

2015-16 Financial Management Compliance Report

Financial Frameworks Advisory
Department of Treasury and Finance

Contents

Background

Summary of 2015-16 certification results

Areas requiring focus

2016 Standing Directions transition and implementation

Appendices

Background



Standing Directions of the Minister for Finance

The Standing Directions (Directions) are the rules of the Minister for Finance, made pursuant to section 8 of the *Financial Management Act 1994* (FMA). The Directions apply to all departments and 'public bodies' subject to the FMA and provides the framework for robust financial management of Victorian public resources.



Financial Management Compliance Framework

The Financial Management Compliance Framework (FMCF) facilitates monitoring and review of public sector compliance with the Directions. It aims to provide assurance to government that agencies have implemented appropriate systems to ensure effective, efficient and responsible management of public resources. The FMCF only applies to departments and public bodies subject to the FMA, that are consolidated into the State's Annual Financial Report. **This is the final year of certification under the 2003 Directions and its associated FMCF.**



Exemptions from the Standing Directions

The Minister for Finance may by written direction, exempt agencies from the provisions of the Directions. Agencies must apply for an exemption in writing, stating the reasons why the exemption is required and specifying alternative actions or procedures that have been put in place to ensure no aspect of financial management is compromised. The Department of Treasury and Finance (DTF) evaluates applications on a case-by-case basis.

In 2015-16, 20 agencies were granted exemptions from one or more Directions. The details of these exemptions are provided in Appendix A.



FMCF Certification Process

- For 2015-16, 256 agencies self-assessed annual compliance against 33 Direction Requirements (one agency did not certify as they had begun to wind up). These results were certified and reported to the relevant minister of each agency. Appendix B lists all agencies that certified for 2015-16.
- Agencies submit their level of compliance against the Direction Requirements, and in doing so must consider all mandatory elements of the Directions.
- To assist agencies, a compliance certification checklist was made available for download from DTF's website. A summary of the results by Direction Requirement is provided in Appendix C.
- Once agencies submit their compliance certification results, portfolio departments consolidate these results and brief their respective portfolio ministers before 31 October.
- Each Departmental Secretary then provides a summary letter, on behalf of the portfolio department, to the Minister for Finance by 31 October.

Transition to 2016 Directions

On 1 July 2016, the revised 2016 Standing Directions were issued. The 2016 Directions supersede the 2003 Directions and layout a new system for financial management compliance. Extensive consultation with the Victorian Public Sector (VPS) was undertaken throughout the development stages and the program of implementation is ongoing.

As this is the final year of certification under the 2003 Directions, a forward looking readiness assessment was conducted to determine how well agencies and departments were placed to transition to the 2016 Directions. The results of this program will inform the implementation process and how DTF will provide support to departments and agencies.

Summary of 2015-16 certification results

Whole of government financial management compliance remains high

52%

132 agencies indicated they were fully compliant with all applicable Direction Requirements.

43%

111 agencies indicated they were partially compliant with one or more applicable Direction Requirement.

5%

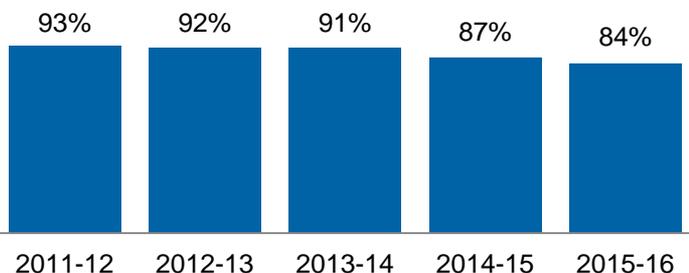
13 agencies indicated they were not compliant with one or more applicable Direction Requirement.

Categorising compliance levels as 'full', 'high', 'medium' or 'low' provides a more detailed representation of agency and departmental compliance. The table below represents how agencies performed for 2015-16 and the chart represents how agencies performed compared to previous years in terms of full, high, medium or low compliance.

2015-16 levels of compliance

Compliance with Applicable Directions	Classification	No. of agencies	Result
100%	Full Compliance	132	52%
90%-99%	High Compliance	84	33%
80%-89%	Medium Compliance	26	10%
<80%	Low Compliance	14	5%

Level of 'full and high' compliance over the past five years



Compliance results for 2015-16

The level of 'full and high' compliance has decreased from 2014-15 to 2015-16 by approximately 2.5 per cent. This is consistent with the trend over the past five years. The high incidence of partial compliance may be partly attributed to the continuing difficulty smaller agencies have in applying some of the more onerous and often 'one size fits all' direction requirements. In addition, agencies continue to experience difficulty in a few key areas which are discussed on the next page.

