

Additional guidance for requests for composite report determinations under the *Financial Management Act 1994* (FMA) and exemptions from the Standing Directions

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How this document helps you

This guidance provides further support to departments and agencies in understanding and meeting the requirements for composite report determinations under the *Financial Management Act 1994* (FMA), as well as the process for seeking exemptions from the Standing Directions. By following this guidance, users will gain clarity on procedural expectations and compliance obligations of agencies, departments, and the Department of Treasury and Finance (DTF).

Part 1. FMA section 53 determination for composite reports

Section 53 (s 53) of the FMA authorises the Minister for Finance to determine that a Minister who is the 'relevant Minister' in respect of two or more departments or public bodies may prepare an annual report containing the reports of operations and financial statements of those departments and/or public bodies. The request for determination must be for both FMA financial statements and report of operations.

The 'relevant Minister' in relation to a department is defined in section 3 of the FMA as 'the Minister or Ministers for the time being responsible for any part of that department'.

This section is not about printing separate reports in one volume, which does not require approval under s 53. It is about producing a single document which includes information about two (or more) entities.

If composite financial statements are required by accounting standards (a subsidiary entity or related party), a composite report determination under s 53 is **not** necessary.

In making recommendations to the Minister for Finance about requests under this section, DTF considers whether:

- efficiency and cost benefits or lack of technical capability outweigh accountability and transparency considerations
- there are any views of the Victorian Auditor General's Office from an audit perspective
- one entity (e.g. a department) is in practice doing most or all the financial management on behalf of the other entity (e.g. a portfolio agency)
- a separate legal entity (created for specific purposes) is integrally linked to another entity (usually a government department).

These considerations should be covered in a strong business case together with relevant information on the risk profile of the requesting agency. For example, the Standing Directions exemption requests in section 2.1 below.

A determination under this section can be for a limited period while a new entity becomes established and builds up to being fully operational, or it can be ongoing for subsequent financial years. However, from the 2025-26 financial year, new ongoing composite determinations will require an annual reconfirmation like the ongoing Standing Directions exemptions process (see section 2.3 below).

Examples of previous consolidations include portfolio agencies that are (generally) small entities with a special purpose, and with limited accounting resources and/or expertise. Occasionally a larger entity that is integral to a department's operations may be consolidated with the department, with appropriate notes to ensure transparency.

All agencies subject to a section 53 determination must be identified in the composite annual report in **both** the report of operations and the financial statements notes.

The determination will apply to both the financial statements **and** the report of operations collectively. Additionally, a statement confirming the continued applicability of this arrangement must be included in these disclosures.

1.1 Composite (combined) annual report

The Minister for Finance may determine under section 53 (1) (a) of the FMA for all reports of operations and financial statements of departments or public bodies, or both, to be reported in one combined annual report.

Unlike a consolidated report (see section 1.2), combined composite reports clearly delineate the report of operations and financial statements of both entities involved. This type of reporting could be requested when an entity has wound up and the department does the final reporting on its behalf. A combined composite report may also be requested when an entity is fundamentally linked to the department and both department and the entity deem it appropriate to prepare composite reports for greater transparency and accountability.

This option is rarely considered as it has limited efficiency gains from separate reporting.

1.2 Consolidated annual report

The Minister for Finance may determine under section 53 (1) (b) of the FMA for all reports of operations and financial statements of departments or public bodies, or both, to be an annual report containing a report of operations **and** financial statements **consolidating** information provided by those departments or public bodies or both.

Most requests fall within this section as it provides the better efficiency gains compared with the combined composite annual report.

Where the annual reports of two (or more) departments or public bodies are combined or consolidated, DTF considers one of those departments or public bodies to be the primary entity. The annual report of the primary entity will combine or consolidate the report(s) of operations **and** financial statements of the other entity or entities. It will also take responsibility for the preparation and publication of the combined or consolidated annual report, including sign off and audit.

