

Instructions

supporting the Standing Directions 2018
under the *Financial Management Act 1994*

Issued June 2016

Revised 7 December 2018

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Revisions/updates to Instructions date effective 1 July 2018

Instruction(s) revised/updated	Date revision came into operation	Nature of revision/update
Instruction 5.1, new clause 2.5	1 July 2018	Transitional attestation provisions for 2018-19 in applying Ministerial Directions under the PD&CM Act 1994
Instruction 3.4, new sub-clause 5.1(b) Instructions 3.7.2 & 3.7.2.2	7 December 2018	Revised to reflect implementation of Central Banking System
Instruction 5.1	7 December 2018	Spent transitional provisions relating to 2015-16 and 2016-17 financial years removed
Various	7 December 2018	'Minister for Finance' revised to 'Assistant Treasurer' throughout, except where reference is historical
Various	7 December 2018	References to departments revised to accommodate Machinery of Government changes effective 1 January 2019 (prior to this date existing departmental names are to be used)
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Instructions

The Instructions are issued by the Department of Treasury and Finance under the 23 February 2016 delegation of the Minister for Finance under the *Financial Management Act 1994*.

The Instructions supplement the Standing Directions made under the *Financial Management Act 1994* (Directions). They provide more detailed **mandatory** requirements, processes and procedures designed for specific areas of risk.

The numbering of the Instructions corresponds with the associated Directions.

The Instructions are as follows:

Guidance	Title	Page
Instruction 1.2(b)	Committees of Management subject to the Directions	2
Instruction 2.3.4	Portfolio relationship	3
Instruction 3.4	Internal control system	4
Instruction 3.5	Fraud, Corruption and Other Losses	8
Instruction 3.6	Purchasing and prepaid debit card use and administration	9
Instruction 3.7	Managing specific risks – Business continuity planning, indemnities and immunities	14
Instruction 3.7.2	Treasury management internal reporting	16
Instruction 3.7.2.2	Treasury Management Policy and procedures	16
Instruction 4.2.1	Acquisition of assets, goods and services	18
Instruction 5.1	Financial management compliance	19

Instruction 1.2(b) – Incorporated committees of management subject to the Directions

Background	Incorporated committees are excluded from the application of the Directions and Instructions, unless listed in this Instruction.
Effective date	1 July 2016
Relevant Directions	1.2(b) Application
History	Last updated: 1 February 2016 Issued: 1 July 2016

1. Incorporated committees of management subject to the Directions and Instructions

1.1 The following incorporated committees of management are subject to the Directions and Instructions:

- Phillip Island Nature Park Board of Management Inc.

Instruction 2.3.4 – Portfolio relationship

Background	<p>The departmental Secretary (Accountable Officer) is the principal policy adviser to government on policy matters and assists Ministers to maintain an awareness of portfolio Agencies' operations.</p> <p>The Portfolio Department plays a critical role in supporting DTF in managing the risks for the State by actively monitoring and advising on Agency/portfolio performance and facilitating information flows.</p>
Effective date	1 July 2016
Relevant Directions	2.3 Accountable Officer 2.4.4 Responsibilities of Portfolio Department CFO 5.1.7 Portfolio Departments' reporting to DTF 5.3 External reporting and information provision
History	Last updated: 1 February 2016 Issued: 1 July 2016

1. Portfolio Department responsibilities

- 1.1 The Portfolio Department Accountable Officer must establish and maintain an effective portfolio relationship framework for:
 - (a) supporting the Responsible Minister's oversight of the financial management performance of Portfolio Agencies; and
 - (b) assisting the Department of Treasury and Finance (DTF) to manage its whole of government responsibilities.
- 1.2 In establishing the portfolio relationship framework under clause 1.1 of this Instruction, the portfolio Department Accountable Officer must:
 - (a) consider any functions of the Portfolio Department Accountable Officer and/or Minister in their Portfolio Agencies' establishing legislation, including the nature and extent of such functions;
 - (b) consider the risk profile and performance of Portfolio Agencies and/or sectors;
 - (c) include any systems, processes, policies and procedures as necessary to enable key portfolio relationship functions to be undertaken by the Portfolio Department;
 - (d) consider the roles, responsibilities and relationships between the Portfolio Department and Portfolio Agencies; and
 - (e) include monitoring and evaluation of the effectiveness of the portfolio relationship function.

2. DTF responsibility

- 2.1 DTF's Accountable Officer must provide support and advice to Portfolio Departments in relation to their portfolio relationship function, including by monitoring the effectiveness of these functions.

Instruction 3.4 – Internal control system

Background	An Agency's internal control system is designed to support the effectiveness and efficiency of operations, deliver reliable internal and external reporting, and achieve compliance with laws and regulations.
Effective date	1 July 2016
Relevant Directions	3.4 Internal control system 3.5 Fraud, Corruption and Other Losses 3.6 Purchasing and prepaid debit cards 3.7 Managing risks 3.8 Pricing 3.9 Managing financial information 4.2 Using and managing public resources 4.2.3 Assets management and accountability 5.3 External reporting and information provision
History	Last updated: 1 February 2016 Issued: 1 July 2016

1. Internal control system

1.1 The Accountable Officer must ensure that the Agency's internal control system under Direction 3.4 includes:

- (a) a control environment;
- (b) risk assessment;
- (c) control activities, particularly separation of roles (segregation of duties), financial authorisations and reconciliations;
- (d) information and communication; and
- (e) monitoring activities.

