

# Standing Directions 2018

Under the *Financial Management Act 1994*

Issued 11 October 2018

Incorporating revisions to 26 March 2019

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Revisions/updates to Standing Directions effective from 1 July 2018		
Direction(s) revised/updated	Date revision came into operation	Nature of revision/update
New SD 4.2.4	1 July 2018	Incorporating references to Ministerial Directions under the PD&CM Act 1994
New edition incorporating revisions to SDs 1.2, 1.4, 1.5, 1.6 & 3.7.2.1 to 4	11 October 2018	Incorporating Central Banking System requirements
Various	7 December 2018	Minor revisions approved by Deputy Secretary, DTF under delegated authority, as follows: References to 'Minister for Finance' updated to reflect administration of relevant sections of the FMA by the Assistant Treasurer from 29 November 2018
Revisions to SDs 2.1, 2.3.1, 2.4.6, 2.5 and 3.3	26 March 2019	Provisions relating to Portfolio Department CFOs revised to incorporate implementation of Government policy
	<a href="#">Click here to enter a date.</a>	
	<a href="#">Click here to enter a date.</a>	



# Introduction<sup>1</sup>

## Background

These Standing Directions are issued by the Minister for Finance (from 29 November 2018, the Assistant Treasurer) under section 8 of the *Financial Management Act 1994* (FMA). They specify public sector agency responsibilities to achieve a high standard of public financial management and accountability.

In Victoria, the procedures and requirements for using public resources are set out in a series of statutes, which are supported by subordinate instruments such as regulations, directions, and instructions.

The primary source of authority for the collection and use of public resources is the *Constitution Act 1975*, supported by the FMA, the *Audit Act 1994* and the *Public Administration Act 2004*. These Acts and the supporting instruments made under them hold Agencies accountable for the use of the resources provided to them.

## Victoria's Financial Management Framework

Each Agency is accountable to its Responsible Minister for its own financial management and reporting on the resources it uses.

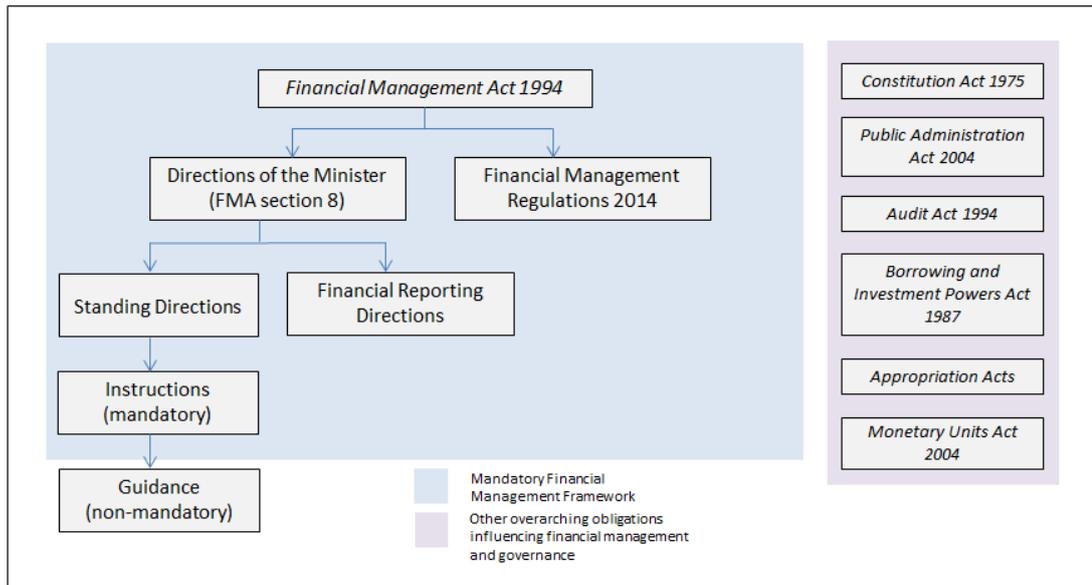
The Department of Treasury and Finance ('DTF') is responsible for supporting the Treasurer and the Assistant Treasurer in discharging their accountability to Parliament for the overall financial management performance of the State and the Government's obligations under the FMA.

The FMA sets the financial management accountability, reporting and financial administration obligations of the Government and the Victorian public sector.

The diagram below sets out the financial management framework hierarchy.

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<sup>1</sup> This Introduction is non-mandatory background information.



The obligations in the FMA are supported by:

- the *Financial Management Regulations 2014* made under section 59 of the FMA, establishing further financial administration requirements for government;
- these Standing Directions under section 8 of the FMA, establishing standards for financial management accountability, governance, performance, sustainability, reporting and practice for Agencies;
- the Instructions made by the DTF Deputy Secretary under a delegation of the Minister for Finance’s (from 29 November 2018, the Assistant Treasurer’s) power. The Instructions are linked to specific Directions through corresponding numbering and provide more detailed mandatory requirements, in specific areas of risk; and
- the Financial Reporting Directions made by the Minister for Finance (from 29 November 2018, the Assistant Treasurer) under section 8 of the FMA. These mandate financial reporting requirements to ensure consistent application of accounting treatment across the Victorian public service. Financial Reporting Directions may also impose other government non-financial policy and disclosure requirements. The Minister for Finance (from 29 November 2018, the Assistant Treasurer) has delegated the power to make and issue Financial Reporting Directions to the DTF Deputy Secretary, which allows for minor and technical changes to be made more flexibly.

## Summary of the Directions

These Directions support the FMA by specifying responsibilities of Agencies, Portfolio Departments and DTF to ensure:

- effective governance and accountability in the Victorian public sector regarding financial and risk management, financial sustainability and financial performance;
- the achievement of statutory functions and/or government objectives and priorities in a financially efficient and responsible manner;
- that the community and Parliament have confidence in the financial management and long-term financial sustainability of Agencies and the State; and
- that the information provided to Parliament and the public about the management of finances and resources is clear, accurate and readily understandable.

In addition, the Directions specify responsibilities of Portfolio Departments to support their Responsible Minister in the financial oversight of Portfolio Agencies.

The Directions also specify responsibilities for DTF as the central agency supporting the Treasurer and Assistant Treasurer on whole of State financial performance matters.

Accountability for specific requirements in these Directions is generally linked to one of the three key financial management governance positions within an agency, namely the Responsible Body (for example, the board), Accountable Officer (for example, the CEO) or Chief Finance Officer. These positions are likely to delegate implementation of certain requirements to Agency officers under Direction 3.3. However, ultimate accountability for the requirements still remains with the position specified in the Direction.

For those Agencies without a statutory board or equivalent governing body established under legislation, the Directions deem the Responsible Body and Accountable Officer to be the same person. For Independent Offices, the Directions deem the Responsible Body, Accountable Officer and Responsible Minister as the same person. See the definitions of these terms in Direction 1.6.

## Application of the Directions

Direction 1.2 provides that the Directions and Instructions are mandatory for all Agencies (that is, Public Bodies and Departments as defined in the Directions), except for some specified classes of Agencies that are listed in the Direction.

### Excluded entities

Under Direction 1.2, school councils, incorporated committees of management,<sup>2</sup> class B cemetery trusts and the volunteer units/brigades of VicSES and the Country Fire Authority (CFA) are excluded from the Directions. However, under Direction 2.3.5, Portfolio Departments, VicSES and CFA must establish appropriate financial management requirements for these entities.