These issues will be addressed by the 2016 Directions, which is a more tailored framework, designed to suit agencies of all sizes. DTF's implementation program of the 2016 Directions aims to ensure that key problem areas are addressed by portfolio departments and agencies.

Agency compliance by portfolio in 2015-16

Department	Level of compliance				
	Full	High	Medium	Low	Total
Court Services Victoria (CSV)	-	1	-	1	2
Economic Development, Jobs, Transport and Resources (DEDJTR)	17	12	4	-	33
Education and Training (DET)	11	5	-	2	18
Environment, Land, Water and Planning (DELWP)	31	19	8	3	61
Health and Human Services (DHHS)	51	29	11	7	98
Justice and Regulation (DJR)	5	11	1	1	18
Premier & Cabinet (DPC)	7	4	-	-	11
Treasury & Finance (DTF)	8	3	2	-	13
Victorian Auditor-General's Office (VAGO)	1	-	-	-	1
Parliamentary Services	1	-	-	-	1

Areas requiring focus

Treasury Risk Management has improved significantly

In 2014-15, Treasury Risk Management was one of the highest areas of partial and non-compliance. The proportion of partial and non-compliance dropped from 12 per cent in 2014-15 to 3 per cent in 2015-16. This substantial improvement may be attributed to the increased focus placed on treasury risk management over the past two years.

Areas requiring focus

The following areas of the Directions had the lowest levels of compliance. These areas require further attention to ensure sound financial management practices are maintained.

Direction Requirement	Description	2015-16*	2014-15
17	Disaster recovery and business continuity	16% ↑	15%
12	Policies and procedures	15% -	15%
4	Audit Committee	10% ↑	8%
30	Risk Management Compliance	9% ↑	7%
28	Purchasing card	7% ↓	9%

* Percentage of agencies that certified partial or non-compliant.

Direction Requirement 17 – Disaster recovery and business continuity

A high proportion of the partially or non-compliant agencies reported that their business continuity or disaster recovery plans had not been tested and in one case of non-compliance, no plans had been developed at all. Encouraging testing and the development of business continuity plans and disaster recovery plans will form part of DTF's feedback to agencies.

Direction Requirement 12 – Policies and procedures

The majority of partially and non-compliant agencies have either failed to conduct a review or have not documented one or more policies appropriately. These agencies reported that where gaps have been identified, efforts are in progress to

ensure full compliance is achieved for the following financial year. The transition to the 2016 Directions will assist by prompting agencies to ensure policies and procedures are up to date and sufficient. This will be reinforced by DTF through portfolio department representatives over the coming year.

Direction Requirement 4 – Audit Committee

Partially compliant agencies either failed to conduct reviews of their audit committee charter, declare their audit committee member's independence in their annual report or failed to have enough independent members. The sole non-compliant agency had recently dissolved its audit committee and is currently in the process of instituting a new committee. Portfolio departments should reinforce with agencies the need to ensure their audit committee charters are up to date and reviewed regularly.

Direction Requirement 30 – Risk management compliance

The majority of partially compliant agencies reported that their risk management policy was not up to date with the current Victorian Government Risk Management Framework (VGRMF). Agencies must ensure their risk management policy reflects the requirements of the VGRMF, in order to be compliant with the 2016 Directions.

Direction Requirement 28 – Purchasing card compliance obligations

Partial compliance was attributable mostly to a number of minor indiscretions regarding the authorising of statements and use of purchasing cards. The single non-compliant agency reported that there were several areas of inadequate practice, misuse of cards inconsistent with the purchasing card rules and that supporting documentation was missing in some instances.

2016 Standing Directions transition and implementation

The Directions are designed to help the VPS achieve a high standard of public financial management and accountability, consistent with the FMA.

The Directions had not been significantly revised since 2003. Informed by consultation between September 2015 and January 2016, the revised Directions have now been issued by the Minister for Finance.