2. Policies and procedures¹

2.1 The policies and procedures required under Direction 3.4(e) must include the following topics:

- (a) revenue;²
- (b) cash;³
- (c) bank accounts;⁴
- (d) expenditure;⁵
- (e) payroll;⁶

¹ Note: Direction 3.5 (Fraud, Corruption and Other Losses), Direction 3.6 (Purchasing and prepaid debit cards), Direction 3.9 (Managing financial information), Direction 4.2 (Using and managing public resources) and Direction 4.2.3 (Assets management accountability) are covered in separate Directions, however, they are part of the internal control system.

² See clause 3 of this Instruction.

³ See clause 4 of this Instruction.

⁴ See clause 5 of this Instruction.

⁵ See clause 6 of this Instruction.

⁶ See clause 7 of this Instruction.

- (f) liabilities;⁷
- (g) taxes;⁸
- (h) shared or outsourced services;⁹
- (i) gifts, benefits and hospitality.¹⁰

3. Managing revenue ¹¹

3.1 The Accountable Officer must ensure that the Agency's revenue is managed in accordance with the Agency's revenue policies and procedures, which must provide for:

- (a) promptly, completely and accurately identifying, managing, recording and reporting of revenue;
- (b) the timely and appropriate writing off of revenue; and
- (c) collecting and securing revenue.

4. Managing cash¹²

4.1 The Accountable Officer must ensure that the Agency's cash is managed in accordance with the Agency's cash policies and procedures, which must provide for:

- (a) promptly, completely and accurately identifying, collecting, securing, investing, banking and forecasting cash; and
- (b) accurately recording transactions involving cash.

4.2 For Portfolio Departments and Agencies which use the Central Banking System, the Agency's cash management policies and procedures must also provide for transmitting timely and reliable cash flow forecasts to DTF.¹³

5. Managing bank accounts¹⁴

5.1 The Accountable Officer must ensure that the Agency's bank accounts are managed in accordance with the Agency's bank account policies and procedures, which must provide for:

- (a) the approval of all opening and closing of bank accounts by the Responsible Body;
- (b) where applicable, the opening and maintenance of a Central Banking System account with the approved Authorised Deposit-Taking Institution under the SPC;
- (c) opening of bank accounts with an Authorised Deposit-Taking Institution(s);
- (d) effective and efficient operations of bank accounts; and
- (e) at least monthly reconciliation of bank accounts.

6. Managing expenditure

6.1 The Accountable Officer must ensure that the Agency's expenditure is managed in accordance with the Agency's expenditure policies and procedures, which must provide for:

- (a) promptly, completely and accurately identifying, managing, recording and reporting of expenses; and
- (b) the timely and appropriate payment of expenses.

⁷ See clause 8 of this Instruction.

⁸ See clause 9 of this Instruction.

⁹ See clause 10 of this Instruction.

¹⁰ See clause 11 of this Instruction.

¹¹ Fixing charges for goods and services are subject to Direction 3.8 Pricing.

¹² For cash flow forecasting reporting requirements to DTF by Departments, refer to the DTF *Information Request Calendar* in accordance with the requirements of Direction 5.3.2.

¹³ See also Direction 5.3.2.

¹⁴ Section 15 of the *Financial Management Act 1994* provides for further requirements relating to Departments.

- 6.2 The Accountable Officer must ensure that the Agency develops policies and procedures to address the following expenditure types:
- (a) travel;
 - (b) advertising and communications;
 - (c) employee advances;
 - (d) personal expense reimbursement;
 - (e) capital expenditure;
 - (f) where applicable, remuneration of boards, statutory bodies and advisory committees; and
 - (g) ex-gratia payments.

7. Managing payroll

- 7.1 The Accountable Officer must ensure that the Agency's payroll is managed in accordance with the Agency's payroll policies and procedures, which must provide for:
- (a) bona fide payment to employees, including recoupment of over payment of salaries;
 - (b) correct payment made based on the rate in accordance with any written law, industrial award or industrial agreement, and for hours worked;
 - (c) prompt authorisation and disbursement of all deductions;
 - (d) an appropriate level of security for payroll distribution (including independent review prior to processing); and
 - (e) applying the *Cost Recovery Guidelines* to the costs associated with voluntary payroll deductions from gross pay.

8. Managing liabilities

- 8.1 The Accountable Officer must ensure that the Agency's liabilities are managed in accordance with the Agency's liability policies and procedures, which must provide for identifying, managing, recording and reporting of liabilities and commitments for capital expenditure, in a prompt, complete and accurate manner.

9. Managing taxes

- 9.1 The Accountable Officer must ensure that the Agency's taxation obligations are managed in accordance with taxation law and the Agency's taxation policies and procedures, which must provide for:
- (a) the prompt preparation and submission of taxation returns/statements;
 - (b) maximising of cash flows from tax entitlements;¹⁵ and
 - (c) informing the Portfolio Department of issues and risks relating to Commonwealth taxation obligations and concessions that are not unique to their own Agencies and which have potential portfolio-wide implications.
- 9.2 In addition, Portfolio Departments must inform DTF of:
- (a) issues that have potential whole of government risks or opportunities; and
 - (b) all significant ATO ruling requests with whole of government implications.

