff with the information tools to identify the obligations under the Directions that need to be complied with.
	Gaps in an agency's policy and procedures framework are addressed.
<i>Whole of Government (DTF)</i>	DTF to provide detailed supplementary material with particular emphasis to "smaller" agencies to assist them in complying with the requirements of the Directions.

Maintenance

<i>Agency</i>	Incorporate compliance training into induction training for new staff.
	Offer refresher courses to staff annually.
	Communicate any changes to the Framework to relevant staff members.
	Ensure adequate knowledge management practices are adopted at the local level.
<i>Portfolio</i>	Follow up issues raised by agencies to ensure that the Framework and issues pertinent to the Directions are clarified and understood.
	Portfolios have a role in providing assistance by the adoption of appropriate practices. This could include training programs focussed on industry specific issues and/or briefings, guidance or other prepared material on relevant industry specific issues.
<i>Whole of Government (DTF)</i>	DTF to be actively involved in whole of Government systemic/strategic knowledge management practices. DTF will actively promote knowledge management through whole of Government information and education sessions, guidance, newsletters and the Financial Management Knowledge Centre and Tax Knowledge Centre websites.

Resourcing and Responsibilities

<i>Agency</i>	Senior management to provide adequate resources to meet compliance objectives, train staff in the Framework's requirements and implement a monitoring and assessment program of compliance procedures.
	Management is to assist staff to understand their roles and responsibilities in financial management compliance.
	A coordinating officer should be provided with sufficient resources, support, work tools and facilities to properly discharge the requirements under the Framework.
	All managers are to understand, promote and be responsible for the Framework's obligations for which they are responsible.
<i>Portfolio</i>	Portfolios have the responsibility for collating, maintaining and monitoring compliance activities within agencies.
	A coordinating officer should be provided with sufficient resources, support, work tools and facilities to properly discharge his/her duties.
<i>Whole of Government (DTF)</i>	DTF is to devote sufficient resourcing to Framework's activities.
	The responsibility for the maintenance of the Framework and the websites to provide "on-line" assistance (Financial Management Knowledge Centre and Tax Knowledge Centre websites) remains with DTF.

Culture and Commitment

<i>Agency</i>	<p>The Responsible Body (or Board) and senior management to ensure that an appropriate compliance culture is established within the agency at all levels by regularly communicating their commitment to financial management compliance, providing adequate resources to meet compliance objectives, training staff in the requirements of the Directions and Framework and implementing a monitoring and assessment program of compliance procedures.</p>
	<p>There is a requirement on the part of the Accountable Officer and senior management for ensuring corrective action is taken by the agency to address its own compliance issues and breaches.</p>
	<p>The Framework is made available to all staff members with a clear message from the Responsible Body and the Accountable Officer that compliance with the Directions is required and expected of all staff members working in financial management areas.</p>
<i>Portfolio</i>	<p>The portfolio should be properly resourced to enable the Framework to be maintained and monitored and to assist in the resolution of systemic breaches across agencies within the portfolio.</p>
	<p>Senior management must ensure that an appropriate compliance culture is established within the portfolio at all levels, regularly communicating their commitment to effective and efficient financial management by providing adequate resources to meet compliance objectives and training staff in the requirements of the Framework.</p>
<i>Whole of Government (DTF)</i>	<p>DTF will encourage an appropriate financial management compliance culture be established across all VPS portfolios.</p>
	<p>DTF will assist in encouraging that corrective action is taken on systemic issues.</p>
	<p>DTF will provide adequate administrative support and resources to ensure appropriate reporting and issues management procedures are in place (via the web-based Issues Management System).</p>

6. Web-Based Technology

From the DTF website (www.dtf.vic.gov.au), users are able to access three components of the Framework web-based technology, including the Financial Management Knowledge Centre (www.fmkc.dtf.vic.gov.au), Tax Knowledge Centre (www.tkc.dtf.vic.gov.au) and Compliance Monitoring System (www.cms.dtf.vic.gov.au). These sites are all password protected.

Financial Management Knowledge Centre (FMKC)

The Financial Management Knowledge Centre provides information to assist and support agencies in meeting their financial management responsibilities.

The website is updated on a regular basis to keep VPS agencies abreast and informed of changes to legislation, policies and guidelines, strategic/whole of Government issues and seminars/briefings.