Where an agency's financial statements **and** report of operations are consolidated as a composite report with a larger agency (usually a portfolio department) and it does not have a full exemption from the Standing Directions, it must also complete a separate compliance attestation statement (by the responsible body) in that report.

1.3 Reconfirmation of composite report determination

Once the composite report determination has been approved, standardised conditions will be imposed on the agency. For conditions, refer to section 2.4 *Ongoing exemptions*. Previously, FMA composite report determinations have generally been provided on an ongoing basis without any conditions. Like the Standing Directions exemption reconfirmation (see section 2.4), the new process ensures that agencies seeking an ongoing composite report determination update DTF annually on any significant changes to risk profiles or functions of the agency and attest their ongoing alternative financial management situation.

The process is undertaken online via email. This is usually undertaken from March to May each year alongside the annual Standing Direction exemption process.

Part 2. Exemption from Standing Directions

The Standing Directions, issued under section 8 of the FMA, prescribe procedures and requirements for financial management and accountability in Victorian departments and public bodies (agencies).

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

Direction 1.5 outlines the minimum requirements for exemption requests. However, an agency may be granted an exemption from a requirement of the Directions if factors such as 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.

This additional guidance complements Guidance 1.5 *Exemptions*, which is available on the [DTF website](#). This provides further information context and templates for agencies seeking exemptions from the Standing Directions.

Agencies do not need exemptions for non-applicable or irrelevant Directions (e.g. investment rules for agencies without funds to invest). However, they must note any non-applicability or irrelevance in their annual self-assessment under the Standing Directions and have procedures to apply the Direction if circumstances change.

2.1 Exemption request requirements for Agencies

The following items must be considered when investigating and applying for an exemption:

- Prior to applying for an exemption, an agency should first closely consider whether the exemption is required. Resourcing constraints and challenges are not an appropriate reason to seek an exemption.
- An agency should consider whether compliance with the Direction/s can be achieved without the need for an exemption i.e. the Directions are intended to be applied in a manner consistent with the size and risk profile of an agency (see Direction 1.1(b)). For example, a smaller agency may rely on another larger VPS agency (i.e. a department) to provide certain financial management support. In this case, a letter of comfort/assurance from the provider agency may cover compliance with many of the requirements.
- A portfolio agency should consult with its portfolio department when contemplating an exemption request and seek its support in submitting a request. See Attachment 1 below regarding the process and timeframes for requests.
- The duration of the exemption (e.g. for a specified period), or ongoing (see request letter template at Attachment 2).
- A strong case must be prepared by the agency, or the department on their behalf, including:
 - the specific Directions and/or Instructions from which the exemption is sought
 - the reasons for seeking the exemption, providing a compelling case for an exemption and specifying the reasons why specific Directions cannot be complied with (considering Direction 1.1(b) noted above). This should include:
 - a description of the effects on the agency of being granted, and being denied, the exemption
 - a summary statement on the analysis of the costs and benefits or other relevant analysis, of the exemption – showing a clear net benefit to the community that outweighs the risk of a different standard of financial management to other VPS agencies
 - any relevant supporting material
 - details of material compliance deficiencies, significant audit findings on financial management or other significant issues over the previous three years, e.g. financial sustainability that may impact on the agency's risk profile

- details of any previous or existing exemptions of the agency (including under the 2003 Standing Directions)
- relevant information about the agency, including size (total assets and liabilities, total revenue and expenditure, full-time equivalent employee numbers), and the agency's risk profile etc., as relevant. This matrix should be presented in table form as an attachment to the exemption request (see Attachment 3).
- An explanation of how **alternative actions or procedures** will ensure the objectives of the relevant exempted Direction/s are achieved is a highly important inclusion for the success of an application. It requires a thorough explanation of how the requested exemption and the alternative arrangements proposed would **not undermine or compromise the integrity** of the agency's financial management systems and the objectives of the Direction/s. After receiving an exemption approval, the agency should implement the proposed alternative action or procedures as soon as possible.