10. Managing shared services and outsourcing arrangements

- 10.1 The Accountable Officer must ensure that the Agency's shared services and outsourcing arrangements, related to financial management, are effectively managed, including by:
- (a) prior to sharing or outsourcing functions either in full or part, the costs and benefits are analysed, and the decision is approved by the Responsible Body;
 - (b) the services to be provided are detailed in a contract, service level agreement or equivalent, together with performance indicators and measures;

¹⁵ For example, lodging the Business Activity Statement early when in a refund situation.

- (c) performance is regularly monitored and reviewed, including a review (at least annually) by the Accountable Officer or delegate, with the results of the review reported to the Responsible Body;
- (d) appropriate assurance is obtained, and the level of assurance is documented, annually; and
- (e) the arrangements are subject to internal and external audit scrutiny.

11. Managing gifts, benefits and hospitality

- 11.1 The Accountable Officer must ensure that the Agency develops policies and procedures that apply the minimum accountabilities set out in the Victorian Public Sector Commission's *Gifts, Benefits and Hospitality Policy Framework*.

*Gifts, Benefits and Hospitality Policy Framework*¹⁶

¹⁶ <http://vpsc.vic.gov.au/resources/gifts-benefits-and-hospitality-policy-framework/>

Instruction 3.5 – Fraud, Corruption and Other Losses

Background	The prevention, investigation and reporting of instances of Fraud, Corruption and Other Losses by Agencies will assist in managing risks of future occurrences. An inadequate control environment carries the risk of an adverse impact on the State's financial position.
Effective date	1 July 2016
Relevant Directions	3.2.1 Audit Committee 3.4 Internal control system 3.5 Fraud, Corruption and Other Losses 5.1.5 Dealing with Compliance Deficiencies 5.1.6 Reporting Material Compliance Deficiencies
History	Last updated: 1 February 2016 Issued: 1 July 2016

1. Fraud, Corruption and Other Losses prevention and management policy

- 1.1 The Fraud, Corruption and Other Losses prevention and management policy under Direction 3.5.1(b) must:
- (a) outline the Agency's systems for the prevention, management and tolerance of Fraud, Corruption and Other Losses;
 - (b) provide for a control environment to mitigate the risk of Fraud, Corruption and Other Losses;
 - (c) provide for a control environment to identify and manage incidents of Fraud, Corruption and Other Losses;
 - (d) include processes for the investigation of actual and suspected incidents of Fraud, Corruption and Other Losses; and
 - (e) include a requirement and process for recording all actual and suspected incidents of Fraud, Corruption and Other Losses.
- 1.2 The Fraud, Corruption and Other Losses prevention and management policy under Direction 3.5.1(b) must include a defined value threshold, above which an actual or suspected Fraud, Corruption or Other Loss is considered 'Significant' for the purpose of reporting under Direction 3.5.3.¹⁷ The threshold must not exceed \$5 000 in money or \$50 000 in other property.

¹⁷ Direction 1.6 includes a definition of 'Significant or Systemic'. This defined threshold only impacts on the interpretation of the meaning of 'significant' in relation to actual or suspected Fraud, Corruption or Other Loss. Different thresholds for 'significant' apply to purchasing and prepaid debit cards under Instruction 3.6.

Instruction 3.6 – Purchasing and prepaid debit cards

Background	The use of purchasing cards and prepaid debit cards can result in significant benefits through a reduction in paperwork and streamlined purchase and reimbursement activities. Unauthorised use of these cards places the public sector’s reputation at risk and may lead to financial loss for the State.
Effective date	1 July 2016
Relevant Direction	2.5 Delegations of responsibilities under these Directions 3.5 Fraud, Corruption and Other Losses 5.1 Financial Management Compliance
History	Last updated: 1 February 2016 Issued: 1 July 2016

1. Application

In this Instruction, clauses 2-3 and 6-7 apply to all purchasing and prepaid debit cards. Clauses 4-6 apply to purchasing and prepaid debit cards issued to employees of Agencies (internal to VPS). Clause 8 applies to prepaid debit cards issued to the public.

2. Purchasing and prepaid debit cards – roles and responsibilities for the Accountable Officer

2.1 The Accountable Officer must:

- ensure that cardholders are required to use purchasing and prepaid debit cards for official business only, that is, purchasing goods and services for government purposes;
- consistent with the Directions, authorise the opening of a facility account on behalf of the Agency;¹⁸
- assign a program administrator to manage the purchasing and prepaid debit card programs;
- assign authorised signatories to review and approve transactions and payments;
- ensure the effective, efficient and appropriate use of the card facility by the Agency; and
- ensure effective internal controls are maintained for the issue, use and acquittal of the purchasing and prepaid debit card to prevent unauthorised use and non-compliance.

3. Purchasing and prepaid debit cards – roles and responsibilities for officials

- For the purposes of this Instruction, the program administrator is the person assigned by the Accountable Officer under clause 2.1(c) and the authorised signatory is the person assigned by the Accountable Officer under Instruction 2.1(d).
- The authorised signatory is responsible for reviewing and approving transactions and payments appearing on a cardholder’s statements in accordance with this Instruction.
- The authorised signatory must hold a financial authorisation.
- For the purposes of this Instruction, a cardholder is a person issued with a purchasing card or prepaid debit card.
- Cardholders are responsible for using cards in accordance with this Instruction.

