

# Financial Management Compliance Framework

## *An Overview*

### **Introductory Message**

The Financial Management Compliance Framework (the Framework) has been developed to assist Victorian Public Service (VPS) agencies attain the most effective financial management to achieve organisational goals, whilst simultaneously meeting Government requirements for the purposes of accountability. It will also provide a mechanism through which the Government can effectively monitor and review compliance with the Standing Directions of the Minister for Finance (Directions), as part of the Financial Management Package.

The Framework was implemented from **1 July 2003** with subsequent amendments been made in July 2005 to integrate financial management, taxation, purchasing card and thefts and losses.

The Framework provides assurance that VPS agencies have implemented the appropriate systems to ensure compliance with the Directions to provide for effective, efficient and responsible financial management of public resources.

The Framework also assists in discharging the Minister for Finance's accountability to the Parliament, by ensuring that public resources are being managed in a financially responsible manner.

Under this Framework, Ministers, Portfolio Departments and agencies work together to manage risks and obligations. The primary accountability for compliance rests with individual agencies. Departments have a portfolio assurance and coordinating role, and the Department of Treasury and Finance has a whole-of-government assurance and support.

Please become familiar with the Financial Management Compliance Framework and the requirements of the Directions. It is important that the Department of Treasury and Finance (DTF), portfolio departments and VPS agencies work together to ensure that the Victorian Government meets its financial management obligations.

### **The Financial Management Compliance Framework - Background**

Through this Framework, Government can assist agencies to meet their obligations and effectively monitor and review their overall performance in financial management compliance. Incorporated into this Framework are the financial management, taxation, purchasing card and thefts and losses compliance and reporting requirements. These were previously subject to separate compliance reporting frameworks.

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The Framework responds to the Government's initiative of promoting responsible financial management. Inherent in this is a process for the DTF to monitor and report on financial compliance across the VPS. It incorporates a monitoring and reporting process to ensure all VPS agencies are adhering to the requirements of the Framework. Departments and agencies have traditionally relied on the Auditor-General's Office to identify compliance issues, however this is not the Auditor-General's role rather it is the role of the agency's management. The monitoring and reporting processes are centred on a process for annual certification against the Directions, which forms part of the Financial Management Package.

The objectives of the Framework include:

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

#### Key Messages

- This Framework assists VPS agencies in attaining the most effective financial management compliance 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 the agency level. Departments are not to be held accountable for individual agencies. Departments are however responsible for consolidated reporting obligations on a portfolio basis to their Ministers and the Minister for Finance.
- 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 and ongoing 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.

The key principles of the Framework are:

- Agencies and Departments are responsible for meeting their compliance reporting obligations relating to financial management, taxation, purchasing card and thefts and losses.
- DTF will have a Whole of Government key role in supporting agencies in achieving compliance through the update of the Directions, update of websites, development of supplementary material and the provision of information and communication sessions as required.
- Departments have key portfolio roles on behalf of their Ministers to report, provide guidance on systemic issues and assist with corrective actions across their portfolios.
- Where necessary, strengthen internal controls and mechanisms already in place within agencies and thus lead to a reduction in the potential for unexpected “surprises”.
- 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.

### **Standing Directions of the Minister for Finance**

The Directions form the basis of sound financial management for the State. The Directions are designed to supplement the *Financial Management Act 1994* by prescribing mandatory elements (procedures) that must be complied with by all VPS agencies. The Directions ensure that the VPS continues to practice leading edge financial management.

The three high-level components of the Directions include:

- Financial Management Governance and Oversight.
- Financial Management Structure, Systems, Policies and Procedures.
- Financial Management Reporting.

### **Scope**

The Framework 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 of the State of Victoria.

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.