### Application to Independent Offices, CSV, JCV and the Judicial Commission

These Directions and the Instructions apply to all Independent Offices, Court Services Victoria (CSV), the Judicial College of Victoria (JCV), and the Judicial Commission of Victoria (the Judicial Commission). Where it is appropriate for Independent Offices, CSV, JCV, or the Judicial Commission to have financial management arrangements that differ from other Agencies, the Directions provide for differential application through the definitions in Direction 1.6, as follows:

- ‘Government objectives and priorities’ is defined differently, to mean the functions and/or objectives for which it was established as specified in its establishing legislation;
- the ‘Responsible Minister’, ‘Responsible Body’ and ‘Accountable Officer’ are the same person; and
- they are not ‘Portfolio Agencies’.

Further, under Direction 5.1.6(b), Independent Offices, CSV, JCV, and the Judicial Commission are subject to a differential requirement for reporting Material Compliance Deficiencies.

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<sup>2</sup> Except if listed in Instruction 1.2(b). See Direction 1.2(b).

## **Other State entities**

Other State entities that do not fall within the definition of 'Agency' are not bound by the Standing Directions, but are encouraged to apply them where this would enhance their financial accountability and control frameworks.

## **Scope of Direction requirements**

All Directions are issued under section 8 of the FMA. Accordingly, all requirements are intended to be interpreted in a manner consistent with the Direction making power provided by section 8. In particular, all requirements are related to financial management, financial performance and financial sustainability, and are not intended to impose any purely non-financial obligation.

Direction 1.7 sets out the order of precedence for the FMA, the Directions, Financial Reporting Directions, Instructions and other legislation.

## Applying other legislation, standards and policies

The Directions provide that Agencies must apply various laws, standards and policies, including the *Victorian Government Risk Management Framework* (Direction 3.7.1), the *Cost Recovery Guidelines* (Direction 3.8), and others.

To apply a law, standard or policy, the Agency must comply with the mandatory requirements set out in it. Non-mandatory requirements set out in the law, standard or policy remain non-mandatory under the Directions.

Some laws, standards and policies only apply to particular Agencies (i.e., they apply to some but not all of the Agencies subject to the Directions). In this case, only those Agencies that are subject to the relevant law, standard or policy must apply it under the Directions.

## Structure of Directions, Instructions and Guidance

The Directions, Instructions and Guidance are structured<sup>3</sup> as follows:

- **Directions** are issued by the Assistant Treasurer, and mandatory;
- **Instructions** are issued by DTF, and mandatory; and
- **Guidance** is issued by DTF, and non-mandatory.

These **Directions** set out key financial management controls. Agencies may tailor their implementation of the Directions, having regard to their circumstances, including their risk profile, size, and the nature and complexity of their operations. This is recognised in Direction 1.1(b).

The **Instructions** are made by the DTF Deputy Secretary under a delegation of the Assistant Treasurer's power. The Instructions are linked to specific Directions through corresponding numbering. The Instructions provide more detailed mandatory requirements, in specific areas of risk. They specify processes or procedures that may require more regular update than the Directions.

**Guidance** provides supporting information in relation to the interpretation and implementation of the Directions and Instructions. The Guidance is linked to specific Directions through corresponding numbering. It is not mandatory.

## Delegations of the Assistant Treasurer to the DTF Deputy Secretary

Through a separate delegation instrument, the Minister for Finance (from 29 November 2018, the Assistant Treasurer) has delegated to the DTF Deputy Secretary the powers and functions to:

- make minor or technical amendments to the Directions and Financial Reporting Directions;
- make, issue, amend or revoke Instructions; and
- exempt a person, Agency or class of Agencies from specific or all requirements in the Instructions (and to amend or revoke exemptions).

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<sup>3</sup> Financial Reporting Directions are issued separately under the FMA, and do not fit within this structure.

## Formatting and referencing in the Directions

This Introduction is non-mandatory background material.

Chapters 1 to 5 of these Directions set out substantive requirements for Agencies.

The Directions indicate where a particular requirement is supported by Instructions and/or Guidance, by including a grey text box link at the end of the relevant Direction. For example, after Direction 1.6 the following link appears: **Guidance 1.6** *Glossary of terms*.

References to other Government policies in the Directions are also supported by a grey text box link at the end of the relevant Direction. For example, after Direction 3.7.1 the following link appears: **Victorian Government Risk Management Framework**<sup>4</sup>.

The Directions also include footnotes, which have generally been included to provide information to assist readers, such as cross references to other relevant Directions and to external sources. The footnotes form part of the Directions and in some instances include mandatory requirements.

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<sup>4</sup> <http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Victorian-risk-management-framework-and-insurance-management-policy>

# 1. Purpose and application

## 1.1 Purpose

- (a) The purpose of these Directions is to achieve a high standard of public financial management, performance and sustainability in the Victorian public sector, consistent with the FMA.
- (b) To comply with the Directions and Instructions, Agencies may develop systems, procedures and practices that are tailored to their circumstances, including their size and risk profile.

## 1.2 Application

These Directions and the Instructions are mandatory for all Agencies, except as provided in Directions 1.2.1 and 1.2.2.

### 1.2.1 Complete exemption

These Agencies are exempt from these Directions and the Instructions:

- (a) any school council constituted under Part 2.3 of the *Education and Training Reform Act 2006*;
- (b) any incorporated committee of management, unless the committee is listed in Instruction 1.2.1(b);  
**Instruction 1.2(b)** *Incorporated committees of management subject to the Directions*
- (c) any class B cemetery trust constituted under section 6 of the *Cemeteries and Crematoria Act 2003*;
- (d) any 'registered unit' as defined in the *Victoria State Emergency Service Act 2005*; and
- (e) any 'volunteer brigade' as defined in the *Country Fire Authority Act 1958*.<sup>5</sup>

### 1.2.2 Exemption from Direction 3.7.2.1

These Agencies are exempt from Direction 3.7.2.1:

- (a) a public financial corporation or public non-financial corporation, as those terms are defined by the Australian Bureau of Statistics, unless otherwise directed in writing by the Treasurer; and
- (b) a University established by or under an Act<sup>6</sup>.

## 1.3 Commencement

These Directions originally commenced on **1 July 2016**, with this edition replacing the original edition on 11 October 2018. This edition also incorporates subsequent minor

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<sup>5</sup> Direction 2.3.5 requires Portfolio Departments, VicSES and CFA (as relevant) to establish appropriate financial management requirements for Agencies excluded under Directions 1.2.1(a)-(e).

<sup>6</sup> Section 38 of the *Interpretation of Legislation Act 1984* provides that this means an Act passed by the Parliament of Victoria.

revisions made up to 7 December 2018. All Directions apply for the whole of the current financial year, except as specified in Directions 1.4.1 to 1.4.6 which provide for transitional arrangements.

## 1.4 Transitional arrangements

*Note* – The transitional arrangements set out in Directions 1.4.1 and 1.4.3 to 1.4.5 inclusive are considered to be spent after completion of reporting for the 2017-18 financial year.

### 1.4.1 **Direction 2.3.5: Responsibility to establish requirements for excluded entities**

For those Agencies that are compliant with Direction 2.3.5 as at 1 July 2016, Direction 2.3.5 commences on that date.

For those Agencies that are not compliant with Direction 2.3.5 as at 1 July 2016, Direction 2.3.5 commences on 1 July 2017.

### 1.4.2 **Direction 2.4.5(a)(ii): CFO qualifications**

For those Agencies that are compliant with Direction 2.4.5(a)(ii) as at 1 July 2016, Direction 2.4.5(a) commences on that date.

For those Agencies that are not compliant with Direction 2.4.5(a)(ii) as at 1 July 2016, Direction 2.4.5(a) commences on 1 July 2019.

### 1.4.3 **Direction 3.5.1(b): Fraud, Corruption and Other Losses prevention and management policy**

For those Agencies that are compliant with Direction 3.5.1(b) as at 1 July 2016, Direction 3.5.1(b) commences on that date.

For those Agencies that are not compliant with Direction 3.5.1(b) as at 1 July 2016, Direction 3.5.1(b) commences on 1 July 2017.

