

Key Components of AS3806 “Compliance Programs”

Certification, Reporting, Monitoring and Reviews

The Framework requirements for VPS entities will emerge through the annual certification process. VPS entities need to sign certification letters and forward them to their Portfolio Ministers (via Departments). Portfolio summary reports will then be provided to the Minister for Finance (via DTF). VPS entities must certify that they have complied with the mandatory requirements (procedures) of the Directions.

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 entities 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 entities 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 can seek formal delegation for the Secretary to issue portfolio summary reports on behalf of the relevant Portfolio Ministers.

Issues Management

To promote efficiency in financial management, Departments have responsibility for resolving issues which are common to a number of portfolio entities. Departments also need to communicate the issue and how it was resolved to all affected entities (via the DTF Issues Management System in the Financial Management Knowledge Centre).

Issues with whole-of-government implications (ie issues that are systemic and affect entities 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 entities that could potentially be affected.

Maintenance (Knowledge Management)

Entities are to ensure that, in conjunction with Portfolio Departments, training should be incorporated into induction training for new staff which includes training on the Framework, 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 (entity, departmental and whole-of-government) for this Framework to operate effectively. The Responsible Body of all entities 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 will encourage an appropriate financial management compliance culture be established across all Departmental portfolios, particularly by encouraging that corrective action is taken on systemic issues.

Next Steps - Implementation

A strategy for implementing both the Directions and the Framework itself is currently being developed. Implementation will have a number of facets including communication, education and information sessions. Requirements at the operational level will be addressed via rigorous and focused sessions commencing July to September 2003, with the possibility of further workshops or refresher sessions later in the year subject to requirements. These sessions will be conducted both in Melbourne and rural areas.

The schedule and content of these sessions is also currently being developed. The focus is on targeted and tailored education to address the practical implications of implementation of both the Framework and the Directions, particularly for smaller entities, and how DTF can assist them in this regard.

The Financial Management Knowledge Centre – www.fmkc.dtf.vic.gov.au

The Financial Management Knowledge Centre 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 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 guidance material
- Financial Reporting – containing the Financial Reporting Directions and Model Financial Report.

DTF has developed and issued an Explanatory Framework Document to all VPS entities, which provides further detail to what has been discussed in this document. This Framework Document can also be found on the Financial Management Knowledge Centre website.

Financial Management Compliance Framework an overview



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

The FMCF will also assist in discharging my 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 will be working together to manage risks and obligations. The primary accountability for compliance rests with individual entities. Departments have a portfolio assurance and coordinating role, and the Department of Treasury and Finance has a whole-of-government assurance and support.

To assist Accountable Officers and Chief Finance Officers in meeting their obligations, we have developed a Financial Management Knowledge Centre www.fmkc.dtf.vic.gov.au and a Compliance Monitoring System www.cms.dtf.vic.gov.au. These are web-based applications designed to support financial knowledge and compliance management.

We have consulted extensively with VPS entities, including the Victorian Auditor-General's Office in developing the FMCF and they are fully supportive of its implementation.

Please become familiar with the Financial Management Compliance Framework and the requirements of the Directions. It is important that we all work together to ensure that the Victorian Government meets its financial management obligations.

John Lenders MLC
Minister for Finance

The Financial Management Compliance Framework – Background

Consistent with the Taxation Compliance Framework (TCF) and promoting responsible financial management in the VPS, the Department of Treasury and Finance (DTF) has developed a whole-of-government FMCF. Through this Framework Government can achieve and maintain the most effective financial management throughout the VPS.

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

The Financial Management Package consists of:

- The *Financial Management Act (FMA) 1994*
- The *Audit Act 1994*
- The Standing Directions of the Minister for Finance
- Financial Management Regulations
- Financial Reporting Directions

Key messages

- This Framework will assist VPS entities in attaining the most effective financial management to achieve the goals of the organisation whilst meeting the requirements of Government for the purposes of accountability.
- Accountability for compliance and reporting exists at an entity level. Departments will not be held accountable for individual entities. Departments are however responsible for 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/Accountable Officer). It requires active participation of leadership teams, line managers, supervisors and executives.
- This Framework will be integrated with other existing 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:

- Entities and Departments are responsible for meeting their reporting obligations.
- DTF will have a key role in supporting entities in achieving compliance via; update of the rules, development of a web-based tool, development of guidance material and information sessions and education programs.
- Departments have key portfolio roles on behalf of their Ministers to report, provide guidance on systemic issues and assist with corrective actions.
- The Framework covers all VPS entities to which the Financial Management Package applies.
- 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 entities 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.

The following are the five key elements of the Framework:

- Based on a leading practice Standard - AS3806
- Rules - Standing Directions of the Minister for Finance
- A three-tier reporting structure of Government
- Web-based technology
- A checklist for certification

AS3806 "Compliance Programs"

The Framework is based on leading practice Australian Standard AS3806 "Compliance Programs" which sets objective benchmarks for corporations in designing, implementing and maintaining effective compliance programs. It has been proven to operate effectively over a broad range of environments, both within the public sector and large corporates.

A product, which resulted from a survey of 250 large multinational companies, represented the world's leading guidance on corporate compliance. This had significant similarities to the principles for the development, implementation and maintenance of effective compliance programs, identified and included in AS3806.