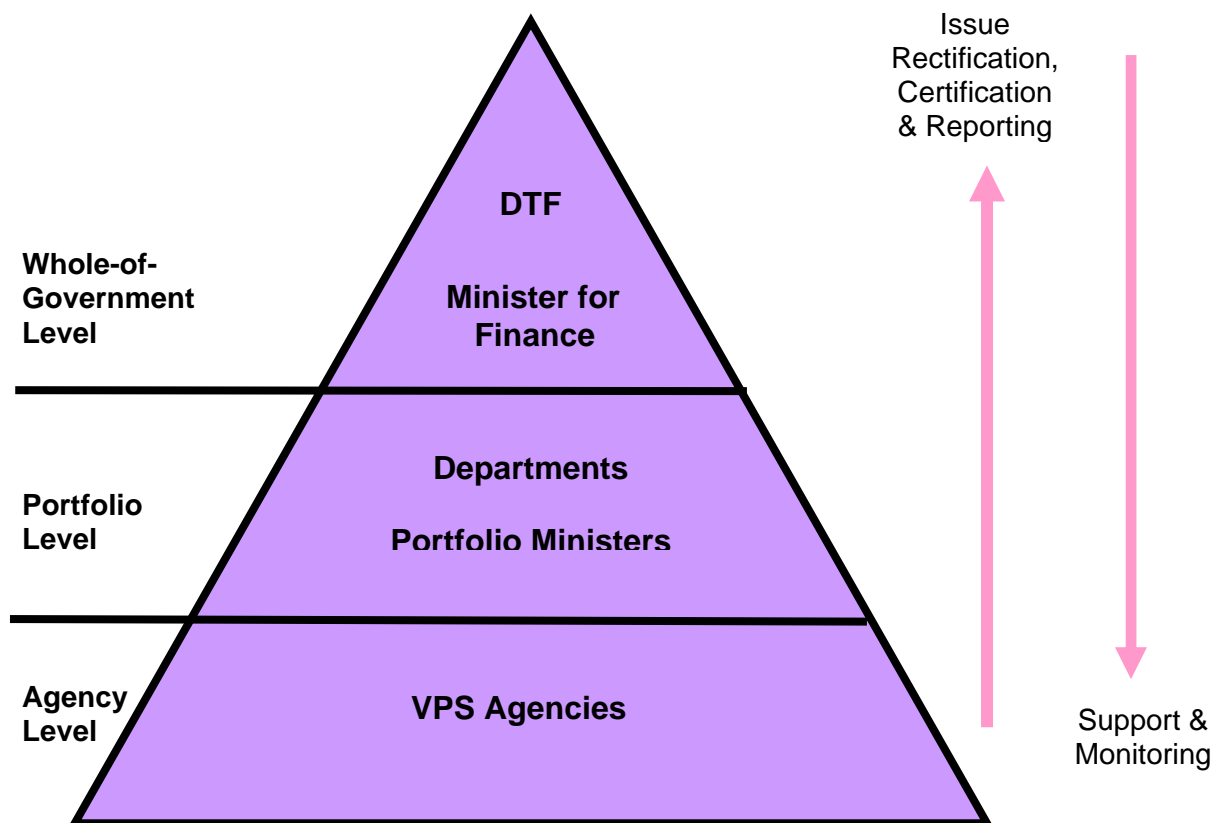
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Agencies that are incorporated under the *State Owned Enterprises (SoE) Act* 1992 and to which Part 7 of the FMA “Accountability and Reporting” applies, or Government owned Corporations Law companies which are declared for Parliamentary tabling purposes 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.

### Reporting Structure

A key feature of this Framework is that the primary responsibility for financial management compliance is vested in individual VPS agencies, with Departments performing a portfolio level assurance role and DTF performing a whole-of-government monitoring and support role.