For example, most exemption requests historically have been around the specific governance requirements of having a separate Audit Committee and internal audit function for very small/low risk agencies. In this case, there is an expectation that the Responsible Body (usually a board) takes on these roles directly as an alternative so that financial management is not compromised.

A request template letter (Attachment 2) and a risk profile information matrix (Attachment 3) are provided to assist with documenting these key considerations.

2.2 Appropriate financial management requirements for full exemptions

The more substantial an exemption request, the stronger the case required (reasons and alternative arrangements etc.).

For agencies currently reporting under the FMA to Parliament or the responsible Minister (either separately or consolidated with another agency e.g. a department) and subject to the Directions, an application for a complete exemption or exception from the entire suite of Directions/Instructions would require a solid case for success.¹

¹ A large number of smaller agencies that do not prepare audited financial statements or report annually to Parliament, and are primarily run by volunteers such as incorporated Crown land committees of management, Class B cemetery trusts, school councils, volunteer fire brigades or SES units, have been provided a complete exemption under the Directions (SD 1.2.1), on the basis that the relevant portfolio department or oversight agency establishes appropriate financial management requirements for their agencies excluded from these Directions (SD 2.3.5).

This would include the relevant portfolio department/or larger related agency:

- directly undertaking most of the financial management requirements on behalf of the agency (usually under a formal agreement) or
- putting in place a financial management framework and requirements appropriate for the agency or several agencies, if exempted.

For ongoing **full exemptions** from the complete Directions/Instructions the following further guidance is provided.

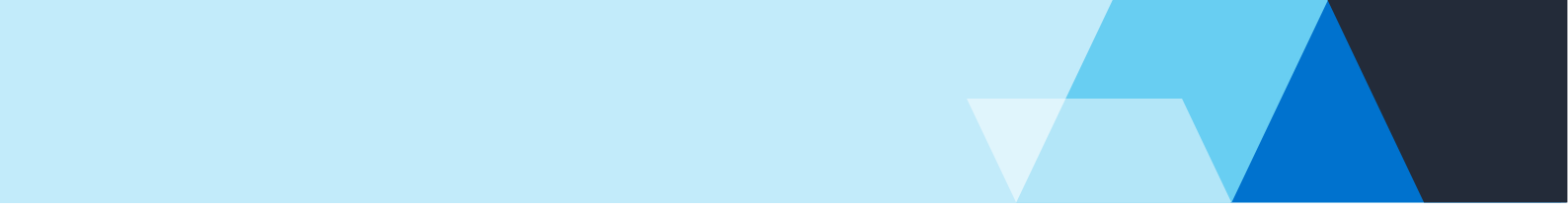
Appropriate financial management requirements that impose an appropriate level of financial management accountability, governance and compliance are crucial. These requirements also need to consider the nature of the entities in question, including size, risk profile, and the financial risk that they pose to the State, both individually and as a class.

The requirements should be proportionate to the financial management needs and responsibilities of the relevant entities.

Appropriate financial management requirements must:

- be established in regard to the topics covered and specific requirements in the Directions and Instructions
- include appropriate accountability arrangements and monitoring by the relevant portfolio department/agency to ensure entities' compliance with the requirement
- be consistent with the relevant agency's or agencies' governing legislation

- at a minimum, ensure a relevant framework covers the following relevant requirements:
 - general financial management accountabilities and responsibilities for key staff (CEO/CFO) and Responsible Body members
 - effective financial governance and oversight
 - effective information gathering and record keeping
 - appropriate systems, procedures and internal controls, such as those set out in Instruction 3.4, and including procurement
 - appropriate risk management, informed by the Victorian Government Risk Management Framework
 - where the agency manages assets, requirements to effectively manage the assets informed by the Victorian Government's Asset Management Accountability Framework
 - where the agency manages investments and/or liabilities, requirements to effectively manage these can be informed by the Treasury and Risk Management requirements under the Directions and Instructions
 - planning and managing performance
 - other statutory reporting obligations, e.g. annual reports
 - compliance reporting to the portfolio department.