Rules – Standing Directions of the Minister for Finance

The Standing Directions of the Minister for Finance form the basis of sound financial management for the State. The Directions are designed to supplement the FMA by prescribing mandatory elements (procedures) that must be complied with by all VPS entities. The Directions have not been comprehensively reviewed since 1994. To ensure that the VPS continues to practice leading edge financial management, DTF reviewed and updated the Directions and issued them to over 300 entities across the VPS in the form of an Exposure Draft, for a three-month comment period.

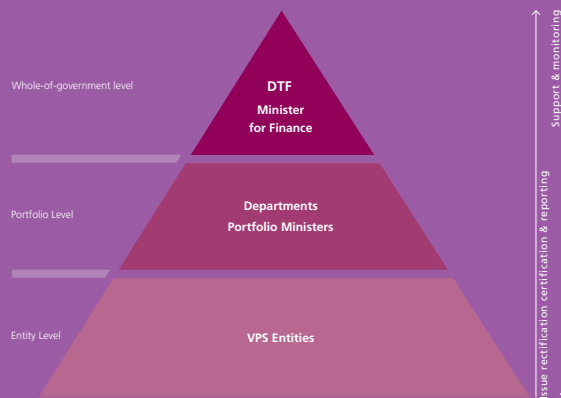
The aim of the Exposure Draft was to allow entities, which would be required to apply the new Directions to raise any issues they may have with implementation. The consultation process extended to focus groups and meetings with a cross-section of entities across the VPS, to allow further opportunity for comment. The revised Ministerial Directions will be applicable from **1 July 2003**.

The three high-level components of the Directions include:

- Financial management governance and oversight.
- Financial management structure systems, policies & procedures.
- Financial management reporting.

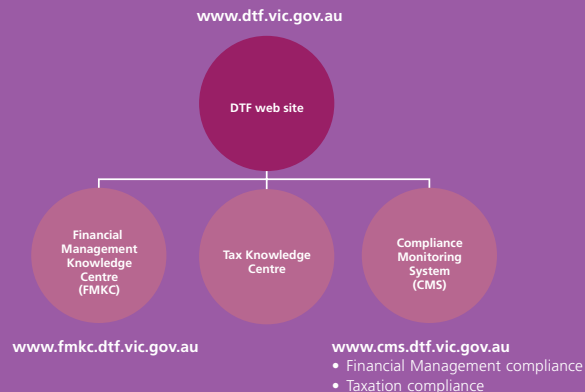
Reporting Structure

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



Web-based Technology

DTF has developed a web-based tool to support the implementation of the FMCF. This tool is based on the existing Tax Compliance Framework web tool, and includes a Financial Management Knowledge Centre and a Compliance Monitoring System.



The FMKC provides information to assist and support entities in meeting their financial management responsibilities. A CMS is being developed to support the annual certification process, whereby entities must submit annually a certification letter to their Portfolio Minister (via the portfolio departments). Departments are then required to provide a summary certification to the Minister for Finance (via DTF).

Checklist for Certification

The FMCF will incorporate an annual certification by VPS entities (similar to the Taxation Compliance Framework) that they are complying with its provisions and in particular the provisions in the Standing Directions. The certification checklist is designed as a review of controls and risk management mechanisms, to ensure financial management compliance and the management of risks. The certification process will commence in 2004, for the 2003-04 financial year.

Role of Internal Audit

Entities 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 governance and oversight matters of the entity. The Audit Committee should become actively involved in the monitoring 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

Financial Management Compliance Process Map below depicts roles and responsibilities for each of the three tiers of Government against the components of AS3806 "Compliance Programs".

PROCESS	ENTITY LEVEL	PORTFOLIO LEVEL (Departments)	WHOLE OF GOVERNMENT (DTF)
Reporting	Annual certification (consider inclusion of financial statements and annual report certification)	Portfolio summary report to Portfolio Minister	Whole of Government summary report to MFF
		Collate annual certifications	Collate portfolio reports Summarise risk management reviews
Monitoring		Regular & ongoing oversight of entities	DTF review findings & monitor action
Reviews	Entity review of compliance		Review portfolio oversight Review risk management reviews
Issues Management	Simple issues refer to legal/accounting/audit advice Complex issues refer to portfolio department Breach register	Resolve portfolio issues Refer complex whole of Government issues to DTF Breach monitoring of portfolio	Whole of Government issues management & breach resolution
Policies & Procedures	Document compliance policies, procedures in manuals registers, job descriptions etc	Document compliance policies, procedures in manuals registers, job descriptions etc Ensure whole of Government level manuals are prepared	Document compliance policies, procedures in manuals registers, job descriptions etc Ensure whole of Government level manuals are prepared
Maintenance	Entity level FMCF training upon induction Ensure effective communication & liaison with portfolio dept	Dept level FMCF training upon induction Ensure effective communication & liaison with entities & DTF Shares issues knowledge	Deliver FMCF whole of Government staff training Ensure effective communication & liaison with portfolio dept & entities Provide information via internet or other databases
Resourcing & Responsibilities	Inculcate culture & commitment across whole of Government Clearly define & allocate roles & responsibilities	Inculcate culture & commitment across portfolio Clearly define & allocate roles & responsibilities Ensure entities have adequate support & facilities	Inculcate Culture & commitment across whole of Government Clearly define & allocate roles & responsibilities Establish role of chief compliance officer Ensure adequate support, facilities & tools available
Culture & Commitment			