### 1.4.4 **Direction 4.1.1: Planning and managing performance**

For those Agencies that are compliant with Direction 4.1.1 as at 1 July 2016, Direction 4.1.1 commences on that date.

For those Agencies that are not compliant with Direction 4.1.1 as at 1 July 2016, Direction 4.1.1 commences on 1 July 2017.

### 1.4.5 **Direction 5.1.4: Attestation**

Direction 5.1.4 commences on 1 July 2017 and is applicable for the 2017-18 financial year compliance reporting.<sup>7</sup>

### 1.4.6 **Direction 3.7.2.1: Central Banking System and Eligible Financial Assets**

Each Agency must submit a transition plan for the Agency's compliance with Direction 3.7.2.1 to DTF for approval. The transition plan must include details of the Agency's Eligible

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<sup>7</sup> The annual attestation process as at 1 July 2015 under Direction 4.5.5 of the previous *Standing Directions of the Minister for Finance* June 2003 (issued May 2015) remained in force for the 2015-16 financial year. See Instruction 5.1.

Instruction 5.1 also includes an attestation process for the 2016-17 financial year.

Financial Assets and a proposed timeline for implementation of each requirement of Direction 3.7.2.1 applicable to that Agency.

An Agency is not required to comply with an applicable requirement of Direction 3.7.2.1 until the later of:

- (a) 14 February 2019; or
- (b) the date approved by DTF for implementation of that requirement under the Agency's transition plan.

## 1.5 Exemptions<sup>8</sup>

- (a) The Assistant Treasurer may, in writing, exempt a person, an Agency or a class of Agencies from a requirement of:
  - (i) these Directions (other than Direction 3.7.2.1, except as provided in Direction 1.5(a)(ii), Direction 3.7.2.3 and Direction 3.7.2.4) and Instructions;<sup>9</sup> or
  - (ii) Direction 3.7.2.1 with respect to an asset or class of assets.
- (b) Following consultation with an Agency's Responsible Minister, the Treasurer may, in writing, exempt that Agency from a requirement of Direction 3.7.2.1, Direction 3.7.2.3 or Direction 3.7.2.4. Before formally seeking such an exemption, the Agency must discuss the request with the CFO of its Portfolio Department and with DTF.
- (c) An exemption under Directions 1.5(a) or (b) may be with or without conditions, and be provided for a specified time period or on an ongoing basis.
- (d) The DTF Accountable Officer must maintain a record of all exemptions provided under Direction 1.5(a) and (b).

The Accountable Officer must:

- (e) ensure that an application for exemption under Direction 1.5(a) or (b):
  - (i) is in writing;
  - (ii) states the reasons why the exemption is necessary; and
  - (iii) includes specification of proposed alternative action or procedures;
- (f) ensure that proposed alternative action or procedures are not implemented until after an exemption is provided, to the extent that the action would otherwise conflict with these Directions or require unnecessary duplication;
- (g) ensure that the Agency complies with the conditions of any exemption provided under Direction 1.5(a) or (b); and
- (h) maintain a record of exemptions provided to their Agency under Direction 1.5(a) and (b), including any conditions upon which the exemptions were granted, and must make the record available for inspection by the Auditor-General.

### **Guidance 1.5 Exemptions**

## 1.6 Definitions and interpretation

'Accountable Officer' has the same meaning as paragraph (a) of the definition of *accountable officer* in section 3 of the FMA.

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<sup>8</sup> This Direction supplements section 8(3)(d) of the FMA.

<sup>9</sup> Note that under the Minister's delegation, the DTF Deputy Secretary may exempt an Agency from Instructions.

‘Agency’ means any Public Body or Department.

‘Annual Report’ means the report of operations and financial statements prepared under section 45 of the FMA, except in relation to an Agency to which section 53A(1) of the FMA applies, in which case it means the annual report, including audited financial statements, required to be submitted under section 53A(4) of the FMA.

‘Audit Committee’ means an audit committee established in accordance with Direction 3.2.1.

‘Authorised Deposit-Taking Institution’ means corporations that are authorised under the *Banking Act 1959* (Cth) and are prudentially supervised by the Australian Prudential Regulation Authority.

‘Authority’ has the same meaning as *authority* in section 3 of the FMA.

‘Central Banking System’ means the centralised banking system provided under the SPC.

‘CFO’ and ‘Chief Finance Officer’ have the same meaning as *chief finance and accounting officer* in section 3 of the FMA.

‘Compliance Deficiency’ means an attribute, condition, action or omission that is not fully compliant with an applicable requirement in the FMA, Standing Directions and/or Instructions.

‘Controlled Entities’ means those entities in the ‘Controlled entities’ list in the notes to the most recent annual financial report for the State of Victoria.

‘Corruption’ has the same meaning as in the Australian Standard on *Fraud and Corruption Control* (AS 8001).

‘CSV’ means Court Services Victoria established under the *Court Services Victoria Act 2014*.

‘Department’ has the same meaning as *department* in section 3 of the FMA.<sup>10</sup>

‘Directions’ means these Standing Directions made under section 8 of the FMA.

‘DTF’ means the Department of Treasury and Finance in its capacity as a central agency supporting its Ministers in administration of the FMA.

‘DTF Deputy Secretary’ means the Deputy Secretary of DTF’s Budget and Finance Division, or anyone who occupies that office temporarily or any DTF officer who becomes responsible for the functions of that office from time to time.

‘Eligible Financial Asset’ means, in respect of an Agency:

- (a) any asset of that Agency that would be recognised in accordance with Australian Accounting Standards as any of the following:
  - (i) cash and deposits;
  - (ii) investment, loan and placement; or
  - (iii) any financial asset equivalent to any of those referred to in paragraphs (i) and (ii) above; and
- (b) any asset or class of assets specified in writing by the Assistant Treasurer, but does not include any Excluded Asset.

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<sup>10</sup> The definition of ‘Department’ includes those entities specified in section 16(1) of the *Public Administration Act 2004*. This includes Independent Offices.

‘Excluded Asset’ means any:

- (a) share or equivalent equity interest in another entity held by an Agency; or
- (b) loan provided by an Agency to another entity,

for a dominant purpose that is not to obtain a financial return from that loan or equity interest. This includes shares held in, or loans provided to, an entity that contributes to a portfolio responsibility or statutory function of the Agency, or to meet operational requirements of the Agency.

‘Financial Reporting Directions’ means the financial reporting directions issued under section 8 of the FMA.

‘FMA’ means the *Financial Management Act 1994*.

‘Fraud’ has the same meaning as in the Australian Standard on *Fraud and Corruption Control* (AS 8001).

‘Government objectives and priorities’ means:

- (a) in relation to all Agencies apart from Independent Offices, CSV, JCV, and the Judicial Commission, the stated objectives and priorities of the government of the day; and
- (b) in relation to Independent Offices, CSV, JCV, and the Judicial Commission, the functions and/or objectives for which they were established as specified in their establishing legislation.

‘Incorporated committee of management’ has the same meaning as *incorporated committee* in section 14B of the *Crown Land (Reserves) Act 1978*.

‘Independent Office’ means:

- (a) the Victorian Auditor-General’s Office; or
- (b) the Office of the Victorian Ombudsman; or
- (c) the Victorian Electoral Commission; or
- (d) the Independent Broad-based Anti-corruption Commission; or
- (e) the Victorian Inspectorate.

‘Instructions’ means the instructions made by the DTF Deputy Secretary under delegation of the Minister for Finance (from 29 November 2018, the Assistant Treasurer).

‘JCV’ means the Judicial College of Victoria established under the *Judicial College of Victoria Act 2001*.

‘Judicial Commission’ means the Judicial Commission of Victoria, established by the *Judicial Commission of Victoria Act 2016*.