¹⁸ Note that there is a Cash and Banking State Purchase Contract that is mandatory for some Agencies, and encouraged for others. See www.procurement.vic.gov.au/State-Purchase-Contracts/Cash-and-Banking-Services.

4. Internal purchasing and prepaid debit cards – Issue and withdrawal

4.1 The program administrator must ensure that:

- (a) only Agency employees are cardholders;
- (b) only one of each card facility type is to be issued to an employee approved as a cardholder (that is, only one purchasing card and one prepaid debit card per cardholder);
- (c) for purchasing cards:
 - (i) a maximum purchasing card limit has been set for each cardholder. Purchasing card limits above \$50 000 must be approved by the Accountable Officer;
 - (ii) a maximum monthly limit and individual transaction limit has been set for each cardholder;
 - (iii) the individual transaction limit must not exceed the cardholder's financial authorisation; and
 - (iv) where applicable, restrictions on the types of goods or services for which they cardholder may use the card have been imposed, for example, restrictions on domestic and overseas travel, hospitality and entertainment.
- (d) for prepaid debit cards:
 - (i) cards must not be loaded with a value greater than \$5 000;
 - (ii) cards must not be pre-loaded and stored unless there are sound security controls around the inventory storage, activation and issue of the cards; and
 - (iii) individual transaction limits must not exceed the cardholder's financial authorisation. When the cardholder does not have a financial authorisation, the authorised signatory is responsible for the use of the card and all expenditure incurred; and
- (e) debit cards other than prepaid debit cards are not issued. Cards linked directly to a bank account are covered by Direction 3.4 and Instruction 3.4 and not by this Instruction.

4.2 A cardholder must report immediately to the program administrator and the card provider:

- (a) the loss or theft of the cardholder's purchasing or prepaid debit card; and
- (b) if the purchasing cardholder knows or suspects unauthorised transactions have been made by a third party, this fact, along with the reasons for such knowledge or suspicion.

In both cases the program administrator must take action to cancel the card.

4.3 The program administrator must ensure that a framework, approved by the Agency Accountable Officer, is in place for dealing with unauthorised use or non-compliance by a cardholder. The framework must state that a purchasing or prepaid debit card is to be withdrawn when the cardholder incurs:

- (a) an unauthorised transaction exceeding the amount deemed appropriate by the Agency Accountable Officer. The amount deemed appropriate must not exceed \$1 000.
- (b) a pattern of unauthorised use or non-compliance. The pattern must not exceed three separate instances.

4.4 A cardholder must return the card to the program administrator at the end of the period for which the card was issued or when changes to the cardholder's employment status result in use of the card as no longer being required.

4.5 The program administrator must cancel a purchasing card returned under clause 4.4 of this Instruction immediately.

4.6 For prepaid debit cards returned under clause 4.4 of this Instruction, the Agency must establish appropriate procedures to manage the cancellation (including the return of any remaining prepaid amount to the Agency) or reuse of prepaid debit cards.

5. Internal purchasing and prepaid debit cards – use

- 5.1 A cardholder must only use the purchasing or prepaid debit card for official business, and consistently with all applicable legislation, standards and policies of the Government and the Agency.
- 5.2 In using and administering a purchasing and prepaid debit card, a cardholder must:
- (a) always act in the interests of the State, as opposed to personal interests or convenience; and
 - (b) perform their duties honestly and with skill and care.
- 5.3 A cardholder must not use the purchasing or prepaid debit card:
- (a) to obtain cash, except for prepaid debit cards, where cash may only be obtained if the Accountable Officer has authorised the use of the card for this purpose;
 - (b) for purchases covered by other existing contracts, where applicable to an Agency, to which the Government is a signatory, for example, fuel cards and travel expenses;
 - (c) to pay for an expense when reimbursement has been made (or will be made) to the cardholder for that same expense;¹⁹
 - (d) to pay fines;
 - (e) for gifts and hospitality purposes other than in accordance with the Agency's gifts, benefits and hospitality policies and processes and the Gifts, Benefits and Hospitality Policy Framework issued by the Victorian Public Sector Commission and approved by the authorised signatory;
 - (f) for the payment of tips or gratuities, except in countries other than Australia, to the minimum extent expected in accordance with common practice in the country;
 - (g) for total expenses within one month that exceed the monthly limit; or
 - (h) for personal transactions.
- 5.4 If a cardholder inadvertently incurs private expenses, for example, as part of a larger official business purpose transaction, the cardholder must settle all such private expenses as soon as practicable.
- 5.5 The program administrator must ensure cardholders:
- (a) acknowledge and agree with the responsibilities, liabilities and consequences of unauthorised use; and
 - (b) understand the policies and procedures established for card use.
- 5.6 The cardholder will be held personally liable for any unauthorised use unless the unauthorised use results from the card being lost or stolen, or because of Fraud on the part of a third party.
- 5.7 The Accountable Officer must establish specific policies to ensure prepaid debit cards are used for business purposes only.