The aim of the site is to provide agencies with support material to enable them to perform their compliance function effectively, accurately and on time.

The following can be found on the Financial Management Knowledge Centre:

- **The Library:** This contains the Financial Management Package: which consists of the *Financial Management Act 1994*, *Audit Act 1994*, Financial Management Regulations 2004, Audit (Public Bodies) Regulations 2005, Standing Directions of the Minister for Finance and Financial Reporting Directions;
- **What's New:** Contains all the latest news and features relevant to the financial management environment;
- **Key Events and Dates:** Key events and dates useful to an agency in meeting their financial management responsibilities;
- **Issues Management System:** A central repository of strategic and whole of Government issues and their resolution;
- **Compliance:** Contains the Framework including the certification checklist and supplementary material, information on purchasing card compliance, training information and newsletters
- **Financial Reporting:** Contains the Financial Reporting Directions, Financial Reporting Guidance, Newsletters and the Model Financial Report; and
- **IFRS Adoption:** Contains information to assist in adopting Australian equivalents to the International Financial Reporting Standards.

Tax Knowledge Centre (TKC)

The Tax Knowledge Centre provides information to assist and support agencies in meeting their Commonwealth taxation compliance obligations.

The website is updated on a regular basis to keep VPS agencies abreast and informed of changes to legislation, policies and guidelines, strategic/whole of Government issues and seminars/briefings.

The following can be found on the Tax Knowledge Centre:

- **Tax Library:** This contains the GST, FBT and PAYG manuals;
- **What's New:** Contains all the latest news and features relevant to the taxation environment;
- **Key Events and Dates:** Key events and dates useful to an agency in meeting their taxation responsibilities;
- **Issues Management System:** A central repository of strategic and whole of Government issues and their resolution;
- **Rules and Determinations:** Contains various ATO rulings and interpretations applicable to the VPS;
- **Division 81:** Contains relevant information of the current Division 81 Determination and the Division 81 update process; and
- **ATO Cooperative Compliance:** Details the ATO's Cooperative Compliance relationship with the VPS.

Compliance Monitoring System (CMS)

The Framework is predicated on agencies submitting annually, a financial management certification letter incorporating financial management, taxation, purchasing card and thefts and losses, to their Portfolio Minister (via portfolio departments). Portfolio departments are then required to provide a portfolio summary report to the Minister for Finance (via DTF).

To support the annual certification process, DTF has developed the Compliance Monitoring System, to facilitate and automate the annual certification process. From 2004-05, the CMS is used for certification against the Directions requirements detailed in the Framework (incorporating financial management, taxation, purchasing card and thefts and losses).

Please note: The CMS is not used for the reporting of purchasing card breaches/unauthorised use and instances of thefts and losses. Reporting of such breaches or instances should be undertaken using the template letters provided by DTF in accordance with the Directions (please see the *Purchasing Card Rules for Use and Administration* and *Thefts and Losses Rules* for further information on these processes including the template letters).

7. Monitoring and Certification Arrangements

The Framework incorporates an annual certification by VPS agencies that they are complying with the provisions of the Framework. The process for certification follows a hierarchical approach. This approach is based on the fact that the relevant Portfolio Ministers require information regarding the financial management compliance obligations of relevant VPS agencies. Portfolio Ministers rely on their portfolio department to support their compliance monitoring role.

Individual VPS agencies address their annual certification letter to the relevant Portfolio Minister (copy to be provided to the portfolio department). Each department then forwards a portfolio summary report to the Minister for Finance (through DTF).

The agency certification consists of an exceptions report of VPS agency compliance against the checklist refer to section 8. *Financial Management Certification Checklist*. Certification highlights areas where the VPS agency has not fully complied with an element of the Directions. Departments need to exercise judgment, as to which areas of non-compliance are raised in the portfolio summary report to DTF. There may be certain non-compliance matters which are of particular relevance to a portfolio, on which the department may need to take action. DTF will work with departments to resolve systemic whole of Government non-compliance issues.