‘Material Compliance Deficiency’ means a Compliance Deficiency that a reasonable person would consider has a material impact on the Agency or the State’s reputation, financial position or financial management.

‘Other Loss’ means a loss caused by any intentional or negligent act or omission, including theft, vandalism and arson and excluding acts of God.

‘Portfolio Agency’ means, in relation to a Portfolio Department, an Agency (excluding Independent Offices, CSV, JCV, and the Judicial Commission) which shares the same Responsible Minister as that Portfolio Department.

‘Portfolio Department’ has the same meaning as paragraph (a) of *department* in section 3 of the FMA.

‘Public Body’ has the same meaning as *public body* in section 3 of the FMA.

‘Responsible Minister’ means:

- (a) in relation to a Department (other than an Independent Office), the Minister or Ministers for the time being responsible for any part of that Department;
- (b) in relation to an Independent Office, CSV, JCV, the Judicial Commission, or the Responsible Body; and
- (c) in relation to all other Agencies, the Minister or Ministers for the time being administering the legislation or instrument under which the Agency is established or as otherwise declared by way of that establishing legislation or instrument.

‘Responsible Body’ means:

- (a) in relation to an Agency with a statutory board or equivalent governing body established by or under statute, that board or governing body;<sup>11</sup> and
- (b) in relation to an Agency without a statutory board or equivalent governing body established by or under statute, that Agency’s Accountable Officer.<sup>12</sup>

‘Significant or Systemic’ means an incident, or a pattern or recurrence of incidences, that a reasonable person would consider has a significant impact on the Agency or the State’s reputation, financial position or financial management.<sup>13</sup>

‘SPC’ means the State’s Cash and Banking Services State Purchase Contract or any replacement contract or agreement.

#### **Guidance 1.6** *Glossary of terms*

## **1.7** Order of precedence

- (a) The FMA financial framework must be read in the following order of precedence:
  - (i) the FMA;
  - (ii) the Financial Management Regulations 2014;
  - (iii) these Directions;
  - (iv) Financial Reporting Directions; and
  - (v) the Instructions.
- (b) Where any conflict occurs between the provisions of any two or more of instruments listed in Direction 1.7(a), the instrument lower in the order of precedence must where possible be interpreted to resolve such conflict.
- (c) If a conflict under Direction 1.7(b) is incapable of resolution, the conflicting provisions in the instrument higher in the order of precedence will prevail over the provisions lower in the order of precedence.
- (d) Where any conflict occurs between a specific legislative provision affecting an Agency and a provision of these Directions or the Instructions, these Directions or the Instructions must where possible be interpreted to resolve such conflict.

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<sup>11</sup> Many Public Bodies have statutory boards. No Portfolio Departments or Independent Offices have a statutory board.

<sup>12</sup> In such Agencies, the Responsible Body and the Accountable Officer are the same person.

<sup>13</sup> Instructions 3.5 and 3.6 also require Agencies to define value thresholds for ‘significance’ in relation to Fraud, Corruption and Other Losses, and in relation to purchasing and prepaid debit cards, respectively.

- (e) If a conflict under Direction 1.7(d) remains incapable of resolution, the specific legislative provision will prevail.

## 2. Roles and responsibilities

### 2.1 Overview of roles

Under these Directions:

- (a) the Responsible Body is ultimately responsible for the Agency's financial management, performance and sustainability, and is responsible to the Responsible Minister;<sup>14</sup>
- (b) the Accountable Officer is responsible to the Responsible Body, and in some respects to the Responsible Minister;<sup>15</sup>
- (c) the CFO is responsible to the Accountable Officer, and in some respects to the Responsible Minister and, in the case of the CFO of a relevant Department within the meaning of Direction 2.4.6, to the DTF Secretary;<sup>16</sup> and
- (d) Responsible Bodies, Accountable Officers and CFOs have various responsibilities to their Agency, to their Portfolio Department or Portfolio Agency, and to DTF.

### 2.2 Responsible Body

The Responsible Body must:<sup>17</sup>

- (a) ensure that government objectives and priorities, and relevant statutory purposes and functions, are furthered in a financially efficient, effective and economical way through:
  - (i) setting the Agency's strategic Direction and priorities;
  - (ii) approving related plans, budgets and policies;
  - (iii) approving major decisions related to strategic initiatives and policies;
  - (iv) overseeing the Agency's delivery of services and agency objectives and performance; and
  - (v) approving key accountability reports including the Annual Report and performance reports.
- (b) establish appropriate and effective financial governance and oversight arrangements and regularly review the effectiveness of those arrangements;
- (c) ensure the Agency implements Victorian government policy frameworks relating to the requirements of the FMA and the associated directions issued under section 8 of the FMA (including these Directions, the Instructions and the Financial Reporting Directions);
- (d) keep the Responsible Minister informed of Agency activities and strategic issues with potential financial implications for the State; and
- (e) for Agencies with a statutory board or equivalent governing body established by or under statute, conduct an annual review of their financial governance performance.

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<sup>14</sup> See Direction 2.2.

<sup>15</sup> See Direction 2.3.

<sup>16</sup> See Direction 2.4.

<sup>17</sup> Further specific responsibilities of the Responsible Body are detailed in Directions 3 and 5.

## 2.3 Accountable Officer

### 2.3.1 General responsibilities

The Accountable Officer must:

- (a) promote and regularly review the proper use and management of public resources for which the Agency is responsible;<sup>18</sup>
- (b) establish and maintain an effective internal control system;<sup>19</sup>
- (c) identify and manage the Agency's risks;<sup>20</sup>
- (d) manage the Agency's financial information;<sup>21</sup>
- (e) ensure the Agency plans and manages performance to achieve financial sustainability;<sup>22</sup>
- (f) ensure the Agency's financial management compliance;<sup>23</sup>
- (g) meet internal and external reporting and information provision requirements;<sup>24</sup>
- (h) provide assurance to the Agency's Audit Committee on:
  - (i) the integrity of information relevant to financial management, performance and sustainability in the Annual Report; and
  - (ii) compliance with relevant legislation, standards and government requirements for attesting in the Annual Report;<sup>25</sup>
- (i) consult with the Responsible Body in relation to the appointment or the dismissal of the CFO or, in the case of the CFO of a relevant Department within the meaning of Direction 2.4.6, the DTF Secretary must consult with the Accountable Officer;
- (j) provide assurance to the Audit Committee on the integrity of the Agency's:
  - (i) budgets and financial projections;<sup>26</sup> and
  - (ii) financial and performance reports;
- (k) provide the CFO, Audit Committee and internal audit function with access to the Accountable Officer, to enable those positions to carry out their responsibilities;<sup>27</sup> and
- (l) ensure that exemptions from these Directions and Instructions are sought and dealt with appropriately.<sup>28</sup>

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<sup>18</sup> See Directions 3, 4 and 5.

<sup>19</sup> See Direction 3.4.

<sup>20</sup> See Direction 3.7.

<sup>21</sup> See Direction 3.9.

<sup>22</sup> See Direction 4.1.

<sup>23</sup> See Direction 5.1.

<sup>24</sup> See Directions 4.3 and 5.2.

<sup>25</sup> See Directions 5.1 and 4.3.

<sup>26</sup> See also Direction 4.1.1(b) and Direction 5.3.2.

<sup>27</sup> See Directions 2.4.1, 3.2.1.3 and 3.2.2.1.

<sup>28</sup> See Direction 1.5.

### 2.3.2 Additional responsibilities to the Responsible Minister<sup>29</sup>

The Accountable Officer must, as soon as practicable:

- (a) provide the Responsible Minister any information related to financial management, performance and sustainability required by the Responsible Minister; and
- (b) notify the Responsible Minister of any significant issue of which the Accountable Officer is aware that has affected or may affect the Agency's or State's financial management, performance, sustainability or reputation.