6. Internal purchasing card payment and prepaid debit cards – acquittal

- 6.1 A cardholder must review and sign-off the monthly purchasing card statement or prepaid debit card transaction report for completeness and accuracy, by matching transactions with sufficient supporting documentation and receipt of goods and services.
- 6.2 The authorised signatory must review and approve the monthly statements or transaction report. Discrepancies with the cardholder or card provider must be resolved in a timely manner.
- 6.3 Agencies using electronic procurement must issue specific policies to ensure requirements for signatories and sufficient documentation are met and can be audited.

¹⁹ For example, accommodation expenses must only be claimed once.

7. Reporting of significant instances of purchasing and prepaid debit card non-compliance

- 7.1 The program administrator must define a value threshold, above which an actual or suspected Fraud, Corruption or Other Loss in relation to purchasing and prepaid debit cards is considered 'significant' for the purpose of Direction 3.5.3.²⁰ The threshold must not exceed \$1 000.

8. Prepaid debit cards issued to the public

- 8.1 When prepaid debit cards are used to make payments of government benefits to the public²¹, the roles and responsibilities of the Accountable Officer and program administrator in clauses 1 and 2 of this Instruction applies.
- 8.2 In addition, the program administrator must ensure that:
- (a) clause 4.1(d)(i) and (ii) of this Instruction is complied with;
 - (b) staff administering the Government's program to the public are fully aware and apply the Agency's policies and procedures for safeguarding, activating, issuing, monitoring and reconciliation of the cards, and the need for segregation of duties;
 - (c) arrangements are made for the authorised signatory responsible for the program to be provided with a fully reconciled list of cards issued under that program; and
 - (d) compliance monitoring of operations against policies and procedures is performed on a regular basis.
- 8.3 The authorised signatory responsible for the program must:
- (a) have the appropriate financial authorisation for the amount authorised; and
 - (b) review and approve the reconciled list of cards issued for the program and the payments distributed.

9. Definitions

- 9.1 The following definitions apply to this Instruction:
- (a) **Authorised signatory** – means the person assigned by the Accountable Officer under Instruction 3.6, Clause 2.1(d) to be responsible for reviewing and approving transactions and payments appearing on a cardholder's statement.
 - (b) **Cardholder** – means the person who has been issued with a purchasing or prepaid debit card.
 - (c) **Card provider** – the approved supplier of the purchasing or prepaid debit card facility account.
 - (d) **Facility account** – the individual purchasing and settlement facility between the card provider and the Agency.
 - (e) **Official business** – purposes that are in direct connection with, or a direct consequence of, the cardholder's functions and duties within an Agency.
 - (f) **Purchasing card** – means any type of purchasing card used for the purchase of generic goods and services for use by Public Sector Agencies and their employees for official business (i.e. general government purchasing card, corporate card, credit card, purchasing card facility). It includes a purchasing card issued by an Agency to the employee in the name of the Agency.
 - (g) **Prepaid debit card** (also known as stored value card) – means a card which has money 'stored' via prepaid deposits made by a Public Sector Agency for use by the Agency and their employees for official business, or in the case of cards issued to the public for the benefit of the recipient of the card. The card must not link directly to a bank account or credit facility.
 - (h) **Program Administrator** – means the person assigned by the Accountable Office under Instruction 3.6, Clause 2.1(c) to be responsible for the administration of purchasing and prepaid debit cards within an Agency.

²⁰ Direction 1.6 includes a definition of 'Significant or Systemic'. This defined threshold only impacts on the interpretation of the meaning of 'Significant' in relation to purchasing and prepaid debit cards. Different thresholds for 'Significant' apply to purchasing and prepaid debit cards under Instruction 3.5.

²¹ For example, personal hardship grants in cases of emergencies/disasters.

- (i) **Unauthorised use** – any instance of non-compliance with section 4.3 of the Instruction by the cardholder or as a result of the card being lost or stolen or because of Fraud on the part of some third party.

Instruction 3.7 – Managing specific risks – business continuity planning, indemnities and immunities

Background	Business continuity management allows the Public Sector Agency to continue critical functions in the event of a significant incident affecting the Agency. Business continuity planning is also an important consideration in the financial sustainability of the Agency. Indemnities and immunities create a potential financial risk or liability that may be realised at a later date.
Effective date	1 July 2016
Relevant Directions	3.2 Oversight and assurance 3.4 Internal control system 3.7 Managing risk
History	Last updated: 1 February 2016 Issued: 1 July 2016

1. Business continuity planning

1.1 The Accountable Officer must ensure that the Agency:

- (a) develops, implements and maintains documented Business continuity planning (BCP) processes consistent with the latest Australian/New Zealand standard on Business continuity²² or, where relevant, another Australian, international or industry recognised standard; and
- (b) reviews and tests its BCP processes on a regular basis, but at a minimum every two years.

2. Treasurer's indemnity

Seeking an indemnity

2.1 The Accountable Officer must ensure that a request to the Treasurer for an indemnity under Part 6A of the *Financial Management Act 1994* is made in writing by the Responsible Minister and in accordance with relevant legislation, standards and policies.