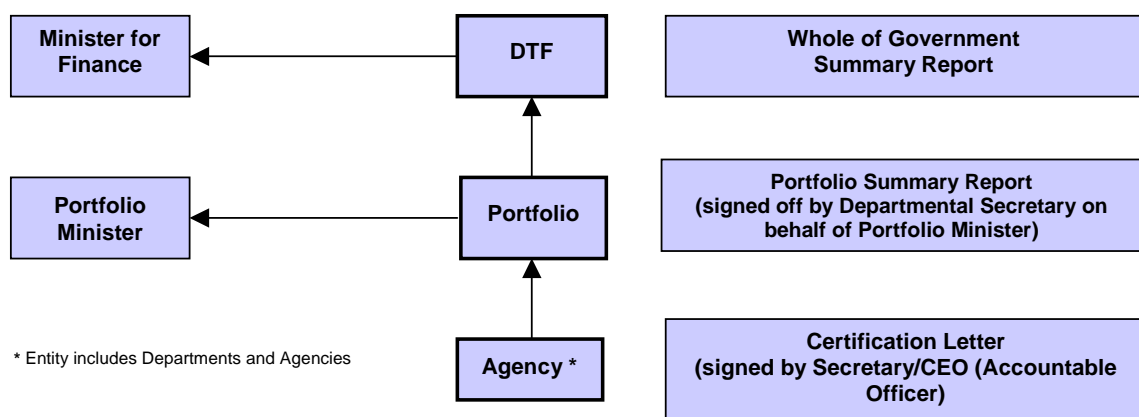
The certification letter must be signed by the Secretary/Chief Executive Officer (Accountable Officer) of each VPS agency (including portfolio departments), or their delegate. Certification letters are to be completed using the Compliance Monitoring System website. Once the certification data has been entered into the website, a pro-forma letter and attachment will be produced.

In theory, the portfolio summary report is addressed to the Minister for Finance and would normally be signed by individual Portfolio Ministers. However, as most departments report to more than one Minister and would need to prepare numerous portfolio reports, a practical solution has been developed resulting in the departmental Secretary signing the portfolio summary report on behalf of all Portfolio Ministers. Departments should brief their Ministers on the financial management issues relating to their respective portfolios. Departments can seek formal delegation of the responsibility for signing of portfolio summary reports from the relevant Portfolio Ministers to the departmental Secretary.

Unless otherwise informed, the certification letters must be completed by all agencies under the Framework. Portfolio summary reports are to be completed and submitted to DTF by **31 October** each year. Agency certification letters are to be forwarded to the Portfolio Minister by **30 September** each year, to enable portfolios to meet the **31 October** deadline.

In summary, agencies are required to complete and submit a certification checklist by end of **September**, and portfolio summary reports are due by the end of **October**. The certification process (completion of the checklist) is undertaken on the Compliance Monitoring System website by agencies and portfolios.

Following is a graphical depiction of the certification and reporting arrangements:



8 Financial Management Certification Checklist

The Financial Management Certification Checklist (“checklist”) assists VPS agencies to meet their financial management obligations as detailed by the Framework and also assists in the performing of monitoring/assurance functions.

The checklist consists of a number of Direction Requirements, which have been derived from key concepts contained within the Directions. In completing this checklist, agencies need to refer to the detailed compliance requirements contained in the Directions and mandatory procedures.

Compliance with the checklist does not preclude compliance with **all** the Directions, contained in the FMP.

The checklist has been developed as a tool to assist VPS agencies in certifying against the requirements of the Directions. The checklist may be modified from time to time as Directions are amended, added or removed. In completing and signing the checklist, agencies need to refer to the detailed compliance requirements contained in the Directions and mandatory procedures therein.

The checklist (incorporating financial management, taxation, purchasing card and thefts and losses) is designed for reporting on controls and risk management mechanisms. The Responsible Body (Boards/Accountable Officers) of the VPS agency may choose to include financial management as an adjunct to their internal audit programs. This will be appropriate where, for example, internal processes are to be reviewed.

Pursuant to the Framework, the checklist must be completed on an annual basis by all VPS agencies to which the FMP applies and who are consolidated in the “Annual Financial Report for the State of Victoria”. Refer to Section 1 “*Scope of the Framework*” for further information.

By answering a series of statements with compliant / partially compliant / not compliant / not applicable responses, the checklist highlights areas of potential risks and provides a tool to track when and where assistance may be required and identify the current status of compliance.

