Annual financial management compliance and assurance report

**For the year 2013‑14**

February 2015



The Secretary

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# Introduction

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

This report summarises the results of the 2013‑14 financial management compliance certification process, highlighting areas of non‑compliance or partial compliance. The report also highlights areas in which agencies found difficulty achieving full compliance.

# Certification

## Annual certification process

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

The process involves agencies self‑assessing compliance with the Directions and certifying to their relevant minister. Compliance results are submitted to the Department of Treasury and Finance (DTF) through the Compliance Monitoring System and this report, written for the Minister for Finance, consolidates these results.

All departments and public bodies are required to comply with the Directions. Of these, 264 agencies are required to certify compliance for the 2013‑14 financial year. Certifying agencies are those that meet the definition of ‘public body’ in the *Financial Management Act 1994* as well as providing financial data to prepare the State’s consolidated Annual Financial Report.

The list of certifying agencies is reviewed annually, and changes were made for the 2013‑14 certification period (see Table 1).

Table 1: Agency changes in 2013‑14

|  |  |
| --- | --- |
| **Additional agencies required to certify** | Advance TAFE  Commission for Children and Young People  Department of Environment and Primary Industries  Department of State Development and Business Innovation  Department of Transport, Planning and Local Infrastructure  Victorian Building Authority |
| **Agencies not required to certify** | Building Commission  Centre for Adult Education  Department of Planning and Community Development  Department of Primary Industries  Department of Sustainability and Environment  Department of Business and Innovation  Department of Transport  Driver Education Centre of Australia Limited  Plumbing Commission  Transport Ticketing Authority (Public Transport Ticketing Body) |

### Certification descriptors

Certifying agencies use the following descriptors to self‑assess compliance against each of the 34 direction requirements listed in Appendix 1:

* Compliant – an agency certifies full compliance with all elements in the direction requirement;
* Partially compliant – an agency certifies full compliance with the majority of elements in the direction requirement; and
* Non‑compliant – an agency certifies non‑compliance with the majority of elements in the direction requirement.

# Summary of certification results

In summary, for 2013‑14:

* 140 agencies (53 per cent) reported full compliance with all applicable direction requirements;
* 116 agencies (44 per cent) reported partial compliance with one or more applicable direction requirements; and
* eight agencies (3 per cent) reported non‑compliance with one or more applicable direction requirements.

## Compliance by portfolio

Table 2 shows compliance results in the 2013‑14 financial year by portfolio. Portfolio refers to a group of legal entities, while a ‘department’ refers to a single legal entity.

Table 2: VPS agency compliance by portfolio in 2013‑14

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Portfolio | Compliance | | | |
| Full | Partial | Non | Total |
| Education and Early Childhood Development (DEECD) | 12 | 11 | 2 | 25 |
| Environment and Primary Industries (DEPI) | 38 | 22 | 1 | 61 |
| Health (DH) | 49 | 41 | 3 | 93 |
| Human Services (DHS) | 1 | 2 | 2 | 5 |
| Justice (DOJ) | 8 | 14 | 1 | 23 |
| Premier and Cabinet (DPC) | 3 | 8 | 1 | 12 |
| State Development, Business and Innovation (DSDBI) | 7 | 4 | 0 | 11 |
| Transport, Planning and Local Infrastructure (DTPLI) | 11 | 9 | 0 | 20 |
| Treasury and Finance (DTF) | 8 | 4 | 0 | 12 |
| **Total** | **137** | **115** | **10** | **262[[1]](#footnote-1)** |

In the 2013‑14 financial year, 252 agencies (96 per cent) achieved either full or partial compliance.

## Historical compliance

The 2013‑14 results are similar to recent year’s compliance results, reflecting a trend of plateauing compliance levels over time (see Table 3).

While the level of full and partial compliance continues to be high (averaging 96 per cent over five years), it is not necessarily expected that all agencies will achieve full compliance with all requirements and related procedures, as:

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

Table 3: Historical compliance levels, by agency

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Compliance level | 2009‑10 | 2010‑11 | 2011‑12 | 2012‑13 | 2013‑14 |
| Agencies (% of certifying agencies) | | | | |
| Full | 155 (55%) | 147 (54%) | 147 (54%) | 137 (51%) | 137 (52%) |
| Partial | 115 (41%) | 108 (40%) | 115 (42%) | 123 (46%) | 115 (44%) |
| Non | 11 (4%) | 16 (6%) | 9 (3%) | 9 (3%) | 10 (4%) |

# Areas for further assessment

## Assurance reviews

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

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

## Areas highlighted through certification

Appendix 1 shows a summary listing of the 34 Direction Requirements and the reported levels of partial or non‑compliance for all agencies.