2.2 The submission under clause 2.1 of this Instruction must include the following:

- (a) a clear identification of the risk assumed by the State if the indemnity is granted;
- (b) an assessment of the likelihood of the risk materialising;
- (c) the financial and other impacts or consequences that will occur if the risk materialises;
- (d) the availability or non-availability of insurance, on commercially reasonable terms from a reputable insurer, in respect of that risk;
- (e) who is responsible for managing the risk on behalf the relevant Agency;
- (f) what risk management or mitigation strategies that the Agency proposes to adopt with respect to that risk;
- (g) the indemnity period proposed; and
- (h) any further information required by DTF on behalf of the Treasurer.

2.3 When an indemnity is granted, the Agency must record, at minimum, the following information on the indemnity:

- (a) a clear description of the risk;
- (b) the name of each party;
- (c) the name of the party responsible for managing the risk (usually an Agency);
- (d) an estimate of the financial risk created by the indemnity; and
- (e) the indemnity period (e.g. commencement and termination or expiry).

²² AS/NZS 5050:2010 Business continuity – Managing disruption related risk.

- 2.4 The Accountable Officer of DTF must:
- (a) review all indemnities on behalf of the Treasurer;
 - (b) record all indemnities; and
 - (c) monitor and report all significant quantified and unquantified contingent liabilities as part of the Victorian Government's annual financial management process.
- 2.5 The Accountable Officer of an Agency must:
- (a) monitor each indemnity granted by the Treasurer under the *Financial Management Act 1994* and advise the Treasurer in the event of any change in circumstances that may change the nature of the risk covered by the indemnity; and
 - (b) record each indemnity for which it is responsible as a contingent liability in accordance with Australian Accounting Standards.
- 2.6 The Accountable Officer of DTF is responsible for monitoring and reporting all significant quantified and unquantified contingent liabilities.

3. Statutory immunity

- 3.1 The Accountable Officer of a Portfolio Department must, in relation to matters relevant to financial management, performance and sustainability:
- (a) ensure that statutory immunities are relied on consistently with relevant legislation, standards and policies;
 - (b) consult DTF and the Department of Justice and Community Safety (DJCS) regarding any proposal for a statutory immunity; and
 - (c) when proposing to amend existing statute, review statutory immunities with DTF and DJCS, to align the statutory immunities with government policy.

Instruction 3.7.2 – Treasury management internal reporting

Background	The State aims to ensure its treasury operations are managed in the most efficient manner and there is effective management and oversight of the associated financial risks, and has established the Treasury Corporation of Victoria (TCV), the Victorian Funds Management Corporation (VFMC) and the Central Banking System to facilitate this.
Effective date	1 July 2016
Relevant Direction	3.7.2.1 Central Banking System and Eligible Financial Assets 3.7.2.3 Borrowings 3.7.2.4 Other financial arrangements
History	Last updated: 1 September 2018 Issued: 1 July 2016

1. Reporting requirements

- 1.1 The Responsible Body must ensure the Agency reports all borrowings, investments or financial arrangements outside the Central Banking System, TCV or VFMC to the Portfolio Department CFO annually.
- 1.2 The Portfolio Department CFO must provide details of all borrowings, investments and financial arrangements outside the Central Banking System, TCV or VFMC to DTF on request.

2. Definitions

2.1 The following definitions apply to this Instruction:

- (a) **Borrowings** has the same meaning as **Financial accommodation** in the *Borrowing and Investment Powers Act 1987*.
- (b) A **financial arrangement** has the same meaning as in the *Borrowing and Investment Powers Act 1987*.
- (c) **Investment** for the purpose of this Instruction is a financial asset as defined in Australian Accounting Standard AASB 132 which is not a trade receivable, a loan receivable or an advance receivable.

Note: A Transfer Negotiation Authority (TNA), also known as a Transactional Negotiation Agreement, is an arrangement which guarantees that a client's bank will honour all payroll-related instructions from a specialist third party payroll company. TNAs are used by a number of public sector agencies such as hospitals. DTF considers that a TNA is not a borrowing/overdraft, and therefore an exemption is not necessary for an agency to use a TNA.

Instruction 3.7.2.2 – Treasury Management Policy and procedures

Background	Agencies are to develop policies and procedures that best address the treasury and investment risks of their business. Developing treasury and investment risk management policies ensures these risks are effectively documented and managed, and the objectives and strategies adopted are consistent with the overall objectives of the Government.
Effective date	1 July 2016
Relevant Direction	3.7.2.2 Treasury management policies and procedures 5.1 Financial management compliance framework
History	Last updated: 1 September 2018 Issued: 1 July 2016

1. Treasury Management Policy

- 1.1 The Responsible Body of an Agency with borrowings, cash or term deposits, investments with Treasury Corporation of Victoria (TCV) or the Victorian Funds Management Corporation (VFMC), or authorised long-term or other high-risk investments such as equities and managed funds, must establish, maintain and ensure Agency compliance with a Treasury Management Policy that:
 - (a) is consistent with the requirements of Directions 3.7.2.1, 3.7.2.3 and 3.7.2.4;
 - (b) includes a clear definition of each treasury and investment risk along with details of recognition, measurement, timing and objectives of risk management;
 - (c) addresses the Agency's treasury and investment risks;
 - (d) contains guidelines for the management of any investments; and
 - (e) contains guidelines for the use of any borrowings and/or financial arrangements.
- 1.2 Subject to Instruction 1.3, the Responsible Body must approve the Treasury Management Policy.
- 1.3 Before submitting a new or materially revised Treasury Management Policy to the Responsible Body for approval, the CFO must provide a draft to DTF for review. When submitting the Treasury Management Policy to the Responsible Body for approval, the CFO must also submit any DTF review comments on, or requested changes to, the draft which the CFO has not incorporated into the draft.
- 1.4 On request at any time, the CFO must make the Treasury Management Policy available to the Portfolio Department and/or DTF for review.