### 2.3.3 Additional responsibility of Portfolio Agency Accountable Officer<sup>30</sup>

A Portfolio Agency's Accountable Officer must notify their Portfolio Department's Accountable Officer of any significant issue of which they are aware that has affected or may affect the Agency's or State's financial management, performance, sustainability or reputation.<sup>31</sup>

### 2.3.4 Additional responsibilities of Portfolio Department Accountable Officer

A Portfolio Department's Accountable Officer must:

- (a) provide advice and support to its Portfolio Agencies in relation to financial management, performance and sustainability;
- (b) support the Responsible Minister in the oversight of Portfolio Agencies and the Responsible Minister's portfolio as a whole, including providing information to the Responsible Minister on Portfolio Agencies' financial management, performance and sustainability; and
- (c) provide information to the DTF Accountable Officer to support the Government's delivery of sound financial management.<sup>32</sup>

**Instruction 2.3.4** *Portfolio relationship*

**Guidance 2.3.4** *Portfolio relationship*

### 2.3.5 Responsibility to establish requirements for excluded entities

- (a) A Portfolio Department Accountable Officer must establish appropriate financial management requirements for their portfolio entities that are excluded from these Directions under Direction 1.2.1(a)-(c).<sup>33</sup>
- (b) The Accountable Officers of VicSES and the CFA must establish appropriate financial management requirements for their registered units and volunteer brigades respectively.

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<sup>29</sup> This Direction has no application to Independent Offices.

<sup>30</sup> This Direction has no application to Independent Offices.

<sup>31</sup> Additional requirements for the Portfolio Agency's Accountable Officer to provide information to the Portfolio Department's Accountable Officer are set out under Direction 5.3.1.

<sup>32</sup> Sections 23C and 23D of the FMA set out principles of sound financial management.

See Direction 5.2 for related reporting requirements.

<sup>33</sup> Class B cemetery trusts, incorporated committees of management and school councils.

- (c) The financial management requirements established under this Direction must:
  - (i) be established having regard to the requirements in these Directions and Instructions;
  - (ii) include appropriate accountability arrangements, and monitoring by the Portfolio Department, VicSES or CFA (as relevant), to ensure entities' compliance with the requirements; and
  - (iii) be consistent with relevant Agencies' governing legislation.

**Guidance 2.3.5** *Responsibility to establish requirements for excluded entities*

### 2.3.6 Additional responsibility of DTF Accountable Officer

The DTF Accountable Officer must:

- (a) provide strategic, timely and comprehensive analysis and advice to the Treasurer and Assistant Treasurer about whole of state financial and resource management issues, risks and strategies;
- (b) provide advice, as required, to the Assistant Treasurer to maintain the currency and effectiveness of the whole of state financial management framework; and
- (c) provide support and advice to Portfolio Department Accountable Officers on whole of State financial management matters.

## 2.4 Chief Finance Officer

### 2.4.1 Access to executive

The CFO must have access to the Accountable Officer and the Responsible Body in carrying out the CFO's responsibilities.

### 2.4.2 General responsibilities

The CFO must:

- (a) prepare accurate information relevant to financial management, performance and sustainability;
- (b) establish and review accounting and financial information systems, governance and internal controls to safeguard the Agency's resources;
- (c) provide assurance to the Audit Committee and the Accountable Officer that:
  - (i) financial reports (estimates and actuals) present fairly, and in accordance with applicable Australian Accounting Standards and the FMA, the Agency's financial position and operating results;
  - (ii) financial reports (estimates and actuals) are founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Agency; and
  - (iii) the Agency's systems and controls for financial management, performance and sustainability are operating efficiently and effectively in all material respects;
- (d) provide strategic advice and options to support informed decision making and organisation strategy concerning the Agency's:
  - (i) financial implications of, and risks associated with, current and projected services and assets; and
  - (ii) future financial sustainability;

- (e) develop the Agency's financial management capability; and
- (f) maintain a constructive relationship within the Agency, and with the Victorian Auditor-General's Office and other CFOs in related Ministerial portfolios.

### 2.4.3 Additional responsibilities of Portfolio Agency CFO

A Portfolio Agency CFO must:

- (a) provide quality and timely information to the relevant Portfolio Department CFO to meet portfolio reporting obligations; and
- (b) establish and maintain an effective relationship with the relevant Portfolio Department CFO to promote the purposes of the relevant Ministerial portfolio.

### 2.4.4 Additional responsibilities of Portfolio Department CFO

A Portfolio Department CFO must:

- (a) support their Accountable Officer in their relationship with the Portfolio Agency;
- (b) actively assist their Portfolio Agencies to manage issues in light of the possible impact on the financial performance and position of the State;
- (c) manage portfolio-wide issues that could have an impact on the financial performance and position of the State;
- (d) provide timely, relevant and quality advice to the DTF Accountable Officer on their Portfolio Department's and Portfolio Agency's financial performance, issues and risks;
- (e) establish and maintain effective relationships with their Portfolio Agencies CFOs and DTF to ensure the performance of their portfolio contributes positively to the State's fiscal strategy and the achievement of financial policy objectives, targets and reporting obligations; and
- (f) provide timely, relevant and high-quality advice and information to their Portfolio Agencies, including facilitating an understanding of and compliance with these Directions and associated frameworks.

### 2.4.5 CFO expertise and qualifications<sup>34</sup>

- (a) The CFO must:
  - (i) be suitably experienced;
  - (ii) hold a graduate or post graduate qualification in accounting or other relevant discipline granted by a tertiary education provider; and
  - (iii) keep their knowledge and expertise up to date with developments in financial management including Australian Accounting Standards.
- (b) A person that is temporarily acting in the role of CFO for a period no greater than four months is not subject to Direction 2.4.5.<sup>35</sup>

#### **Guidance 2.4** *Chief Finance Officer*

<sup>34</sup> This Direction is subject to transitional arrangements in Direction 0.

<sup>35</sup> Note that an acting CFO without qualifications must not sign financial statements or a report of operations under Direction 5.2.2(c).

## 2.4.6 CFO whole of government responsibilities

The following definitions apply to Direction 2.4.6:

‘Agency’ has the same meaning as public body and paragraph (b) of the definition of department in section 3 of the FMA, and excludes:

- (i) those Agencies referred to in Direction 1.2(a) to (e) of the Standing Directions; and
- (ii) ‘CSV’, ‘JCV’, ‘the Judicial Commission’, and any ‘Independent Office’ as defined in Direction 1.6 of the Standing Directions.

‘Principles of sound financial management’ has the same meaning as in section 23D of the FMA.

‘Relevant Department’ has the same meaning as paragraph (a) of the definition of department in section 3 of the FMA.

### 2.4.6.1 Whole of government financial accountability of CFOs

The CFO of a relevant Department or an Agency must:

- (a) support whole of government financial objectives and the principles of sound financial management; and
- (b) support their portfolio Ministers in relation to the financial management of their Department or Agency, including issues and risks that may have an impact on the relevant Minister’s portfolio or the financial performance and position of the State.

### 2.4.6.2 Accountability of departmental CFOs to inform DTF

The CFO of a relevant Department must:

- (a) inform the Secretary of DTF of issues and risks of the department and the department’s portfolio agencies that may have an impact on the financial performance and position of the State; and
- (b) directly provide to DTF factual financial information requested by DTF to facilitate reporting and government decision making, within the time provided in the request.

### 2.4.6.3 Accountability of agency CFOs to inform Portfolio Department

The CFO of an Agency must:

- (a) inform the CFO of their Portfolio Department of issues and risks that may have an impact on the financial performance and position of the State; and
- (b) directly provide to their Portfolio Department factual financial information requested by the Department to facilitate reporting and government decision making, within the time provided in the request.