The portfolio department and relevant agencies are best placed to develop the specific alternative procedures and framework together to meet the needs of all, within a portfolio context. Portfolio departments are encouraged to consult with DTF before finalising the alternative framework and seeking an exemption from the Directions and/or Instructions.

The framework/requirements document does not need to be an elaborate policy and procedures manual. However, it should cover the high-level principles under each of the key areas of good practice financial management (as outlined in the dot points above) and a checklist of specific requirements to achieve compliance in practice. The Standing Directions and Instructions should guide these requirements.

These alternative arrangements must be developed and ready for implementation before any exemption is granted.

2.3 Interim full exemptions or extensions

In some cases, for example where a new agency is created (this can sometimes be part way through a compliance year), compliance for the whole first period is not practicably feasible or possible. In such situations a newly created agency may seek an interim full exemption for its first reporting period (i.e. no attestation required for this first period) **or** an interim extension to be compliant by the end of a specified period (rather than the required whole period). For example, the agency could seek an extension to the compliance attestation period to say, as at 30 June, for its first full year of operations.

These will be assessed on a case-by-case basis. Such exemptions or extensions are conditional on being noted in the relevant section of the annual report.

2.4 Ongoing exemptions

Both **full and part ongoing** exemptions usually require the agency, as a condition to the exemption, to reconfirm (attest) the following outcomes with DTF each year:

- the agency has established and maintained alternative arrangements to ensure that no aspect of financial governance is compromised
- there has not been any significant change to the agency's risk profile and functions
- there has not been any key audit finding that might suggest deficiencies in the agency's financial management and internal control systems.

This process ensures that agencies seeking ongoing exemptions update DTF annually on any significant changes to risk profiles or functions of the agency and attest their ongoing alternative financial management arrangements continue in place.

The process is streamlined and is undertaken online via emails. This is usually undertaken from March to May each year.

A further condition requires the exemptions to be noted in the agency annual report for transparency purposes.

Part 3. Revised process and timing window for FMA composite report determination and Standing Direction exemption requests

To minimize ad-hoc exemption and/or composite report requests, DTF has implemented a bi-annual omnibus process. This will reduce the burden on ministerial offices by streamlining the FMA determination and Standing Directions exemption processes, and ensuring more effective workload management.

Details of the revised process and timing windows are included in **Tables 1 and 2 of Attachment 3** below.

3.1 Bi-annual processing of requests

Agencies must first contact their portfolio department's Compliance Manager when seeking FMA determination for composite reports and exemptions from the Standing Directions. The portfolio department will collate all requests and send an aggregated request to their Minister and seek approval from the Minister for Finance within the set timeline.

With a dedicated submission window, portfolio departments and their agencies are encouraged to combine composite report determination and exemption requests, reducing demand on the portfolio departments and their Ministers.

The submission window will initially be communicated through the Standing Directions Community of Practice. Submissions will open for cycle 1 in March and for cycle 2 in September. This provides for requests to be approved ahead of 1 July and 1 January each year.

With structured submission windows, portfolio departments must proactively plan and coordinate their requests to ensure submission requirements are met. Departments are expected to guide the requesting agencies and maintain portfolio oversight.