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

### Business continuity and disaster recovery (Direction Requirement 17)

Non‑compliant and partially compliant agencies reported that disaster recovery and business continuity plans continue to be a work in progress. Reasons provided by some agencies included that they failed to formally document their plans, or where they had an outsourced service, they were working with these providers to review and upgrade their internal systems.

### Policies and procedures (Direction Requirement 12)

The majority of partially compliant agencies reported difficulty developing and documenting detailed procedures for some parts of the Direction Requirement due to lack of resources. Other agencies were not able to review and update information strategy policies and procedures as they were waiting for their portfolio departments to finalise portfolio information strategy policies, which affect their agency policies and procedures.

### Audit Committee (Direction Requirement 4)

The majority of partially and non‑compliant agencies reported a failure to recognise independent members of the committee in their annual reports. Some regionally based agencies had difficulty recruiting appropriately qualified and skilled independent audit committee members. One agency reported itself as non‑compliant as it was a newly established agency that was in the process of setting up an audit committee.

### Internal audit (Direction Requirement 7)

Most of the agencies reported that they were still in the process of developing their audit charter and awaiting endorsement by the audit committee. Some agencies indicated a lack of formal arrangements with their internal auditor and incomplete internal audit plan as main reasons for non‑compliance.

# Conclusion

Certification results for 2013‑14 show that levels of compliance among certifying agencies remain high.

To ensure that the Standing Directions of the Minister for Finance are clear, relevant, and fit‑for‑purpose, DTF is reviewing the Directions and the associated rules and guidance to identify improvements that aim to increase effectiveness, minimise red tape and reduce barriers to full compliance.

In addition to reviewing and enhancing the Directions, DTF continues to focus on supporting agencies with their compliance requirements, especially by updating DTF guidance material and providing timely and accurate responses to compliance‑related queries. While DTF guidance is not binding on agencies for compliance purposes, it is important that agencies are able to clearly interpret their obligations under the Directions.

# Appendix 1: Level of compliance with Direction Requirements

This table details the number and percentage of compliance by agencies with each Direction Requirement.

