JULY 2025

2023-24 Whole of Victorian Government Financial Management Compliance Outcomes

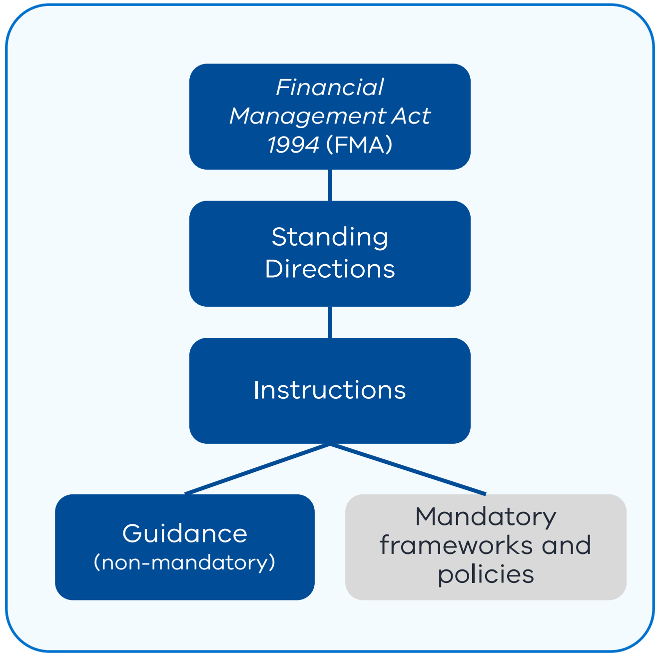
Effective financial governance and resource management

Prepared in accordance with the Standing Directions issued under the *Financial Management Act 1994*, Instruction 5.1

VICTORIA State Government

Treasury and Finance

Financial Management and Compliance Framework



Financial management and compliance framework in Victoria

The Treasurer and Minister for Finance oversee Victoria's financial management framework.

The *Financial Management Act 1994* (FMA), Standing Directions (SDs), issued by the Minister for Finance, under section 8 of the FMA (Directions), DTF Instructions, and other mandated Government frameworks document the financial management obligations of Victorian Public Sector (VPS) agencies.

These establish high standards for financial management, accountability, governance, performance, sustainability, compliance, and transparent reporting for departments and portfolio agencies.

A strong financial management framework is vital for Victoria's Government to deliver services effectively to Victorians. Departments and agencies must:

- deliver services and assets on time, within budget, and to standard
- ensure transparency for tracking progress and enabling corrective actions
- be accountable and mitigate financial and reputational risks.

Poor financial management governance and failure to meet best practices set out in the Directions, Instructions and Frameworks risks poor decisions, inefficiencies, financial instability, fraud, and loss of public confidence.

Standing Directions

The 2018 Standing Directions have strengthened portfolio department and agency focus on achieving a high standard of public financial management and accountability by:

- modernising Victoria's public financial management
- strengthening accountability for financial management in departments and agencies.

Standing Directions

The 2018 Directions, after major revisions in 2016 and 2018, changed the way compliance is managed and reported and emphasise that under the Directions most compliance matters are to be handled internally by the agency to reinforce the end-to-end financial accountabilities of the responsible Minister and the entity.

Compliance deficiencies, remedial actions and other significant issues impacting financial management are reported directly to portfolio departments. On behalf of the agency responsible body (usually a Board) audit/risk committees and internal audit functions have the responsibility to improve and embed compliance, including:

- a clear role for the audit/risk committee to monitor compliance with the Directions and monitor actions taken to remedy compliance issues
- a requirement for internal audit to conduct detailed reviews of all requirements over a three to four-year cycle based on an assessment of compliance risk.

DTF and Portfolio department monitoring and reporting role

DTF monitors portfolio department and agency compliance with the Directions and Instructions through an escalating annual reporting regime. This entails detailed compliance assessment and reporting by agencies, then portfolio-wide analysis and reporting of compliance outcomes at the portfolio department level, and finally whole of government compliance analysis and reporting by DTF to the Minister for Finance each year (Slide 6 outlines this process).

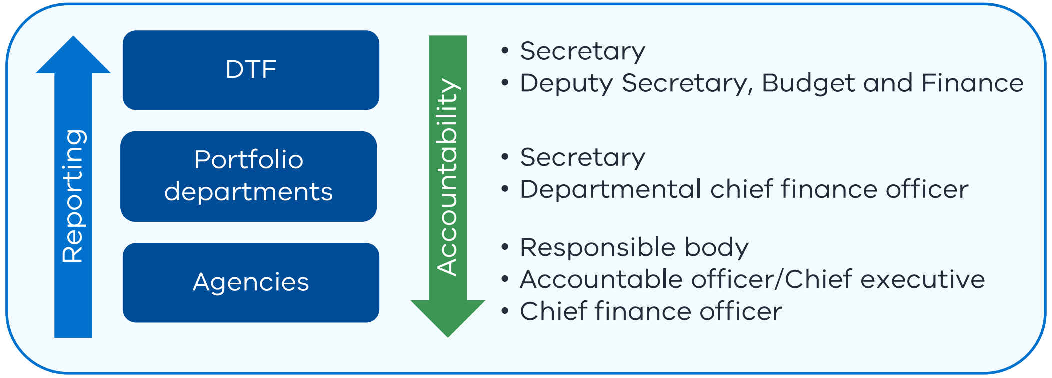
Roles and responsibilities

Stronger roles for:

- Portfolio departments
- Audit committees
- Internal audit

Increased accountability for:

- Responsible bodies
- Accountable officers
- Chief finance officers



- Detailed agency compliance reports are provided to portfolio departments each year.
- Departments support portfolio agencies, analyse, and report compliance matters to DTF.
- Senior management, responsible bodies, audit committees and internal audit all have important roles in financial management:
  - Clear governance accountabilities for agency responsible bodies, accountable officers and chief finance officers
  - Agency audit committees review their agency's compliance assessment against the requirements each year
  - Agency internal audit is required to periodically review compliance with all mandated financial management requirements in detail.

Application and exemption

An agency may be granted an exemption from a requirement of the Directions if factors like size, business nature and risk profile make it low risk.

Exempted agencies must implement their proposed alternative arrangements, as endorsed by the Minister for Finance's exemption approval, to ensure that no aspect of financial governance is compromised.

In cases like the creation of a new agency, where full compliance for the first period is not feasible, an interim exemption may be granted. These exemptions are conditional and reviewed case-by-case until compliance is achieved.

Application

- The Standing Directions, Instructions and mandated government frameworks and policies, such as the Asset Management Accountability Framework (AMAF), apply to **all** departments and agencies subject to the FMA, unless exempt or not within scope.

Exemptions

- The Minister for Finance may, by written direction, exempt agencies.
- Agency exemption applications must be in writing, stating the rationale for the request and what alternative actions or procedures will be implemented to maintain the integrity of their financial management framework.
- There are 50 agencies that have various levels of exemption ranging from full to specific. These agencies are mainly smaller-sized, lower-risk agencies, with alternative arrangements in place, many with their portfolio departments.

Exemptions are only granted in exceptional circumstances and should only be sought as a last resort

2023-24 Whole of Government compliance results

- A ‘**material compliance deficiency**’ refers to a compliance issue that a reasonable person would consider has a material or significant impact on the agency’s or the State's reputation, financial position or financial management.
- A ‘**non-material compliance deficiency**’ is an attribute, condition, action or omission that is not fully compliant with a requirement in the FMA, Directions and/or Instructions.

- Compliance results are expected to continue to improve over time as departments and agencies fully embed best practice from the 2018 Standing Directions and related requirements in their day-to-day business activities. Deficiencies increased in 2021-22 and 2022-23 partly due to Covid resourcing issues and new requirements coming on-line. 2023-24 has indicated the first downward movement since 2020-21.
- Agency audit committees review their agency’s compliance assessment and annual report attestation statement and endorse the annual compliance report to portfolio departments.
- Reported compliance deficiencies indicate departments and agencies are taking financial management legislative obligations seriously and see good financial management governance as a critical aspect of their business operations.
- Overall, there was a reduction in the number of reported non-material compliance deficiencies. This is in line with the expectation that departments and agencies focus on rectifying issues.

Material and non-material compliance deficiencies

- There was one reported material compliance deficiency this year under Direction 3.4 Internal Control System. This deficiency has been rectified.
- Compared to the previous year, there has been a significant decline in non-material compliance deficiencies mainly in areas of: Treasury management, purchasing cards, and risk management framework and processes. These reflect a positive trend in organisational compliance and maturity in governance, compliance and risk management.
- Reported non-material compliance deficiencies in internal control systems have increased compared to last year, largely due to outdated policies and procedures related to financial authorisations, purchasing cards, gifts, benefits and hospitality, service level agreements, and outsourced service policies. Agencies and departments are actively revising these policies and enhancing internal systems to address weaknesses and strengthen controls. Additionally, educational and awareness initiatives are being rolled out across portfolio agencies to reinforce compliance.

- The reported compliance deficiencies continue to include not meeting best practice requirements in the following key areas:
  - Asset management accountability
  - Maintenance of internal control systems, policies and procedures
  - Risk management, including business continuity planning
  - Procurement of goods and services
  - Purchasing card administration
  - Public construction accountability.
- Where compliance deficiencies have been reported all departments demonstrated a strong commitment to working with portfolio agencies to develop capabilities and implement strategies to address these in future reporting years.

