

APRIL 2026

2024-25 Financial Management Compliance Report

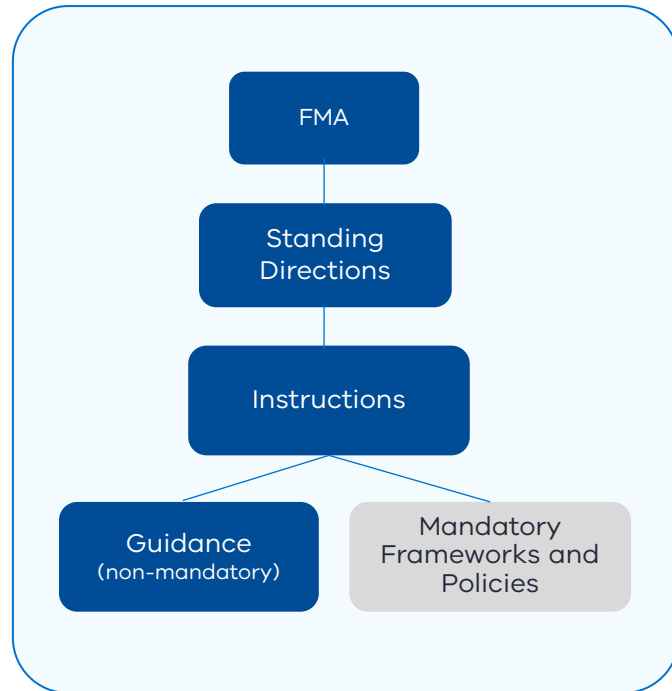
Effective financial governance and resource management

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 agencies.

As per the *Financial Management Legislation Amendment Act 2025*, the FMA now explicitly requires compliance with Directions made under section 8, requires agencies to inform DTF when at risk of overspending, and requires engagement with the Minister for Finance when establishing or abolishing a new entity.

These frameworks 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 in a fiscally constrained environment. 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 practices set out in the Directions, Instructions and frameworks risks poor decisions, inefficiencies, financial instability, fraud, and loss of public confidence.

To ensure that the underlying frameworks, such as the SDs, work is ongoing to adequately reflect recent amendments to the FMA.

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.

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.
- Portfolio 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 59 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.

2024-25 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.

- Overall compliance performance continues to show gradual improvement as departments and agencies embed best practice from the 2018 Standing Directions in their regular operational processes. Deficiencies increased in 2021-22 and 2022-23 reflecting Covid-related resourcing pressures and the introduction of new requirements. This increase was followed by a downward movement in 2023-24. The subsequent rise in 2024-25 reflect improved awareness and reporting of deficiencies as agencies become more transparent and consistent in documenting issues.
- 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.
- Reported material compliance deficiencies, including rectification strategies, are included in the entities' Financial Management Compliance Attestation in their own annual reports.
- Overall, there was an increase in the number of reported non-material compliance deficiencies. This reflects an increase in awareness and reporting improvements of compliance deficiencies.

Material and non-material compliance deficiencies

- For 2024-25, three material deficiencies were identified and reported by the agencies in their annual reports. The rectification strategies are in place and have been largely implemented.
- Compared to the previous year, there has been an increase in non-material compliance deficiencies. The increase was mainly in the areas of asset acquisition, procurement of goods and services, public construction accountability, and Treasury management. This increase largely reflects strengthened and more centralised compliance reporting practices, enhanced documentation, and a targeted internal audit focus on these areas, resulting in increased identification and reporting of deficiencies.
- Portfolios continue to report non-material compliance deficiencies in the areas of asset management, internal control system and policy procedures and acquisition of assets, good , and services, and VGPB supply policies. Departments and agencies are working towards full compliance with these policy requirements.
- 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
 - Victorian Government Purchasing Board supply policies
 - Risk management, including business continuity planning
 - Public construction accountability
 - Acquisition of assets, goods, and services
 - Purchasing card administration.
- 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 risks.
- In 2024-25, identified risks were largely consistent with reported compliance deficiencies and these included risks in the areas of:
 - Asset management accountability
 - Managing specific risks – Business continuity planning
 - Fraud, Corruption and Other Losses policy
 - Internal control system
 - Agencies subject to Victorian Government Purchasing Board
 - Managing financial information
 - General responsibilities
 - Acquisition of assets, goods and services
 - Accountable Officer responsibilities
 - Effective financial governance.

Areas of continuing risk focus

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.

DTF is continuing its strengthened focus on financial sustainability. It undertook a series of finance board reviews into agencies and portfolios reporting budget deficits and coordinated a government-wide savings process for the *2025-26 Budget*. DTF is now coordinating implementation of the government's response to the independent review into the Victorian public sector led by Helen Silver AO, which was focused on financial sustainability.

To further strengthen financial sustainability, FMA amendments were introduced to include an expectation for bodies to adhere to budgets, a budget notification requirement, and clarifying of accountabilities for accountable officers and CFOs.

Areas of continuing financial management risk focus

- Emerging financial management risks identified in previous years are consistent with the risks identified in 2024-25 and remain ongoing areas of focus. These risks highlight vulnerabilities in the following areas:
 - Operational asset maintenance
 - Cybersecurity and IT system controls
 - Fraud, corruption, and loss prevention policies
 - Internal control system policies
 - Agency financial sustainability
- These risks highlight the need for stronger financial management practices, clearer and streamlined policy frameworks, and strengthened technological safeguards to improve organisational resilience.
- DTF is considering ways it can better support and guide departments and agencies to identify, assess, and manage these ongoing and emerging risks.
- For example, DTF is developing a financial management capability program, which will address the emerging risks linked to governance and capability. Initial training on the obligations for financial reporting in line with accounting standards has been piloted.

Compliance reporting and focus going forward

Current state

- Financial management attestation statements of compliance with the Standing Directions and Instructions are included in annual reports.
- 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 2025-26 reporting and attestation year

- Continue to prioritise resolution of deficiencies with the Standing Directions requirements and the more detailed frameworks, including asset management, procurement, risk and resource management, including financial sustainability and contract management.
- Regular monitoring of key compliance risks and the veracity of evidence supporting compliance with the Standing Directions to ensure issues are addressed and controls remain effective.
- Prompt reporting of significant or systemic fraud, corruption and other losses, in accordance with mandated requirements.
- DTF will continue to work with departments to better support agencies in meeting their compliance and reporting obligations.

Building a culture of continuous compliance improvement

- Activities such as targeted knowledge sharing within existing communities of practice across and within departments and the provision of guidance to help build a culture of continuous compliance improvement.
- Look for opportunities for DTF to raise questions with agencies and their portfolio departments when DTF becomes aware of potential compliance deficiencies.
- Draw insights from recent Auditor-General reports on sustainability and contactor and consultant management to inform potential compliance improvements.

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 and improve compliance with the requirements.
- 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 continue to work with departments to embed good compliance and robust financial management practices and reporting across the VPS.

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