Instruction 4.2.1 – Acquisition of assets, goods and services

Background	Achieving contract performance in procurement is critical in an environment of fiscal constraint. With external parties delivering many of the services to the community, it is important that contracts are well specified and risks are managed to deliver outcomes.
Effective date	1 July 2016
Relevant Direction	4.2.1 Acquisition of assets, goods and services
History	Last updated: 1 February 2016 Issued: 1 July 2016

1. Acquiring goods and services

1.1 When acquiring assets, goods and services, the Accountable Officer must ensure that the Agency:

- (a) applies relevant legislation, standards, policies and funding arrangements;
- (b) achieves value for money;
- (c) understands and engages the market;
- (d) encourages open and fair competition;
- (e) supports probity, accountability and transparency; and
- (f) manages risks appropriately.

2. Acquisition processes

2.1 The Accountable Officer must ensure that the Agency's processes covering the acquisition lifecycle under Direction 4.2.1(d) include:

- (a) strategic planning;
- (b) transition planning; and
- (c) evaluation of acquisitions.

3. Contract management and performance

3.1 The Accountable Officer must ensure the Agency facilitates contract performance, including by:

- (a) establishing a sound governance framework for effectively managing contracts;
- (b) securing people with sufficient capability for contract design and management;
- (c) establishing an effective performance management framework for the contract;

Contract specification

- (d) defining all contract deliverables in terms of objectives required;
- (e) including key components of the contract performance regime in the contract;
- (f) setting parameters around the ownership, sharing of data, and protocols for communication;
- (g) providing for the Auditor-General to have access to the premises and systems of private sector contractors and subcontractors as necessary under statute;

Contract management

- (h) establishing and implementing effective internal controls to manage contract variations and disputes;
- (i) regularly monitoring and managing performance; and
- (j) regularly reporting to the Responsible Body on the Agency's assessment of contractor performance.

Instruction 5.1 – Financial management compliance

Background	A holistic and effective approach to compliance enables the Agency to meet its obligations. The annual review and reporting against financial management obligations will improve rigour in compliance assessment, ensure action is taken to improve identified compliance weaknesses at the Agency, portfolio and whole of government levels and increase transparency.
Effective date	1 July 2016 (except for public attestation which commences from 1 July 2017)
Relevant Directions	1.3 Commencement 1.4 Transitional arrangements 5.1 Financial management compliance 5.1.4 Attestation
History	Last updated: 1 February 2016 Issued: 1 July 2016

1. Compliance reporting

Portfolio Agency to Portfolio Department (by 15 September for most agencies)

- 1.1 The Accountable Officer of a Portfolio Agency must provide a compliance report to the Portfolio Department:
- by **15 September** following the year reviewed, if the Agency has an annual reporting period of 1 July to 30 June;
 - by **15 March** following the year reviewed, if the Agency has an annual reporting period of 1 January to 31 December; and
 - within **75 days** of the final day of the year reviewed for all other Agencies.
- 1.2 The compliance report under this Instruction must include relevant information drawn from the annual assessment of financial management compliance under Direction 5.1.2, and the detailed periodic review of financial management undertaken by internal audit under Direction 5.1.3, including on:
- the level of compliance achieved;
 - Compliance Deficiencies, including planned and completed remedial actions and timeframes;
 - the significant compliance risks of the Agency; and
 - a summary of the plan for the detailed periodic review of financial management compliance under Direction 5.1.3(c).
- 1.3 The Audit Committee must review and approve the compliance report under this Instruction before it is provided to the Portfolio Department.

Portfolio Department to DTF (by 31 October)

- 1.4 Having regard to the reports received under clause 1.1 of this Instruction, Portfolio Departments must provide a portfolio compliance summary to the DTF Deputy Secretary by **31 October** following the year reviewed, including:
- the levels of compliance achieved across the portfolio (including within the Portfolio Department as an Agency, and all Portfolio Agencies);
 - key areas of Compliance Deficiency across the portfolio, including planned and completed remedial actions and timeframes of the Agencies and Portfolio Department; and
 - an assessment of the significant compliance risks facing the portfolio, including key strategies of the Agencies and the Portfolio Department to mitigate these risks.

DTF to the Assistant Treasurer (by 15 December)

1.5 Having regard to the reports received under clause 1.4 of this Instruction, the Accountable Officer of DTF must report to the Assistant Treasurer on whole of government compliance, compliance risks, and advice on proposed strategies to improve compliance by **15 December** following the year reviewed.