Key compliance risks

- Departments and agencies identify and detail key areas of the Directions and Instructions that represent a significant compliance risk to the organisation and the strategies to manage these risks.
- A significant compliance risk poses the **potential** for financial and/or reputational loss from non-compliance with the Directions and Instructions. While such risks are not necessarily a deficiency (which is an actual instance of non-compliance), compliance deficiencies may indicate underlying compliance risks.

Reported compliance risks

- Departments and agencies identified a number of key compliance risks, emphasising the potential for financial or reputational loss resulting from failure to comply with the Directions and Instructions.
- These risks are closely monitored with rectification plans implemented as necessary. Department reporting has outlined strategies to ensure identified risks are effectively managed and mitigated. DTF will continue to work closely with all departments and their portfolio agencies to actively identify areas requiring additional focus or support, monitor risks and implement strategies to address these.
- In 2023-24, identified risks were largely consistent with reported compliance deficiencies and included risks in the areas of:
  - Asset management accountability
  - Managing specific risks - Business continuity planning
  - Internal control systems, policies, and processes
  - Fraud, corruption and other losses
  - Risk management framework processes
  - Managing financial information
  - Effective financial governance.

Emerging risks

- The Compliance Reporting process offers a historical perspective on how departments and agencies adhere to the Standing Directions and associated frameworks. However, it is not designed to monitor or identify material financial sustainability risks or issues.
- In recent months, DTF has enhanced its approach to financial sustainability, introducing measures that focus on identifying challenges and developing strategies to address them.
- To further strengthen financial sustainability, the Financial Management Frameworks will continue to be refined and leveraged as tools to embed these solutions effectively.

Emerging financial management risks

- The emerging financial management risks identified in 2023-24 are consistent with those of previous years and remain an area of ongoing focus, highlighting vulnerabilities in the following areas:
  - Agency financial sustainability
  - Operational asset maintenance
  - Fraud, corruption and loss prevention policies
  - Cybersecurity and IT system controls.
- These risks underscore the need for robust financial management practices, enhanced policy frameworks, and strengthened technological safeguards to ensure organisational resilience.
- DTF is considering ways it can better support and guide departments and agencies to assist them in addressing these key emerging risks.

Compliance reporting and focus going forward

- Financial management attestation statements of compliance with the Standing Directions and Instructions are included in annual reports from the 2017-18 year onward.
- Detailed internal reporting continues to assist agencies to identify and rectify specific compliance matters.
- Departments and agencies continue to work towards resolving existing compliance issues.
- There has been increased focus on sharing better practices across government.
- Assessing VAGO findings and recommendations for continuous improvement to the VPS financial management framework.

Areas for focus for the 2024-25 reporting and attestation year

- Continue to prioritise resolution of deficiencies with the SD requirements and the more detailed Frameworks, including asset management, procurement, risk and resource management, including financial sustainability and contract management.
- Regular monitoring of identified compliance risks to ensure appropriate remedial and mitigation actions take place.
- Ongoing monitoring of the veracity of evidence supporting compliance with the Standing Directions.
- Prompt reporting of significant or systemic fraud, corruption and other losses, in accordance with mandated requirements.
- DTF will continue to work with departments in identifying ways to better support agencies in meeting their compliance and reporting obligations.

Building a culture of continuous compliance improvement

- Activities such as the establishment of communities of practice across and within departments, various sector or topic forums and the provision of guidance has helped build a culture of sharing better practices across government.
- Departments and agencies are committed to developing and maintaining robust systems, and to identify other opportunities to improve compliance in the future.
- DTF/DGS teams will continue to engage and communicate with agency stakeholders, to allow agencies to better understand the requirements set out in the key financial management frameworks.
- The Victorian Auditor-General's Office (VAGO) has recently made recommendations focusing on financial reporting and sustainability, State significant risk management and fraud controls for procurement activities during 2023-24. VAGO is currently reviewing the implementation of departmental savings and efficiencies, health procurement and infrastructure cyber-security.
- DTF will review any findings and recommendations with implications for whole of government framework requirements and processes and to improve areas of compliance identified as needing further attention.

Strategies for improving future compliance

- Reported compliance deficiencies are supported by portfolio department and agency rectification strategies, ensuring issues are resolved in a timely manner.
- Improved financial sustainability reporting and monitoring continues to be a focus for DTF, portfolio departments and agencies.

Rectification

- Departments and agencies with reported compliance deficiencies will work to resolve these.
- Compliance with the larger, more detailed Frameworks and newer requirements, including asset management accountability, public construction accountability and supply policies in the procurement of goods and services, still requires work to achieve implementation maturity. These will continue to be a focus in the current year and the next. Departments have a responsibility to work with and support their portfolio agencies.
- DTF/DGS continues to work with departments to embed good compliance and robust financial management practices and reporting across the VPS.