In completing the checklist, the following responses are available to agencies:

- *compliant*: the relevant agency has meet all the elements of the specific Direction Requirement and the associated Directions by 30 June;
- *partially compliant*: the relevant agency has met some of the specific Direction Requirement and the associated Directions by 30 June;
- *not compliant*: the relevant agency has not met any of the specific Direction Requirement and the associated Directions by 30 June; and
- *not applicable*: the relevant agency has determined that the specific Direction Requirement and associated Directions are not applicable to the agency in its particular circumstances.

Comments should be included to support a particular response.

Reporting to Portfolio Ministers is provided on an exceptions basis through the Framework's annual certification process. In completing the annual certification, full reasons for partially compliant / not compliant / not applicable responses are required as these will appear in the letter provided to the Portfolio Minister. Responses are not required if the agency is fully compliant.

An Assessment Tool is also available on the Financial Management Knowledge Centre website. This tool may be of use to agencies in the tracking of compliance with individual Directions and their associated Direction Requirements over time.

Certification Checklist

In completing this checklist, agencies need to refer to the detailed compliance requirements contained in the Directions and mandatory procedures.

* Responses include Compliant, Partially Compliant, Not Compliant and Not Applicable

S Denotes further that detailed supplementary material (formally known as Guidance Material) is available through the Financial Management Knowledge Centre website.

R Denotes that specific Rules exist and are available through the Financial Management Knowledge Centre website.

No	Direction Requirement	Direction Reference	Response*	Comments
Section 2 – Financial management Governance and Oversight				
Financial Code of Practice				
1	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.	2.1 S		
Financial Governance				
2	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.	2.2 S		

No	Direction Requirement	Direction Reference	Response*	Comments
3	<p><i>For Agencies:</i></p> <p>The Accountable Officer and the CFAO have, within the last 12 months, made formal statements to the Responsible Body (Board) that the Agency's financial report present fairly the results and financial condition of the Agency and is founded on sound risk management, internal compliance and control systems.</p> <p><i>For Government departments:</i></p> <p>The CFAO has, within the last 12 months, made a formal statement to the Audit Committee and the Accountable Officer, that the Agency's financial report present fairly the results and financial condition of the Agency and is founded on sound risk management, internal compliance and control systems.</p>	<p>2.2</p> <p><input checked="" type="checkbox"/></p>		
4	<p>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:</p> <ul style="list-style-type: none"> ○ Internal and external auditors ○ The Accountable Officer ○ The CFAO ○ The Public Sector Agency's management (through the Accountable Officer) <p><i>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. (If your entity is eligible for an exemption and has obtained one you should tick – compliant, if you have not obtained an exemption at the time of certification you should tick - non-compliant with an appropriate comment)</i></p>	<p>2.2</p> <p><input checked="" type="checkbox"/></p>		

No	Direction Requirement	Direction Reference	Response*	Comments
Financial Risk Management				
5	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 within the last 12 months.	2.3 <input checked="" type="checkbox"/>		
Delegations of Authority				
6	The Responsible Body has adopted financial delegations of authority which conform to the requirements of the Directions and these delegations have been reviewed by the Responsible Body within the last 12 months.	2.4		
Internal Audit				
7	<p>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.</p> <p><i>Where an Internal Audit function does not exist, a written exemption must be obtained from the Minister for Finance. (If your entity is eligible for an exemption and has obtained one you should tick – compliant, if you have not obtained an exemption at the time of certification you should tick - non-compliant with an appropriate comment)</i></p>	2.5 <input checked="" type="checkbox"/>		

No	Direction Requirement	Direction Reference	Response*	Comments
External Audit				
8	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 within the last 12 months.	2.6		
Section 3 – Financial Management Structure, Systems, Policies and Procedures				
Public Sector Agency Financial Management Team Structure				
9	Roles and responsibilities for positions within the financial management team structure, and the prerequisite skills, qualifications and experience have been defined and documented.	3.1.1 S		
Chief Finance and Accounting Officer (CFAO)				
10	The prerequisite skills, qualifications and experience for the CFAO are clearly defined and documented together with position description, role, duties, rights and responsibilities.	3.1.2 S		
11	The CFAO has endorsed financial information submitted to the Accountable Officer, Responsible Body and/or other senior executive forums within the Public Sector Agency.	3.1.2 S		