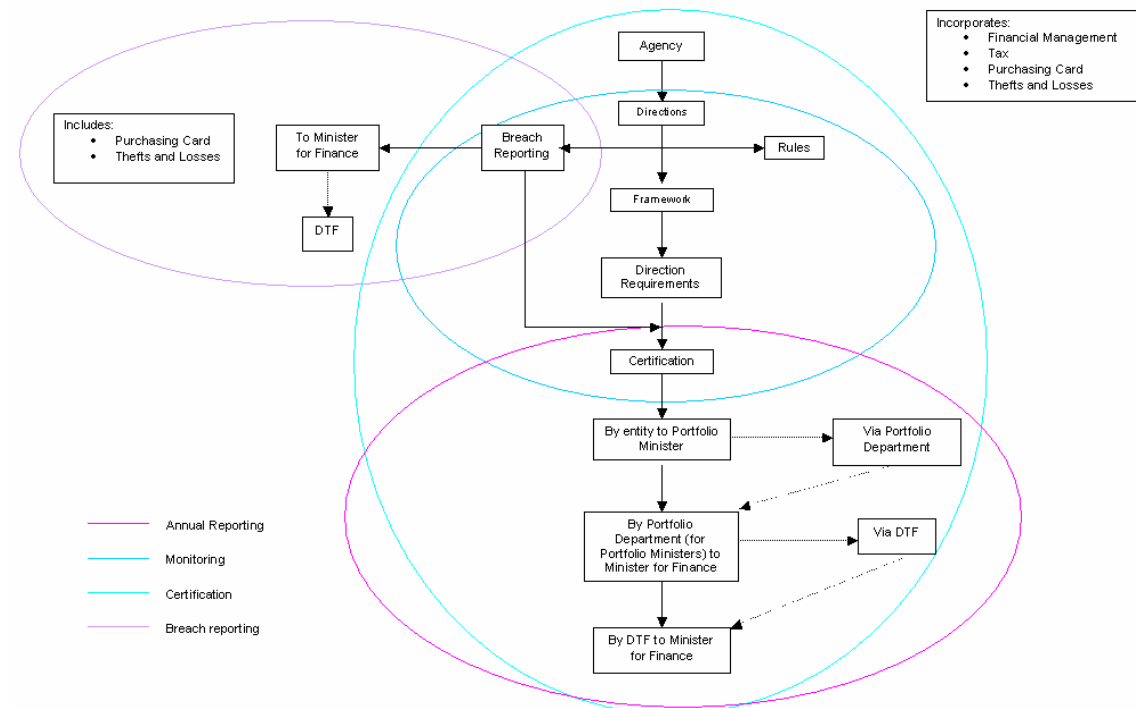
The various taxation, purchasing card and thefts and losses reporting requirements have now been incorporated into the Framework. The Directions have been amended to incorporate these specific requirements.

The 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 (with a copy to their Portfolio Minister). 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, supporting 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. Generally, the purpose of the support rules is to assist agencies in meeting the requirements of the Directions. 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.



## **Role of Internal Audit**

Agencies will 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 actions to be taken to achieve compliance in accordance with the required timeframes.

## **Role of the Audit Committee**

The Audit Committee (or Responsible Body in its absence) should assume a leading role in the financial 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 in the future. The Audit Committee should work closely with Internal Audit to achieve this.

## **How the Framework Operates**

Outlined below are key aspects of the Framework. For further information please refer to the Framework, Directions, Taxation Compliance Rules, Purchasing Card Rules for Use and Administration and Thefts and Losses Rules.

## **Certification, Reporting, Monitoring and Reviews**

The Framework requirements for VPS agencies will emerge through the annual certification process in which agencies certify as to their level of compliance with Direction Requirements (developed from key elements of the Directions). The certification process is designed as a review of controls and risk management mechanisms, to ensure financial management compliance and the management of risks. VPS agencies must certify that they have complied with the mandatory requirements (procedures) of the Directions facilitated through the Compliance Monitoring System website. VPS agencies are required to sign an exceptions certification letter and forward it to their Portfolio Ministers (via their Portfolio Departments). Portfolio summary reports are then be provided to the Minister for Finance (via DTF).

It is up to individual Departments to determine the exact form of monitoring and assistance for their portfolios. DTF will be actively involved in working with agencies to resolve whole-of-government systemic issues. At a minimum, a portfolio summary report should be completed. This report summarises the certification letters received from the portfolio's agencies and includes comments from the certification process and compliance issues.