### 2.4.6.4 Employment arrangements of departmental CFOs

Without limiting the exercise of his or her employment powers under the *Public Administration Act 2004*, the Secretary of DTF must:

- (a) ensure that the position description, employment contract and performance plan of the relevant Department’s CFO include accountability to comply with Directions 2.4.6.1 and 2.4.6.2; and
- (b) consult the Secretary of a relevant Department on the appointment, removal, remuneration level and performance assessment of that relevant Department’s CFO, including by ensuring that a representative of that relevant Department is included on any CFO recruitment panel.

#### 2.4.6.5 Compliance and reporting

Direction 2.4.6 is subject to the compliance and reporting requirements set out in the Standing Directions and the Instructions supporting the Standing Directions, including public attestation to compliance.

**Guidance 2.4.6** *CFO whole of government responsibilities*

### 2.5 Delegations of responsibilities under these Directions

- (a) The Responsible Body, Accountable Officer and CFO may delegate, in writing, powers and responsibilities under these Directions and the Instructions, other than this power of delegation and the requirements under Directions 5.1.4, 5.2.2 and 5.2.3.
- (b) A Responsible Body, Accountable Officer or CFO that delegates a power or responsibility under Direction 2.5(a) must:
  - (i) retain accountability for the requirement;
  - (ii) oversee the relevant actions of their delegates;
  - (iii) ensure that the delegation is appropriate for the efficient and effective conduct of the business of the Agency;
  - (iv) ensure that the delegation is assigned to a position and that position is appropriate in relation to the powers and responsibilities being delegated;
  - (v) keep a record of all delegations made under this Direction; and
  - (vi) ensure that delegations are kept current and appropriate and regularly reviewed and updated as required.
- (c) Delegates must:
  - (i) be Agency employees<sup>36</sup>;
  - (ii) use the delegation for the purpose intended; and
  - (iii) act within the limits of their delegation.

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<sup>36</sup> Direction 2.5 shall apply to the CFO of a relevant Department within the meaning of Direction 2.4.6 as though the CFO were an employee of that relevant Department.

## 3. Governance

### 3.1 Effective financial governance

The Responsible Body must establish and maintain effective financial governance that includes:

- (a) an appropriate internal management structure and oversight arrangements for planning, managing and overseeing the financial operations, risks and opportunities of their Agency to achieve performance and compliance;
- (b) appropriate levels of resourcing and capability (including succession planning) to deliver their Agency's financial management, performance and sustainability obligations;
- (c) clear roles, responsibilities, accountabilities and delegations that are documented and communicated;
- (d) the development and implementation of policies and procedures to support the internal control system,<sup>37</sup> in a way that is consistent with, and appropriate for, the sound financial management of their Agency's business operations;
- (e) the effective management and oversight of the Agency's financial management activities that are undertaken externally, including shared services arrangements and outsourcing to private sector providers;
- (f) effective relationships between stakeholders, committees of the Responsible Body and management;
- (g) cooperation with external parties, including other Agencies, to achieve common objectives; and
- (h) consideration of the effect of compliance burdens when developing and imposing requirements.

### 3.2 Oversight and assurance

#### 3.2.1 Audit Committee

##### 3.2.1.1 Responsibilities

The Responsible Body must establish an Audit Committee to:

- (a) independently review and assess the effectiveness of the Agency's systems and controls for financial management, performance and sustainability, including risk management;

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<sup>37</sup> See Direction 3.4.

- (b) oversee the internal audit function under Direction 3.2.2, including to:
  - (i) review and approve the internal audit charter;
  - (ii) review and approve the strategic internal audit plan prepared under Direction 3.2.2.2(b);
  - (iii) review and approve the annual audit work program prepared under Direction 3.2.2.2(c);
  - (iv) review the effectiveness and efficiency of the function;
  - (v) advise the agency on the appointment and performance of the internal auditors; and
  - (vi) meet privately with internal auditors if necessary;
- (c) review annual financial statements and make a recommendation to the Responsible Body as to whether to authorise the statements before they are released to Parliament;
- (d) review information in the report of operations on financial management, performance and sustainability before it is released to Parliament;
- (e) review and monitor compliance with the FMA, these Directions and the Instructions, and advise the Responsible Body on the level of compliance attained;<sup>38</sup>
- (f) review and monitor remedial actions taken to address Compliance Deficiencies;
- (g) maintain effective communication with external auditors (including the Auditor-General and the Auditor-General's duly appointed agents and representatives), including by:
  - (i) understanding the external audit strategy and internal audit activities;
  - (ii) considering the external auditor's views on any issues, including accounting issues that may impact on the financial statements, financial management compliance issues and other relevant risks impacting the Agency's finances;
  - (iii) considering external audit outcomes, including financial and performance audits;
  - (iv) providing a standing invitation to the external auditor to attend Audit Committee meetings; and
  - (v) meeting privately at least once each year to ensure frank and open communication;
- (h) consider recommendations made by internal and external auditors relating to or impacting on financial management, performance and sustainability and the actions to be taken by the Agency to resolve issues raised; and
- (i) regularly review implementation of actions in response to internal or external audits, including remedial actions to mitigate future instances of non-compliance.

### **3.2.1.2 Responsible Body role where Agency exempt from Audit Committee**

Where the Agency is exempt from the requirement to maintain an Audit Committee under these Directions, the Responsible Body must:

- (a) actively assume the responsibilities of an Audit Committee set out in these Directions; and

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<sup>38</sup> The Audit Committee must also review the annual assessment of compliance under Direction 5.1.2(b).

- (b) take appropriate steps to ensure these responsibilities are fully discharged.

### **3.2.1.3 Audit Committee charter, skills and independence**

The Audit Committee must:

- (a) report to the Responsible Body;
- (b) have an Audit Committee charter approved by the Responsible Body and reviewed and re-approved by the Responsible Body at least once every three years;
- (c) be constituted by members with appropriate skills and experience to discharge the Audit Committee's responsibilities, with at least one member having appropriate expertise in financial accounting or auditing;
- (d) exercise independent judgement and be objective in its deliberations, decisions and advice;
- (e) have access to the Agency's Accountable Officer, CFO, internal auditors and external auditor in carrying out the Committee's responsibilities;
- (f) be independent, with:
  - (i) at least three members, the majority being independent members (where the Responsible Body is a statutory board, at least three members must be non-executive directors of the board);
  - (ii) an independent member as Chair (this must not be the Chair of the Responsible Body);
- (g) self-assess its performance annually and report this assessment to the Responsible Body; and
- (h) not include the following persons as members:
  - (i) Accountable Officer;
  - (ii) CFO; or
  - (iii) the internal auditors.

### **3.2.1.4 Review**

The Responsible Body must formally review the Audit Committee's performance and membership at least once every 3 years.

**Guidance 3.2.1** *Audit Committee*

## **3.2.2 Internal Audit**

### **3.2.2.1 Internal Audit function**

- (a) The Responsible Body must establish and maintain, and may dismiss, the internal audit function.
- (b) The internal audit function may be sourced internally or externally.

The Responsible Body must ensure that the internal audit function:

- (c) is independent of management;
- (d) has suitably experienced and qualified internal auditors;
- (e) has access to the Responsible Body, Audit Committee, Accountable Officer and CFO, and has sufficient information, to enable it to perform its function; and
- (f) is subject to a protocol to manage conflicts of interest for internal auditors.