Key changes

The key changes to the Directions include:

- implementing a **tailored framework** to address agency size and risk;
- increasing the **accountability** of key financial management roles;
- introducing new requirements for all agencies to **plan and manage performance**;
- strengthening **reporting to government** and the **portfolio role**;
- better controls and reporting for **fraud and corruption**;
- **public attestation** in annual reports and **improved compliance requirements**; and
- improving the **structure** of the Directions to increase usability and cohesiveness.

Implementation

Agencies must comply with the Directions from their commencement on 1 July 2016. Since the Directions were issued, DTF has presented to and met with around 500 public officers from 130 agencies. All departments have been briefed (including Audit Committee chairs and Chief Finance Officers), as well as agencies from all significant sectors (including hospitals and health services, water corporations, TAFEs and state insurers).

DTF will continue to support implementation by conducting information sessions, and providing interpretive advice, updates and additional guidance materials through portfolio departments and via the DTF website.

Under the 2016 Directions, portfolio departments have a stronger role in supporting their agencies. As such, DTF's focus will primarily be to support portfolio departments in this role.

Exemptions

Exemptions from the 2003 Directions do **not** carry over to the revised Directions. Exemptions should be sought sufficiently **prior** to the start of the first financial year for which the exemption will apply.

Attestation

The Directions introduce public attestation of compliance in agencies' annual reports. This requirement, however, does not apply to the first year of operation. In 2017 an internal to government trial attestation will take place to allow departments and agencies to familiarise themselves with the revised requirements and processes. DTF will provide support to departments and agencies to assist with this process. The first public attestation will be made in 2018 and relate to the 2017-18 year.

Direction and Instruction 5.1 specify the arrangements and requirements for both the trial attestation and the first public attestation for all departments and agencies.

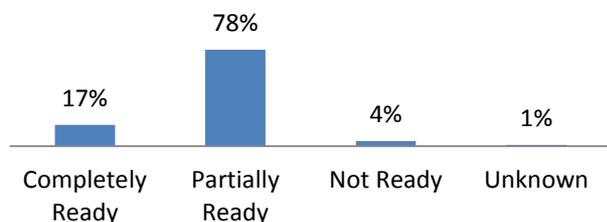
2016 Standing Directions – Implementation Assurance Program

Purpose

The program involved surveying key positions (Chief Executive Officer, Chief Finance Officer, Audit Committee Chair and compliance managers) across 60 Victorian Government agencies, including all portfolio departments.

Responses were received from 128 respondents across 58 of the selected agencies, including from all portfolio departments. The selected agencies were a representative cross-section of the VPS in terms of size, sector, functions and risk profiles. The surveys were supplemented with a further 12 interviews undertaken with selected agencies.

Assessment for readiness for the 2016 Directions



Summary of findings

All surveyed agencies were aware of the 2016 Directions, with 95 per cent considering their agency at least partially ready. Most have completed internal briefings, gap analysis, policy and procedure updates, and sought DTF advice. Seventy-four per cent of respondents indicated that existing processes had changed or were required to be changed to align with the requirements of the 2016 Directions.

The transition focus so far appears to be predominantly process orientated, with most agencies yet to make changes to behaviour, culture or engagement to foster greater accountability. A key observation was that the strength of an agency's Audit Committee usually correlated with the strength of its compliance culture. This reinforces the importance Audit Committees play in financial management matters.

Despite the good level of general readiness, continued support from DTF and portfolio departments to ensure a thorough and effective implementation of the 2016 Directions will be required, particularly with respect to the following key areas:

- Portfolio relationships (require strengthening);
- a number of agencies with moderate asset bases having no asset management policy;
- smaller agencies finding the lack of prescription in the 2016 Directions challenging; and
- Accountable Officers not receiving compliance reporting as often as expected.

A full summary of the findings is available on DTF's website at the following link: (Link TBC prior to publication)

DTF implementation strategies

Under the 2016 Directions, portfolio departments have a stronger role to advise and assist their agencies on financial management issues. DTF will continue to work with and encourage portfolio departments to take a leading role in assisting their agencies to develop a stronger compliance culture and array of systems and processes to ensure robust financial management.

DTF will continue to conduct information sessions, provide interpretive advice, updates and provide additional guidance materials to ensure the 2016 Directions are thoroughly implemented. Agencies should work with their portfolio departments to ensure that they are fully ready to publically attest in 2018.