3.2 Urgent requests

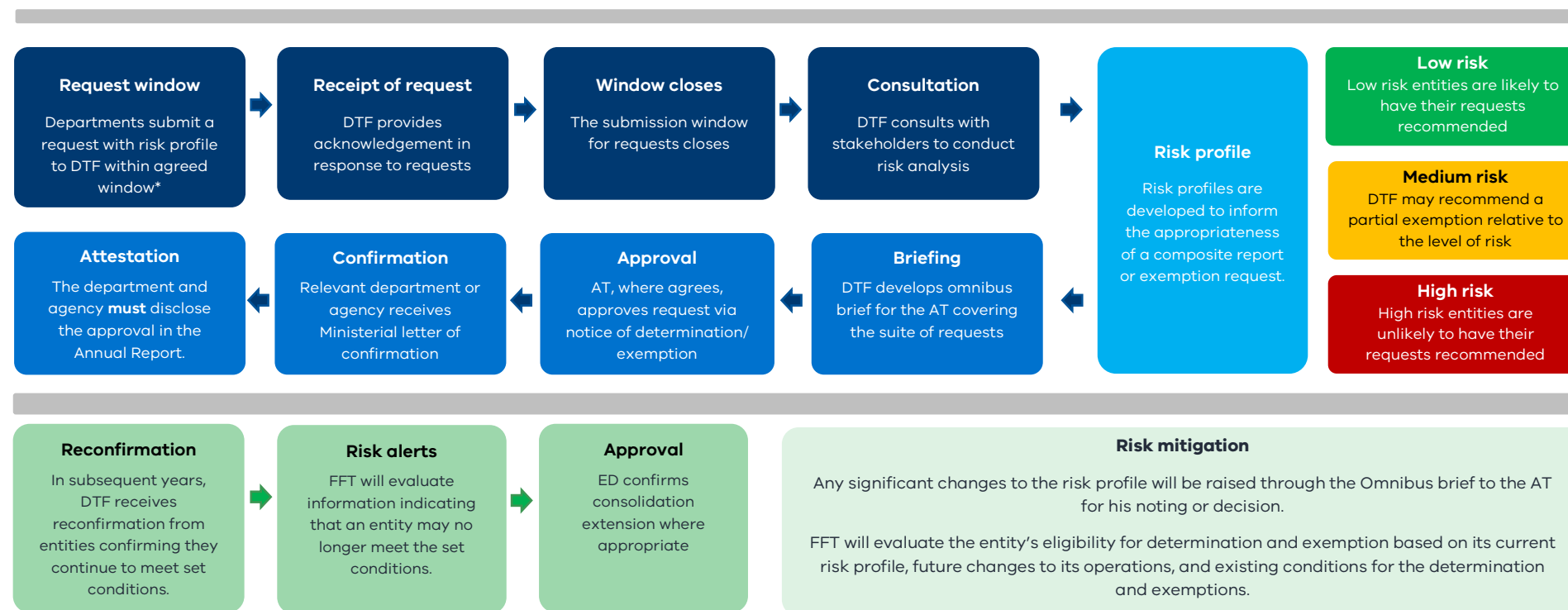
For urgent composite report determinations or exemption from Standing Directions, such as machinery of government changes, an agency must first contact their portfolio department and seek guidance. The department should consult with DTF before initiating any urgent request.

Attachments

Attachment 1 – FMA composite report determination and Standing Direction exemption new request and reconfirmation process and timeline

Entities seeking new composite report determination under section 53 of the FMA and/or exemption/s from the Standing Directions must first inform their department's compliance manager. The portfolio department will then consolidate all the requests before sending them to DTF for processing. New requests will be processed twice a year and are due to DTF in April and October of each year. Entities are also requested to complete a risk assessment information template to assist DTF in assessing the entity's eligibility (see flowchart and timeline below).