### 3.2.2.2 Responsibilities

The internal audit function must:

- (a) prepare and maintain an internal audit charter for approval by the Audit Committee, which is clearly understandable and made available to all agency management and staff;
- (b) each year, prepare, maintain and implement a strategic internal audit plan based on the governance, risks and controls of the Agency, with a rolling period of three or four years;<sup>39</sup>
- (c) each year, prepare, maintain and implement an audit work program based on the governance, risks and controls of the Agency, that sets out the key areas of internal audit work for the year;<sup>40</sup>
- (d) in the plan under Direction 3.2.2.2(b) and the program under Direction 3.2.2.2(c), include audits of business processes or units likely to be vulnerable to Fraud, Corruption and Other Losses;
- (e) each year, provide to the Audit Committee an independent and objective assessment of the effectiveness and efficiency of the Agency's financial and internal control systems, reporting processes and activities in accordance with the program under Direction 3.2.2.2(c);
- (f) assist the Responsible Body to identify deficiencies in financial risk management;
- (g) develop and implement systems for ensuring the internal audit function operates effectively, efficiently and is appropriate for the Agency's needs;
- (h) apply relevant professional standards relating to internal audit; and
- (i) report to the Audit Committee on the effectiveness of the internal audit function.<sup>41</sup>

**Guidance 3.2.2** *Internal Audit*

## 3.3 Financial authorisations<sup>42</sup>

- (a) An Agency's Responsible Body must establish and maintain authorisations covering the creation of financial liabilities and obligations (including contingent liabilities and obligations) on behalf of that Agency or, in the case of an Agency that is a Portfolio Department, its Responsible Minister.<sup>43</sup>

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<sup>39</sup> The Audit Committee must review and approve this plan under Direction 3.2.1.1(b). The plan must include a focus on business processes or units vulnerable to fraud, corruption and other losses under Direction 3.2.2.2(b). The plan must include a plan for the detailed review of the Agency's compliance under Direction 5.1.3(c).

In addition, the internal audit function must conduct a periodic compliance review under Direction 5.1.3, within the same period as this plan.

<sup>40</sup> The Audit Committee must review and approve this work program under Direction 3.2.1.1(b). The program must include a focus on business processes or units vulnerable to fraud, corruption and other losses under Direction 3.2.2.2(b).

<sup>41</sup> This report will help inform the Audit Committee's review of the effectiveness and efficiency of the internal audit function under Direction 3.2.1.1(b).

<sup>42</sup> The requirements in this Direction apply to financial authorisations and to delegations.

<sup>43</sup> A Portfolio Department's ability to incur or create financial obligations derives from their Responsible Minister. For Agencies other than Portfolio Departments, financial authority usually flows from their governing body, for example its statutory board or statutory head.

- (b) The Responsible Body must ensure that their Agency's financial authorisations are:
  - (i) given a financial amount limit;
  - (ii) appropriate for the efficient and effective conduct of the business of the Agency;
  - (iii) assigned to a specific position and that position is appropriate in relation to the amount being authorised;
  - (iv) given so as to cease immediately upon a substantial material change in the duties of the position;
  - (v) given to employees;<sup>44</sup>
  - (vi) kept current and appropriate and regularly reviewed and updated as required; and
  - (vii) comprehensively maintained in a central record.
- (c) In respect of a Portfolio Department, the Responsible Minister may:
  - (i) give financial authorisations to Portfolio Department employees<sup>45</sup> for the creation of financial obligations for any amount; and/or
  - (ii) authorise the Accountable Officer of that Portfolio Department to give financial authorisations to Portfolio Department employees, in which case the Accountable Officer must not authorise the creation of financial obligations for any amount exceeding \$10 million.

**Guidance 3.3** *Financial Authorisations and delegations*

## 3.4 Internal control system

The Accountable Officer must establish an effective internal control system in relation to financial management, performance and sustainability, including financial, operational and compliance controls, to:

- (a) ensure effective and efficient Agency operations and processes;
- (b) safeguard resources and assets, and minimise Fraud, Corruption and Other Losses;
- (c) produce reliable internal and external reports; and
- (d) comply with applicable laws, regulations and standards.

The Accountable Officer must:

- (e) design, implement and communicate policies and procedures that meet the requirements in this Direction;
- (f) conduct periodic reviews of those policies and procedures to reflect changes in business operations, technology and good practice trends in financial and risk management; and
- (g) ensure their Agency operations and processes comply with those policies and procedures.

**Instruction 3.4** *Internal control system*

**Guidance 3.4** *Internal control system*

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<sup>44</sup> Not contractors or consultants.

<sup>45</sup> Direction 3.3 shall apply to the CFO of a relevant Department within the meaning of Direction 2.4.6 as though the CFO were an employee of that relevant Department.

## 3.5 Fraud, Corruption and Other Losses

### 3.5.1 Fraud, Corruption and Other Losses policy

The Responsible Body must:

- (a) take all reasonable steps to minimise and manage the risk of Fraud, Corruption and Other Losses; and
- (b) establish a Fraud, Corruption and Other Losses prevention and management policy that is implemented across the Agency.<sup>46</sup>

### 3.5.2 Recordkeeping

The Accountable Officer must:

- (a) keep records of all actual and suspected Fraud, Corruption and Other Losses, including remedial actions planned and taken; and
- (b) on request, provide their Responsible Minister, Portfolio Department or Audit Committee with a copy of records kept under Direction 3.5.2(a).

### 3.5.3 Significant or Systemic Fraud, Corruption and Other Losses

Where an Agency is made aware of an actual or suspected Significant or Systemic<sup>47</sup> Fraud, Corruption or Other Loss, the Accountable Officer must:

- (a) notify, as soon as is practicable, the Responsible Minister, Audit Committee, Portfolio Department and Auditor-General of the incident and remedial action to be taken;<sup>48</sup>
- (b) ensure that the persons notified under Direction 3.5.3(a) are kept informed about the incident, including the outcome of investigations; and
- (c) ensure that the Agency takes appropriate action to mitigate against future Fraud, Corruption and Other Losses.

**Instruction 3.5** *Fraud, Corruption and Other Losses*

**Guidance 3.5** *Fraud, Corruption and Other Losses*

## 3.6 Purchasing and prepaid debit cards

The Accountable Officer must establish policies and procedures to ensure appropriate use and administration of purchasing and prepaid debit cards.

**Instruction 3.6** *Purchasing and prepaid debit cards*

**Guidance 3.6** *Purchasing and prepaid debit cards*

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<sup>46</sup> This Direction is subject to a transitional arrangement in Direction 1.4.3.

Under Direction 3.2.2.2(d), the internal audit function is also required to conduct audits of business processes or units likely to be vulnerable to fraud, corruption and other losses.

<sup>47</sup> 'Significant or Systemic' is defined in Direction 1.6. Instructions 3.5 and 3.6 also require Agencies to define value thresholds for 'significance' in relation to Fraud, Corruption and Other Losses, and in relation to purchasing and prepaid debit cards, respectively.

<sup>48</sup> Where required by law, the Independent Broad-based Anti-corruption Commission must also be informed. See the *Independent Broad-based Anti-corruption Commission Act 2011*.

## 3.7 Managing risk

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

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

### 3.7.1 Risk management framework and processes

The Responsible Body must ensure that the Agency applies the *Victorian Government Risk Management Framework*.