Appendix A – Agency Exemptions from the Standing Directions

Agency	Direction 2.2(e) Audit Committee	Direction 2.5 Internal Audit	Other
Accident Compensation and Conciliation Service	X	X	
Alpine Resort Coordinating Council		X	
Ballarat General Cemeteries	X	X	
Commissioner for Privacy and Data Protection		X	
Dhelkunya Dja Land Management Board		X	
Emeral Tourist Railway Board		X	
Grampians Central West Waste and Resource Recovery Group	X		
Heritage Council of Victoria	X	X	
Judicial College of Victoria		X	
Loddon Mallee Waste and Resource Recovery Group		X	2.2 (f)
Melbourne Cricket Ground Trust	X	X	
Queen Victoria Women's Centre		X	
Sentencing Advisory Council		X	
Surveyors Registration Board of Victoria	X	X	
Tourism Victoria	X		
Veterinary Practitioners Registration Board of Victoria	X	X	
Victorian Assisted Reproductive Treatment Authority	X	X	
Victorian Inspectorate		X	
Victorian Institute of Sport Limited		X	
Victorian Plantations Corporation (Shell entity)			Full exemption

Appendix B – Certifying agencies

Department of Economic Development, Jobs, Transport and Resources (33)

Agriculture Victoria Services Pty Ltd	National Gallery of Victoria, Council of Trustees
Australian Centre for the Moving Image	Port of Hastings Development Authority
Australian Grand Prix Corporation	Port of Melbourne Corporation
Dairy Food Safety Victoria	PrimeSafe
Department of Economic Development, Jobs, Transport and Resources	Public Transport Development Authority
Emerald Tourist Railway Board	State Library of Victoria
Energy Safe Victoria	Taxi Services Commission
Fed Square Pty Ltd	Tourism Victoria
Film Victoria	V/Line Corporation
Game Management Authority	Veterinary Practitioners Registration Board of Victoria
Geelong Performing Arts Centre Trust	VicForests
Melbourne and Olympic Parks Trust	VicRoads
Melbourne Convention and Exhibition Trust	Victorian Arts Centre Trust
Melbourne Cricket Ground Trust	Victorian Major Events Company Ltd
Melbourne Market Authority	Victorian Rail Track
Melbourne Recital Centre Ltd	Victorian Regional Channels Authority
Museum Victoria	

Department of Education and Training (18)

Adult, Community and Further Education Board	Holmesglen Institute of TAFE
AMES Australia	Melbourne Polytechnic
Bendigo Kangan Institute of TAFE	South West Institute of TAFE
Box Hill Institute	Sunraysia Institute of TAFE
Chisholm Institute	Victorian Curriculum and Assessment Authority
Department of Education and Training	Victorian Institute of Teaching
Federation Training	Victorian Registration and Qualifications Authority
Gordon Institute of TAFE	William Angliss Institute of TAFE
Goulburn Ovens Institute of TAFE	Wodonga Institute of TAFE

Department of Environment, Land, Water and Planning (61)

Alpine Resorts Co-ordinating Council	Melbourne Water Corporation
Architects Registration Board of Victoria	Metropolitan Planning Authority
Barwon Region Water Corporation	Metropolitan Waste and Resource Recovery Group
Barwon South West Waste and Resource Recovery Group	Mount Baw Baw Alpine Resort Management Board
Central Gippsland Region Water Authority	Mount Buller and Mount Stirling Alpine Resort Management Board
Central Highlands Region Water Corporation	Mount Hotham Alpine Resort Management Board
City West Water Corporation	North Central Catchment Management Authority
Coliban Region Water Corporation	North East Catchment Management Authority
Corangamite Catchment Management Authority	North East Region Water Corporation
Department of Environment, Land, Water and Planning	North East Waste and Resource Recovery Group
Dhelkunya Dja Land Management Board	Office of the Commissioner for Environmental Sustainability
East Gippsland Catchment Management Authority	Parks Victoria
East Gippsland Region Water Corporation	Phillip Island Nature Park
Environment Protection Authority	Places Victoria (Urban Renewal Authority Victoria)
Falls Creek Alpine Resort Management Board	Port Phillip and Westernport Catchment Management Authority
Gippsland and Southern Rural Water Authority	Royal Botanic Gardens Board
Gippsland Waste and Resource Recovery Group	South East Water Corporation
Glenelg-Hopkins Catchment Management Authority	South Gippsland Region Water Authority
Goulburn Broken Catchment Management Authority	Surveyors Registration Board of Victoria
Goulburn Valley Region Water Corporation	Sustainability Victoria
Goulburn Valley Waste and Resource Recovery Group	Trust for Nature (Victoria)
Goulburn-Murray Rural Water Authority	Victorian Building Authority
Grampians Central Waste and Resource Recovery Group	Victorian Environmental Water Holder
Grampians Wimmera Mallee Water Authority	Wannon Region Water Authority
Gunaikurnai Traditional Owner Land Management Board	West Gippsland Catchment Management Authority
Heritage Council	Western Region Water Corporation
Lake Mountain Alpine Resort Management Board	Westernport Region Water Corporation
Loddon Mallee Waste and Resource Recovery Group	Wimmera Catchment Management Authority
Lower Murray Urban & Rural Water Authority	Yarra Valley Water Corporation
Mallee Catchment Management Authority	Yorta Yorta Traditional Owner Land Management Board
	Zoological Parks and Gardens Board of Victoria