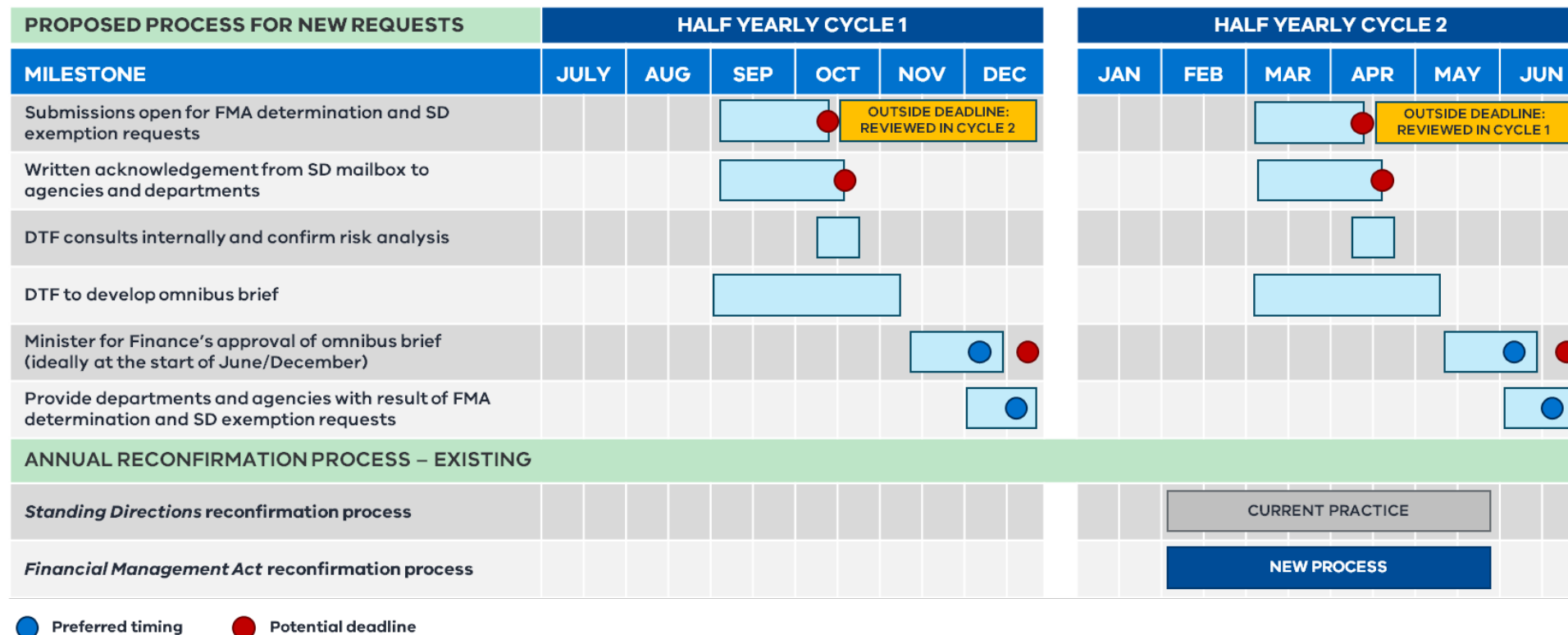
Table 1: New FMA composite report determination and SD exemption request and reconfirmation process flowchart



* Departments will consolidate requests from agencies at the department level. All new requests will include a risk profile assessment of each agency.

Table 2: New FMA composite report determination and SD exemption and reconfirmation timeline

Proposed process for new requests



Attachment 2 – FMA composite report determination and Standing Direction exemption request letter template

{Agency letterhead}

File No.

The Hon. Danny Pearson MP
Minister for Finance
Level 36, 121 Exhibition Street
MELBOURNE VIC 3000

Email: ministerpearson@dtf.vic.gov.au

Dear Minister for Finance

Application for an exemption from the Standing Directions and/or a determination for a composite report under the Financial Management Act 1994 (FMA)

[Select the relevant paragraph/s below for your request]

As the Accountable Officer of the {agency}, I write to seek exemptions for the {year/s} compliance year/s and {future years} from the following requirements of the *Standing Directions 2018* under the FMA (Standing Directions), pursuant to Direction 1.5 of the Standing Directions:

Use if seeking partial exemption from the Standing Directions.

Example:

- {Direction 3.2.1 – Audit Committee}
- {Direction 3.2.2 – Internal Audit Function}

[Delete above if full exemption sought]

OR

As the Accountable Officer of the {agency}, I write to seek full exemptions for the {year/s} compliance year/s and {future years} from the requirements of the *Standing Directions 2018* under the FMA (Standing Directions), pursuant to Direction 1.5 of the Standing Directions.