| Direction Requirement | Direction | Requirement | Compliance (percentage) | | | |
| --- | --- | --- | --- | --- | --- | --- |
| Compliant | Partial | Non‑Compliant | Not Applicable |
| 1 | 2.1 – Financial Code of Practice | A ‘Financial Code of Practice’ exists covering areas required by the Directions, and is overseen by effective management with regards to its implementation, monitoring of compliance with its requirements, and dealing with breaches. | 97.3 | 2.7 | ‑ | ‑ |
| 2 | 2.2 – Financial Governance | **Responsible Body**  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. | 95.5 | 4.5 | ‑ | ‑ |
| 3 | 2.2 – Financial Governance | **Formal statements**  For agencies: The Accountable Officer and the Chief Finance and Accounting Officer (CFAO) have, in the last 12 months, made formal statements to the Responsible Body (Board) that the Agency’s financial reports present fairly the results and financial condition of the Agency and is founded on sound risk management, internal compliance and control systems.  For departments: The CFAO has, in the last 12 months, made a formal statement to the Audit Committee and the Accountable Officer, that the Agency’s financial reports present fairly the results and financial condition of the Agency and is founded on sound risk management, internal compliance and control systems. | 99.6 | ‑ | 0.4 | ‑ |
| 4 | 2.2 – Financial Governance | **Audit Committee**  An Audit Committee has been constituted and has a membership that is consistent with the criteria specified in Direction 2.2. The Audit Committee has functioned within the parameters of a Charter, which has been approved by the Responsible Body and provided to each member of the Audit Committee. It has had direct access to:   * internal and external auditors; * the accountable officer; * the CFAO; and * the Public Sector Agency’s management (through the Accountable Officer).   Where an Audit Committee does not exist, a written exemption must be obtained from the Minister for Finance and the Responsible Body undertakes the functions of an Audit Committee. | 89.8 | 9.1 | 0.8 | 0.4 |
| 5 | 2.3 – Financial Risk Management | The Public Sector Agency has a financial risk management policy and internal control system in place which addresses the risks associated with the financial management of the Public Sector Agency. The financial risk profile has been critically reviewed by the Responsible Body in the last 12 months. | 97.0 | 2.7 | 0.4 | ‑ |
| 6 | 2.4 Authorisations | The Responsible Body has adopted financial authorisations which conform to the requirements of the Directions and these authorisations have been reviewed by the Responsible Body in the last 12 months. | 96.6 | 3.4 | ‑ | ‑ |
| 7 | 2.5 – Internal Audit | An internal audit function exists and works within the parameters of a Charter and an internal audit plan, both of which has been approved by the Audit Committee or Responsible Body in the absence of an Audit Committee, and are consistent with the requirements of the Directions. A private meeting with the internal auditors has been held at least once in the last 12 months.  Where an internal audit function does not exist, a written exemption must be obtained from the Minister for Finance. | 92.0 | 5.7 | 0.8 | 1.5 |
| 8 | 2.6 – External Audit | The Audit Committee, or Responsible Body in the absence of an Audit Committee, has taken the actions required by Direction 2.6 in respect of external audit for the financial year (or part thereof) just ended, including inviting the external auditor to all relevant meetings and making time available to meet privately to discuss audit related issues at least once in the last 12 months. | 99.2 | 0.8 | ‑ | ‑ |
| 9 | 3.1.1 – Public Sector Agency Financial Management Team Structure | Roles and responsibilities for positions in the financial management team structure, and the prerequisite skills, qualifications and experience have been defined and documented. | 98.9 | 0.4 | ‑ | 0.8 |
| 10 | 3.1.2 – Chief Finance and Accounting Officer | **CFAO credentials**  The prerequisite skills, qualifications and experience for the CFAO are clearly defined and documented together with position description, role, duties, rights and responsibilities. | 100 | ‑ | ‑ | ‑ |
| 11 | 3.1.2 – Chief Finance and Accounting Officer | **CFAO endorsement**  The CFAO has endorsed financial information submitted to the Accountable Officer, Responsible Body and/or other senior executive forums in the Public Sector Agency. | 99.6 | 0.4 | ‑ | ‑ |
| 12 | 3.1.3 – Policies and Procedures | There are documented and communicated policies and procedures covering the requirements of the Directions (including all relevant requirements in Section 3.4 of the Directions) in respect of financial administration and management. | 88.6 | 11.4 | ‑ | ‑ |
| 13 | 3.1.4 – Chart of Accounts | The CFAO or their delegate has established, maintained and distributed a Chart of Accounts, which meets the requirements of the Directions. | 88.6 | 11.4 | ‑ | ‑ |
| 14 | 3.1.5 – Managing Outsourced Financial Services | **Outsourcing governance**  All outsourced finance functions or services are governed by contracts, service level agreements or other documented arrangements, each of which has been reviewed for compliance in the past 12 months. | 62.9 | 3.4 | 0.4 | 33.3 |
| 15 | 3.1.5 – Managing Outsourced Financial Services | **Audit scrutiny**  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. | 62.5 | 1.1 | 0.4 | 36.0 |