2. Financial management compliance attestation in Annual Report²³

2.1 The financial management compliance attestation under Direction 5.1.4 must:

- (a) where the Agency has not identified a Material Compliance Deficiency that occurred during the relevant year,²⁴ attest that the Agency has complied with the applicable Directions and Instructions, in the form set out in clause 2.2(a) of this Instruction; and
- (b) where the Agency has identified a Material Compliance Deficiency that occurred during the relevant year:²⁵
 - attest that the Agency has complied with the applicable Directions and Instructions, except for the Material Compliance Deficiency;
 - disclose the reasons for each Material Compliance Deficiency; and
 - disclose planned and completed remedial actions for each Material Compliance Deficiency, in the form set out in clause 2.2(b) of this Instruction.

2.2 The Responsible Body's compliance attestation under Direction 5.1.4 must appear in the Annual Report in the following form.

[Name of the Agency] Financial Management Compliance Attestation Statement

(a) [Where the Agency has not identified a Material Compliance Deficiency in relation to the relevant year:]

I [name of member of the Responsible Body], on behalf of the Responsible Body²⁶, certify that the [name of the Agency] has complied with the applicable Standing Directions made under the *Financial Management Act 1994* and Instructions.

(b) [Where the Agency has identified a Material Compliance Deficiency in relation to the relevant year:]

I [name of member of the Responsible Body], on behalf of the Responsible Body²⁷, certify that the [name of the Agency] has complied with the applicable Standing Directions made under the *Financial Management Act 1994* and Instructions except for the following Material Compliance Deficiencies:

- [Insert reference to relevant Direction, e.g. Direction 3.2.1.2(b)] [Insert brief summary of the reasons for/circumstances of the Material Compliance Deficiency]. [Insert details of planned and completed remedial actions].

2.3 Agencies with an annual reporting period that is not 1 July until 30 June must:

- (a) provide their first attestation under Direction 5.1.4 to cover the period from 1 July 2017 to balance date in the relevant Annual Report; and
- (b) in all subsequent years, attest to compliance under Direction 5.1.4 for the Agency's relevant financial year.

2.4 In relation to Direction 4.2.3,²⁸ the attestation in the 2017-18 Annual Report must relate to compliance, and disclose Material Compliance Deficiencies, as at 30 June 2018.²⁹

²³ This clause does not apply in relation to the 2016-17 financial year. Direction 1.4.5 provides that the attestation requirements commence on 1 July 2017 and are applicable for the 2017-18 financial year compliance reporting.

²⁴ This includes all Material Compliance Deficiencies identified, including through the annual assessment under Direction 5.1.2 and the detailed internal audit review under Direction 5.1.3.

²⁵ This includes all Material Compliance Deficiencies identified, including through the annual assessment under Direction 5.1.2 and the detailed internal audit review under Direction 5.1.3.

²⁶ The words 'on behalf of the Responsible Body' should be removed if the Responsible Body is the Accountable Officer.

²⁷ The words 'on behalf of the Responsible Body' should be removed if the Responsible Body is the Accountable Officer.

²⁸ Direction 4.2.3 requires the Responsible Body to ensure that the Agency applies the Victorian Government's *Asset Management Accountability Framework*.

²⁹ Direction 5.1.4(b) provides that the compliance attestation must relate to compliance for the entire period of the relevant financial year. However, this Instruction varies that requirement for Direction 4.2.3, in the 2017-18 Annual Report.

- 2.5 In relation to Direction 4.2.4³⁰, the attestation in the 2018-19 Annual Report must relate to compliance, and disclose Material Compliance Deficiencies, as at 30 June 2019.³¹
- 2.6 In relation to Direction 3.7.2.1³², the attestation in the 2018-19 Annual Report must relate to compliance, and disclose Material Compliance Deficiencies, as at 30 June 2019.³³

3. DTF assurance program

- 3.1 The DTF Accountable Officer may conduct a targeted assurance program on either Agency specific or portfolio-wide issues as part of monitoring the effectiveness of the whole of state financial management framework.
- 3.2 If requested by DTF to participate in the assurance program, the Agency's Accountable Officer must support the assurance program by providing all relevant information to DTF and/or its delegate.

³⁰ Direction 4.2.4 requires the Responsible Body to ensure that the Agency applies the Ministerial Directions for Public Construction Procurement.

³¹ Direction 5.1.4(b) provides that the compliance attestation must relate to compliance for the entire period of the relevant financial year. However, this Instruction varies that requirement for Direction 4.2.4, in the 2018-19 Annual Report.

³² Direction 3.7.2.1 requires the Responsible Body to ensure that the money of the Agency is deposited within the Central Banking System, unless otherwise authorised.

³³ Direction 5.1.4(b) provides that the compliance attestation must relate to compliance for the entire period of the relevant financial year. However, this Instruction varies that requirement for Direction 3.7.2.1, in the 2018-19 Annual Report.

Transition summary³⁴

The following table summarises the applicable Standing Directions, and the requirements for internal and public attestation, for the 2017-18 compliance year:

	2017-18 compliance year
2003 Standing Directions	N/A
2016 Standing Directions	All 2016 Directions applicable, subject to transitional arrangements under 2016 Direction 1.4.
Compliance reporting / Internal attestation	Compliance reporting as required under this Instruction.
Public attestation in Annual Report	Attestation in relation to all applicable 2016 Directions and Instructions under 2016 Direction 5.1.4.

³⁴ The information in this table is not mandated through this Instruction, but it does reflect requirements in Directions and Instructions.