Use if seeking full exemption for the Standing Directions.

[Delete above if partial exemption sought]

AND/OR

As the Accountable Officer of the {agency}, I [also] write to seek a determination under section 53 1 (b) of the FMA to consolidate the financial statements and report of operations for the {Year/s} financial year/s and {subsequent future years} with the (agency name). [Delete above if composite reporting not sought]

Use if seeking FMA determination – composite report.

I recognise the importance of financial management governance, compliance and transparency. However, the compliance burden of the {FMA annual reporting} and {Standing Directions compliance} is considered onerous, given the size and nature of <insert agency name> functions as set out in this application. Applying a different standard of financial management compared to other VPS agencies presents a manageable risk in this situation. The risk is outweighed by the reduced cost of compliance, which presents an overall benefit to the community.

<Insert name of department> supports <insert agency name>'s request for a partial/full exemption from the Standing Directions, and a composite report of the financial statements and/or report of operations [Delete if composite reporting not sought].

Agency background (example)

The {Agency} is, pursuant to the FMA, a public body. As such, it has an obligation to prepare an Annual Report to Parliament. *If applicable* <However, pursuant to section 53 of the FMA, the Minister for Finance has issued a Determination that the {Department/Agency} Annual Report incorporates that of the {Agency}>.

The {Agency} is a legal entity established under {legislation} and is overseen by a Responsible Body (Board) that ... {briefly outline agency governance arrangements – for a sample arrangement, refer to the Guidance}.

Agency complexity and risk analysis

The {agency} operates in a low complexity environment as summarised below. The low level of complexity in most of the {agency} critical operating parameters result in low overall financial risk. Please provide details in the Risk profile assessment information matrix attachment (see Attachment 1)

Audit findings

Has there been any key audit findings (internal or external) that might suggest significant deficiencies in the agency's financial management and internal control systems in the last 3 years? **If yes, please specify.**

Overall profile

Has there been any significant change to the agency's overall risk profile and functions in the last three years? **If so, please provide details.**

Change in operations

Are there any anticipated changes to operations in the medium term? If yes, please specify the projected changes.

Board composition

How many directors are on the agency's Responsible Body (board)? How many directors are independent? **Please specify.**

Corporate services

Who provides corporate services for the agency? E.g. Internally, through the department, shared services, or outsourced? **Please specify.**

Alternative arrangements and mitigating factors

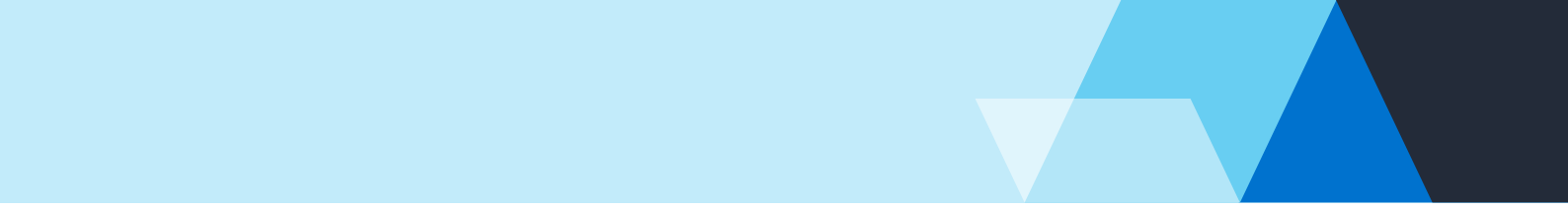
Has the agency established alternative arrangements or has other mitigating factors to ensure that no aspect of financial governance is compromised in the event of an exemption/determination being approved? If yes, please provide rationale and details **(see example below).**

Full SD exemption

For a full SD exemption please provide a detailed description of the appropriate financial arrangements established with the portfolio department or responsible agency. This could include:

- the relevant portfolio department/responsible agency directly undertaking most of the financial management requirements on behalf of the agency (usually under a formal agreement), or
- putting in place a tailored portfolio financial management framework and requirements guided by the Standing Directions and relevant for the agency or several agencies.