| 16 | 3.2.1 – Information Technology Management | The Responsible Body has reviewed the use of Information Technology used for financial management in the last 12 months to assess information technology risks and their impact on financial management. | 97.3 | 2.3 | ‑ | 0.4 |
| 17 | 3.2.2 – Information Technology Operations | There are documented and tested back up, disaster recovery and business continuity procedures in place that are commensurate with the Public Sector Agency’s financial management needs. | 84.5 | 15.2 | 0.4 | ‑ |
| 18 | 3.2.3 – Security | A formal assessment has been undertaken in the last 12 months of whether financial management information that is sensitive to the Public Sector Agency and stakeholders is adequately controlled and secured. | 95.8 | 3.4 | 0.8 | ‑ |
| 19 | 3.2.4 – Development | A business case was prepared and approved in accordance with the Directions for the development of any proposed financial management system developments during the year. | 78.4 | 1.1 | ‑ | 20.5 |
| 20 | 3.2.5 – Change Control | A change control process was followed for changes made to financial management systems. | 79.2 | 1.5 | 0.4 | 18.9 |
| 21 | 3.3 – Education and Training | The training and education needs for the financial management team have been reviewed by the CFAO or their delegated authority in the last 12 months, and an appropriate program developed to address the training and education needs of financial management staff. | 96.6 | 2.3 | ‑ | 1.1 |
| 22 | 4.1 – Internal Financial Management Reporting | Requirements for internal financial management reports have been identified and relevant reports have been produced and distributed at regular intervals throughout the financial year. | 99.2 | 0.8 | ‑ | ‑ |
| 23 | 4.2 – Reporting Requirements in terms of Part 7 of the *Financial Management Act 1994* | The financial statements and report of operations have been prepared in accordance with Part 7 of the *Financial Management Act 1994* and in the required timeframes. | 99.2 | 0.4 | ‑ | 0.4 |
| 24 | 4.3 – Other External Reporting Internal Financial Management Reporting | All external reporting requirements have been identified and relevant reports delivered completely, accurately and in a timely manner. | 100 | ‑ | ‑ | ‑ |
| 25 | 4.4 – Financial Performance Management and Evaluation | The Responsible Body has developed financial key performance indicators (KPIs) working with management, and there is monitoring and reporting of performance against these to the Responsible Body and/or the Accountable Officer. | 99.6 | 0.4 | ‑ | ‑ |
| 26 | 4.5.1 – Compliance with Directions | The Public Sector Agency has met its financial management compliance obligations including:   * conducting an annual review of financial management compliance; and * identifying and rectifying financial management compliance issues. | 97.7 | 2.3 | ‑ | ‑ |
| 27 | 4.5.2 – Taxation Compliance Obligations | The Public Sector Agency has met its taxation compliance obligations by:   * conducting an annual review of taxation compliance; * developing and maintaining taxation policies and procedures; * developing and implementing taxation education programs; and * identifying and rectifying taxation compliance issues. | 93.9 | 5.7 | ‑ | 0.4 |
| 28 | 4.5.3 – Purchasing Card Compliance Obligations | The Public Sector Agency’s purchasing card was operated in accordance with the requirements of Direction 4.5.3. | 84.1 | 5.3 | ‑ | 10.6 |
| 29 | 4.5.4 – Thefts and Losses Compliance Obligations | The Public Sector Agency has notified the Minister for Finance and the Auditor‑General of any instances of thefts and losses and provided an incident report as required by the Directions. | 78.4 | 2.7 | ‑ | 18.9 |
| 30 | 4.5.5 – Risk Management Compliance | The Public Sector Agency has:   * adopted risk management governance, systems and reporting requirements as contained in the Victorian Government Risk Management Framework; * conducted an annual review of their obligations in complying with Direction 4.5.5, and rectified any failures or deficiencies identified; and * provided an attestation that its risk identification and management plan is consistent with AS/NZS ISO 31000:2009 or equivalent. | 98.1 | 1.1 | 0.4 | 0.4 |
| 31 | 4.5.5.1 – Insurance | An accountable officer of a Public Sector Agency required to insure with the Victorian Managed Insurance Authority under the *Victorian Managed Insurance Authority Act 1996* must verify that the public sector agency is insured appropriately, having regard to relevant government guidelines and Direction 4.5.5.1. | 84.5 | 5.3 | ‑ | 10.2 |
| 32 | 4.5.6 – Treasury Risk Management | All borrowings, investments and financial arrangements undertaken by the Public Sector Agency conform to the requirements or exceptions outlined in Direction 4.5.6. | 84.8 | 1.5 | 0.4 | 13.3 |
| 33 | 4.5.7 – Foreign Exchange Risk Management | The Public Sector Agency has ensured foreign exchange risks are effectively identified, assessed, monitored, and managed in accordance with the requirements outlined in Direction 4.5.7. | 46.6 | 0.4 | ‑ | 53.0 |
| 34 | 4.5.8 – Commodity Risk Management | The Public Sector Agency has ensured that commodity risks are effectively identified, assessed, monitored and managed in accordance with the requirements outlined in Direction 4.5.8 | 46.6 | 0.4 |  | 53.0 |

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1. In 2013‑14, there were 264 certifying agencies. Only 262 were included in Table 2 as the Department of Parliament and the Victorian Auditor‑General’s Office were excluded. [↑](#footnote-ref-1)