Appendix B - continued

Department of Health and Human Services (98)

Albury Wodonga Health
 Alexandra District Hospital
 Alfred Health
 Alpine Health
 Ambulance Victoria
 Austin Health
 Bairnsdale Regional Health Service
 Ballarat General Cemeteries Trust
 Ballarat Health Services
 Barwon Health
 Bass Coast Health
 Beaufort and Skipton Health Service
 Beechworth Health Service
 Benalla Health
 Bendigo Cemeteries Trust
 Bendigo Health Care Group
 Boort District Hospital
 Casterton Memorial Hospital
 Castlemaine Health
 Central Gippsland Health Service
 Cobram District Health
 Cohuna District Hospital
 Colac Area Health
 Commission for Children and Young People
 Dental Health Services Victoria
 Department of Health and Human Services
 Djerriwarrh Health Services
 Dunmunkle Health Services
 East Grampians Health Service
 East Wimmera Health Service
 Eastern Health
 Echuca Regional Health
 Edenhope and District Memorial Hospital
 Geelong Cemeteries Trust, Trustees of the
 Gippsland Southern Health Service
 Goulburn Valley Health
 Greater Metropolitan Cemeteries Trust
 Health Purchasing Victoria
 Heathcote Health
 Hepburn Health Service
 Hesse Rural Health Service
 Heywood Rural Health
 Inglewood and District Health Service
 Kerang District Hospital
 Kilmore and District Hospital, The
 Kooweerup Regional Health Service
 Kyabram and District Health Services
 Kyneton District Health Service
 Latrobe Regional Hospital
 Lorne Community Hospital
 Maldon Hospital
 Mallee Track Health and Community Services
 Mansfield District Hospital
 Maryborough District Health Service
 Melbourne Health
 Monash Health
 Moyne Health Services
 Nathalia District Hospital

Department of Health and Human Services (continued)

Northeast Health Wangaratta
 Northern Health
 Numurkah District Health Service
 Omeo District Health
 Orbost Regional Health
 Otway Health
 Peninsula Health
 Peter MacCallum Cancer Institute
 Portland District Health
 Queen Elizabeth Centre, The
 Robinvale District Health Services
 Rochester and Elmore District Health Service
 Royal Children's Hospital
 Royal Victorian Eye and Ear Hospital
 Rural Northwest Health
 Seymour Health
 South Gippsland Hospital
 South West Healthcare
 Southern Metropolitan Cemeteries Trust
 State Sports Centre Trust
 Stawell Regional Health
 Swan Hill District Health
 Tallangatta Health Service
 Terang and Mortlake Health Service
 The Royal Women's Hospital
 Timboon and District Healthcare Service
 Tweddle Child and Family Health Service
 Upper Murray Health and Community Services
 Victorian Assisted Reproductive Treatment Authority
 Victorian Health Promotion Foundation
 Victorian Institute of Forensic Mental Health
 Victorian Institute of Sport Ltd
 West Gippsland Health Care Group
 West Wimmera Health Service
 Western District Health Service
 Western Health
 Wimmera Health Care Group
 Yarram and District Health Service
 Yarrowonga Health
 Yea and District Memorial Hospital