No	Direction Requirement	Direction Reference	Response*	Comments
Policies and Procedures				
12	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	3.1.3 <input type="checkbox"/>		
Chart of Accounts				
13	The CFAO or their delegate has established, maintained and distributed a Chart of Accounts, which meets the requirements of the Directions.	3.1.4 <input type="checkbox"/>		
Managing Outsourced Services				
14	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 twelve months.	3.1.5 <input type="checkbox"/>		
15	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.	3.1.5 <input type="checkbox"/>		
Information Technology Management				
16	The Responsible Body has reviewed the use of Information Technology used for financial management within the last 12 months to assess information technology risks and their impact on financial management.	3.2.1 <input type="checkbox"/>		

No	Direction Requirement	Direction Reference	Response*	Comments
Information Technology Operations				
17	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.	3.2.2 <input checked="" type="checkbox"/>		
18	A formal assessment has been undertaken within the last 12 months of whether financial management information that is sensitive to the Public Sector Agency and stakeholders is adequately controlled and secured.	3.2.1 3.2.2 3.2.3 <input checked="" type="checkbox"/>		
Development				
19	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.	3.2.4 <input checked="" type="checkbox"/>		
Change Control				
20	A change control process was followed for changes made to financial management systems.	3.2.5 <input checked="" type="checkbox"/>		
Education and Training				
21	The training and education needs for the financial management team have been reviewed by the CFAO or their delegated authority within the last 12 months, and an appropriate program developed to address the training and education needs of financial management staff.	3.3 <input checked="" type="checkbox"/>		

No	Direction Requirement	Direction Reference	Response*	Comments
Section 4 – Financial Management Reporting				
Internal Financial Management Reporting				
22	Requirements for internal financial management reports have been identified and relevant reports have been produced and distributed at regular intervals throughout the financial year.	4.1 S		
Reporting Requirements in terms of Part 7 of the FMA				
23	The Financial Statements and Report of Operations have been prepared in accordance with Part 7 of the <i>Financial Management Act</i> 1994 and in the required timeframes.	4.2		
Other External Reporting				
24	All external reporting requirements have been identified and relevant reports delivered completely, accurately and in a timely manner.	4.3		
Financial Performance Management and Evaluation				
25	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.	4.4 S		

No	Direction Requirement	Direction Reference	Response*	Comments
Financial Management Compliance Obligations				
26	The Public Sector Agency has met its financial management compliance obligations by: <ul style="list-style-type: none"> • conducting an annual review of financial management compliance; and • identifying and rectifying financial management compliance issues. 	4.5.1		
Taxation Compliance Obligations				
27	The Public Sector Agency has met its taxation compliance obligations by: <ul style="list-style-type: none"> • conducting an annual review of taxation compliance; • developing and maintaining taxation policies and procedures; • developing and implementing a taxation education program • identifying and rectifying taxation compliance issues. 	4.5.2 <input type="checkbox"/> R		

No	Direction Requirement	Direction Reference	Response*	Comments
Purchasing Card Compliance Obligations				
28	The Public Sector Agency has: <ul style="list-style-type: none"> • 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. 	4.5.3 <input type="checkbox"/> R		
Thefts and Losses Compliance Obligations				
29	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.	4.5.4 <input type="checkbox"/> R		

Please note:

- If you have identified a breach of Direction 4.5.3: Purchasing Card or the Purchasing Card Rules, the Public Sector Agency must inform the Minister for Finance in accordance with the *Purchasing Card Rules for Use and Administration*. This is in addition to the completion of the annual certification letter to the agency's portfolio Minister; and
- If you have identified a theft or loss in accordance with Direction 4.5.4: Thefts and Losses, the Public Sector Agency must inform the Minister for Finance and the Auditor-General in accordance with the *Thefts and Losses Rules*. This is in addition to the completion of the annual certification letter to the agency's portfolio Minister.

* In completing the checklist, the following responses are available to agencies:

- *compliant*: the relevant agency has met all the elements of the specific Direction Requirement and the associated Directions by 30 June;
- *partially compliant*: the relevant agency has met some of the specific Direction Requirement and the associated Directions by 30 June;
- *not compliant*: the relevant agency has not met any of the specific Direction Requirement and the associated Directions by 30 June; and
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