Example of further rationale and details for exemption



Further, I outline the following mitigating factors and alternative actions to ensure that no aspect of financial management will be compromised if an exemption from the specific Standing Directions is granted to {Agency}:

1. As a {no.} member corporate body structure, these Directions will not create a meaningful improvement in overall governance. They will increase the costs of compliance as a result of committing extra resources, primarily the engagement of additional contractors, to set up a separate Audit Committee and internal audit function to meet the requirements of the Standing Directions.
2. The {agency} complexity and risk levels have been and are expected to remain low.
3. The {department/agency} CFO has agreed to be the {agency} CFO; and
4. The {department/agency} will provide a 'letter of assurance' on outsourced services upon which {{agency}} can rely.

Should you or your officers wish to discuss the matter, please <insert name of contact officer> on <insert telephone number>.

Yours sincerely

{Name}

{Position}

{Agency name}

Cc [Name], Director, Financial Frameworks, Budget Strategy Group
Department of Treasury and Finance

Email: standing.directions@dtf.vic.gov.au

Attachment 3 – Risk profile assessment information matrix

Entities requesting new exemption from the Standing Directions and FMA composite annual reporting must complete the risk profile assessment information matrix (use the Excel template) and attach it to the request (see letter template). Using this matrix template, the entities will self-assess its risk profile using the drop-down selections. The assessment information has three areas, namely: (1) Financial Management, (2) Assets and liabilities, and (3) Operations.

Agency information			
Agency name:			
Date established (mmm/ivy):			
Portfolio department:			
Accountable officer name, title:			
Agency finance contact name, title:			
Description of agency operations:			
Type of entity:			
FMA determination or Standing Direction exemption being sought:			

Area	Parameter	Details	Agency to complete	
			Amounts/ selection	Comments
Financial management	Funding	What is the agency's budget for 2024-25, including appropriations and grants?	\$1m–<\$5m	
		Which institution are funds primarily held at? Provide details in the comments section.	An Authorised deposit-taking institution (ADI)	
	Financial sustainability	Has the agency exceeded its annual budget in the past three years? Provide the financial year(s), reasons and amount of overspend in the comments section.	No	Yes/No <i>Examples: Changes in EBA, legislation</i>
Assets and liabilities	Assets	What is the value of the agency's total assets on the balance sheet?	\$200 000–<\$500 000	
		What is the value of the agency's physical assets? If applicable, provide details of physical assets in comments.	\$100 000–<\$500 000	
	Cash and investments	How much does the agency have in cash and investments?	<\$100 000	
	Borrowings and liabilities	How much does the agency have in borrowings or liabilities?	<\$100 000	
Operations	FTE and employees	How many full-time equivalent (FTE) positions do the agency have? Specify number of FTE currently filled and headcount in the Comments column.	5–9	
	Services	Does the agency collect revenue from the public for services provided? If yes, please select the average annual collection. If no, select 'Not Applicable'. If the agency delivers services, specify in comments.	\$10 000–<\$50 000	

Area	Parameter	Details	Agency to complete	
			Amounts/ selection	Comments
	Significant transactions with third parties and financial authorisations	What percentage of third-party transactions are less than \$50 000?	30%–<50%	
		Do all transactions up to \$50 000 require approval from the CFO or officer responsible for finance functions?	Yes	
		Do transactions above this amount require approval of the CEO or someone with higher authority?	Yes	
	Purchasing cards and petty cash	How many corporate purchasing cards do agency employees hold?	1–3	
		What is the highest purchasing card limit?	\$5 000– <\$10 000	