Appendix B - continued

Department of Justice and Regulation (18)		Parliament (2)	
Country Fire Authority	Victoria Legal Aid	Parliament of Victoria	Victorian Auditor-General's Office
Department of Justice and Regulation	Victoria Police (Office of the Chief Commissioner of Police)	Court Services (2)	
Emergency Services Telecommunications Authority	Victoria State Emergency Service Authority	Court Services Victoria	Judicial College of Victoria
Greyhound Racing Victoria	Victorian Commission for Gambling and Liquor Regulation		
Harness Racing Board	Victorian Equal Opportunity and Human Rights Commission		
Legal Services Board and Commissioner	Victorian Institute of Forensic Medicine		
Metropolitan Fire and Emergency Services Board	Victorian Law Reform Commission		
Office of Public Prosecutions	Victorian Professional Standards Council		
Sentencing Advisory Council	Victorian Responsible Gambling Foundation		
Department of Premier and Cabinet (11)			
Department of Premier and Cabinet	Shrine of Remembrance Trustees		
Independent Broad-based Anti-corruption Commission	Victorian Electoral Commission		
Office of the Ombudsman	Victorian Equal Opportunity and Human Rights Commission		
Office of the Victorian Privacy Commissioner	Victorian Inspectorate		
Queen Victoria Women's Centre Trust	Victorian Public Sector Commission		
	VITS LanguageLink		
Department of Treasury and Finance (13)			
Accident Compensation and Conciliation Service	State Revenue Office		
Cenitex	State Trustees Limited		
Department of Treasury and Finance	Transport Accident Commission		
Emergency Services Superannuation Board	Treasury Corporation of Victoria		
Essential Services Commission	Victorian Funds Management Corporation		
State Electricity Commission of Victoria (shell)	Victorian Managed Insurance Authority		
	Victorian WorkCover Authority		

Appendix C – Compliance by Applicable Direction Requirement: Highest to Lowest

Direction Requirement	Compliant	Partial Compliance	Non - Compliant
9 Public Sector Financial Management Team Structure	100.0%	0.0%	0.0%
33 Commodity Risk Management	100.0%	0.0%	0.0%
3 Formal Statements	99.6%	0.4%	0.0%
11 CFAO Endorsement of Financial Information	99.6%	0.4%	0.0%
13 Chart of Accounts	99.6%	0.4%	0.0%
23 Reporting Requirements (Part 7 of the FMA)	99.2%	0.8%	0.0%
32 Foreign Exchange Risk Management	99.1%	0.9%	0.0%
6 Authorisations	98.4%	1.6%	0.0%
22 Internal Financial Management Reporting	98.4%	1.6%	0.0%
10 Chief Finance and Accounting Officer	98.4%	1.2%	0.4%
20 Change Control	98.4%	1.6%	0.0%
8 External Audit	98.0%	1.6%	0.4%
24 Other External Reporting	98.0%	1.6%	0.4%
19 Information Technology Development	97.3%	2.2%	0.5%
29 Thefts and Losses Compliance Obligations	97.1%	2.9%	0.0%
31 Treasury Risk Management	96.9%	3.1%	0.0%
21 Education and Training	96.8%	3.2%	0.0%
2 Financial Governance	96.5%	3.5%	0.0%
5 Financial Risk Management	96.5%	3.5%	0.0%
26 Financial Management Compliance Obligations	96.5%	3.5%	0.0%
16 Information Technology Management	95.3%	3.9%	0.8%
25 Financial Performance Management and Evaluation	94.9%	5.1%	0.0%
1 Financial Code of Practice	94.1%	5.1%	0.8%
15 Outsourcing Approval and Audit Scrutiny	94.1%	5.9%	0.0%
27 Taxation Compliance Obligations	94.0%	6.0%	0.0%
18 Information Technology Security	93.7%	5.5%	0.8%
7 Internal Audit	92.8%	6.4%	0.8%
14 Outsourcing Governance	92.2%	7.3%	0.6%
28 Purchasing Card Compliance Obligations	91.7%	7.9%	0.4%
30 Risk Management Compliance	91.4%	8.6%	0.0%
4 Audit Committee	90.1%	9.5%	0.4%
12 Policies and Procedures	84.8%	15.2%	0.0%
17 Disaster Recovery and Business Continuity	84.3%	14.5%	1.2%

This table lists the level of agency compliance by Direction Requirement.

The percentages are based on the proportion of agencies that certified against applicable direction requirements. Agencies that selected 'not applicable' to a requirement were not included in the figures represented by this table.

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