In theory, the portfolio summary reports should be addressed to the Minister for Finance and signed by individual Portfolio Ministers. However, as most Departments report to more than one Minister and would need to prepare numerous portfolio summary reports, a practical solution has been developed which will involve the portfolio summary report being signed by the Departmental Secretary (which is the Accountable Officer under the *Financial Management Act* 1994). Departments may wish to seek formal delegation for the Secretary to issue portfolio summary reports on behalf of the relevant Portfolio Ministers.

## **Issues Management**

Agencies are responsible for the resolution of issues specific to them. To promote efficiency in financial management, Departments have responsibility for resolving issues which are common to a number of portfolio agencies. Departments also need to communicate the issue and how it was resolved to all affected agencies.

Issues with whole-of-government implications (i.e. issues that are systemic and affect agencies across more than one portfolio) should be referred to DTF. DTF is responsible for resolving whole-of-government issues and for communicating those issues to agencies that could potentially be affected.

## **Knowledge Management**

Agencies are to ensure that training should be incorporated into induction program for new staff which includes training on the Framework, financial management policies and processes and legislative requirements. Portfolios should provide assistance for industry-specific knowledge management by the adoption of appropriate practices for industry specific knowledge management. This could include training programs focussed on industry specific issues and/or briefings, guides or other prepared material on relevant industry specific issues. DTF will be actively involved in whole-of-government education and information sessions, guides, maintaining the Financial Management Knowledge Centre and sharing information across the VPS.

## **Culture and Commitment**

Culture and commitment is a crucial element of this Framework. Commitment is essential at all three tiers of Government (agency, Departmental and whole-of-government) for this Framework to operate effectively. The Responsible Body of all agencies should ensure that an appropriate compliance culture is established at all levels by regularly communicating their commitment to financial management compliance and providing adequate resources and training to meet compliance objectives. DTF encourages an appropriate financial management compliance culture be established across all Departmental portfolios, particularly by encouraging that corrective action is taken on systemic issues.

## **Achievement of financial management compliance**

Financial management compliance will take some time to achieve. It should be incorporated in day to day practices and should be embedded within each agency. To ensure compliance, financial management should be subject to ongoing review to ensure that compliance issues are promptly identified and rectified. Another important element is the reporting and monitoring of compliance issues both within the agency and to the Portfolio Minister through the annual certification process.

## **Financial Management Knowledge Centre – [www.fmkc.dtf.vic.gov.au](http://www.fmkc.dtf.vic.gov.au)**

The Financial Management Knowledge Centre website is a valuable online information resource for Accountable Officers, CFOs and VPS staff involved in financial management and is a convenient way to exchange information with your colleagues from other Departments and Agencies.

The Financial Management Knowledge Centre contains a number of elements to assist you in meeting your compliance obligations including:

- Library - containing the Financial Management Package
- What's New
- Key Dates and Events
- Issues Management System
- Compliance - containing the Framework, certification checklist and supplementary material
- Financial Reporting - containing the Financial Reporting Directions and Model Financial Report.
- International Financial Reporting Standards – contains information of the Australian equivalents to the International Financial Reporting Standards.

## **Tax Knowledge Centre – [www.tkc.dtf.vic.gov.au](http://www.tkc.dtf.vic.gov.au)**

The Tax Knowledge Centre website is a valuable online information resource for Accountable Officers, CFOs and VPS staff involved in taxation compliance and is a convenient way to exchange information with your colleagues from other Departments and Agencies.

The Tax Knowledge Centre contains a number of elements to assist you in meeting your compliance obligations including:

- What's New
- Key Dates and Events
- Taxation Compliance Rules
- Tax Training
- Tax Library
- Issues Management System
- Rulings and Determinations
- Division 81
- ATO Cooperative Compliance

## **Compliance Monitoring System – <https://www.cms.dtf.vic.gov.au>**

The Compliance Monitoring System website is used by Departments and Agencies to facilitate the Framework's annual certification process. This website is normally only available from July to end September annually. For further information on this website, please contact your portfolio coordinator.