*Victorian Government Risk Management Framework*

### 3.7.2 Treasury management, including Central Banking System

#### 3.7.2.1 Central Banking System and Eligible Financial Assets

- (a) The Responsible Body must ensure that all money of the Agency is deposited within the Central Banking System,<sup>49</sup> except:
  - (i) notes and coins;
  - (ii) money held in a transactional bank account with an Authorised Deposit-Taking Institution, provided that the balance of that account at any given time is minimised and does not exceed an amount that the Agency reasonably considers necessary to meet its daily cash flow requirements (taking into consideration that money held in the CBS is at call);
  - (iii) money held on trust by the Agency for, and repayable to, a known beneficiary (other than the State or an Agency) pursuant to a statutory function,<sup>50</sup> or
  - (iv) where the Treasurer has provided an exemption under Direction 1.5(b).
- (b) The Responsible Body must ensure that any money to which Direction 3.7.2.1(a)(iv) applies is deposited with:
  - (i) Treasury Corporation of Victoria; or
  - (ii) Victorian Funds Management Corporation,or as otherwise specified by the Treasurer in the relevant exemption under Direction 1.5(b).
- (c) The Responsible Body must ensure that any Eligible Financial Asset held by the Agency from time to time is, as soon as is practicable without the Agency incurring any material and avoidable penalties or other break costs, converted into money and deposited within the Central Banking System in accordance with these Directions.
- (d) The Responsible Body must ensure that the Agency instructs and authorises any Authorised Deposit-Taking Institution with which the Agency has an account to provide, or make available, real-time information regarding that account to:
  - (i) the Authorised Deposit-Taking Institution which has been appointed under the SPC to administer the Central Banking System;

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<sup>49</sup> For the avoidance of doubt, this includes money received by an Agency from an advance, receivable or on the sale, transfer or disposal of any of its assets.

<sup>50</sup> For the avoidance of doubt, this excludes aged care accommodation bonds held by Health Service Providers pursuant to Part 3A.3 of the *Aged Care Act 1997* (Cth).

- (ii) DTF;
  - (iii) Treasury Corporation of Victoria; and
  - (iv) the Agency's Portfolio Department.
- (e) Direction 3.7.2.1(c) does not apply to:
- (i) any asset or class of assets specified in an exemption from the Assistant Treasurer under Direction 1.5(a)(ii); and
  - (ii) an Eligible Financial Asset of an Agency where there is a current approval, authorisation or direction of the Treasurer or the Assistant Treasurer under an Act, or instrument made under an Act, for that Agency to hold that Eligible Financial Asset in a specified form.

### **3.7.2.2 Policies and procedures**

- (a) The Responsible Body must establish and maintain policies and procedures to identify, assess, monitor, report on and mitigate its treasury and investment risks.
- (b) These policies and procedures must address, at a minimum:
- (i) interest rate risk;
  - (ii) liquidity risk;
  - (iii) foreign exchange risk;
  - (iv) counterparty risk;
  - (v) commodity price risk;
  - (vi) credit risk;
  - (vii) treasury operational risk; and
  - (viii) investment risk.

**Instruction 3.7.2.2** *Treasury Management Policy and procedures*

**Guidance 3.7.2.2** *Treasury Management Policy and procedures*

### **3.7.2.3 Borrowings**

A Responsible Body with authority (including, where required, the Treasurer's approval) to enter into borrowings must do so with Treasury Corporation of Victoria except where the Treasurer has provided an exemption under Direction 1.5(b).

### **3.7.2.4 Other financial arrangements**

- (a) A Responsible Body with authority (including, where required, the Treasurer's approval) to enter into financial arrangements not covered by Direction 3.7.2.1 or 3.7.2.3 must do so with:
- (i) Treasury Corporation of Victoria; or
  - (ii) Victorian Funds Management Corporation.
- (b) Direction 3.7.2.4(a) does not apply:
- (i) to a foreign currency hedging transaction of less than \$1 million undertaken with an Authorised Deposit-Taking Institution; or
  - (ii) where the Treasurer has provided an exemption under Direction 1.5(b).

**[Instruction 3.7.2** *Treasury management internal reporting*

**Guidance 3.7.2** *Treasury management, including Central Banking System]*

### 3.8 Pricing

The Accountable Officer must ensure that the Agency applies the *Cost Recovery Guidelines*.

***Cost Recovery Guidelines***

### 3.9 Managing financial information

The Accountable Officer must ensure that the Agency applies relevant legislation, standards and policies in relation to the management of financial information, including financial information systems.

***Guidance 3.9 Managing financial information***

## 4. Delivering services

### 4.1 Planning and managing performance

#### 4.1.1 Accountable Officer responsibilities<sup>51</sup>

The Accountable Officer must:

- (a) ensure that the Agency plans and manages performance to achieve financial sustainability based on its business, regulatory, governance and funding arrangements;
- (b) prepare short and longer-term plans, budgets and financial projections;
- (c) consider government objectives and priorities and statutory functions in planning and managing financial related performance;
- (d) allocate resources to deliver against the Agency's plans and strategies efficiently, effectively and in a timely manner;
- (e) establish systems to regularly monitor, evaluate and report on the Agency's financial related performance;
- (f) ensure the availability of financial and financial related information about the Agency that is relevant, appropriate and fairly represents actual performance, including as against key performance indicators and associated targets; and
- (g) inform the Responsible Body and its relevant committees on financial management plans, policies, strategies, risks and resolutions regularly, and performance against plans at least quarterly.

**Guidance 4.1.1** *Planning and managing performance*

#### 4.1.2 Performance management in Portfolio Departments

The Accountable Officer of a Portfolio Department must ensure that the Portfolio Department applies the *Performance Management Framework* issued by the DTF Deputy Secretary.

***Performance Management Framework***

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<sup>51</sup> This Direction is subject to transitional arrangements in Direction 1.4.4.

## 4.2 Using and managing public resources

### 4.2.1 Acquisition of assets, goods and services<sup>52</sup>

In relation to the acquisition of assets, goods and services, the Accountable Officer must ensure that the Agency:

- (a) establishes, maintains and embeds appropriate governance arrangements;
- (b) is efficient, effective and economical;
- (c) has appropriate processes in place covering the acquisition lifecycle;
- (d) has appropriate capability to manage the acquisition throughout the acquisition lifecycle;
- (e) is able to demonstrate that any financial commitment, obligation or expenditure delivers value for money for the Agency and/or the State; and
- (f) undertakes investment planning and evaluation of performance when Agency planning has identified the need to acquire significant services, assets or infrastructure.

*Instruction 4.2.1 Acquisition of assets, goods and services*

*Guidance 4.2.1 Acquisition of assets, goods and services*

### 4.2.2 Discretionary financial benefits – grants, sponsorships and donations

In relation to discretionary financial benefits, including grants, sponsorships and donations, the Accountable Officer must:

- (a) ensure that value for money outcomes are maximised;
- (b) establish effective and efficient administrative controls;
- (c) apply the Government's *Investment principles for discretionary grants*; and
- (d) apply the *Victorian Government Sponsorship Policy*.

*Guidance 4.2.2 Discretionary financial benefits – grants, sponsorships and donations*

***Investment principles for discretionary grants***

***Victorian Government Sponsorship Policy***

### 4.2.3 Asset management accountability

The Responsible Body must ensure that the Agency applies the Victorian Government's *Asset Management Accountability Framework*.

***Asset Management Accountability Framework***

### 4.2.4 Public construction accountability<sup>53</sup>

The Responsible Body must ensure that the Agency applies the Ministerial Directions for Public Construction Procurement in Victoria.

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<sup>52</sup> This Direction covers a range of activities including procuring goods, services (including commissioning), and investing in assets and infrastructure. For procurement of non-construction goods and services, section 54L of the FMA requires all Accountable Officers and other members of staff of mandated agencies to comply with the supply policies issued by the VGPB.

<sup>53</sup> Direction 4.2.4 came into effect on 1 July 2018. Refer to Instruction 5.1, Clause 2.5 for attestation requirements in 2018-19.

***Ministerial Directions of the Assistant Treasurer and Instructions issued under the Project Development and Construction Management Act 1994.***

#### 4.3 Budget operations in Portfolio Departments

The Accountable Officer of a Portfolio Department must ensure that the Portfolio Department applies the *Budget Operations Framework* issued by the DTF Deputy Secretary.

***Budget Operations Framework***

#### 4.4 Financial reporting operations in Portfolio Departments

The Accountable Officer of a Portfolio Department must ensure that the Portfolio Department applies the *Financial Reporting Operations Framework* issued by the DTF Deputy Secretary.

***Financial Reporting Operations Framework***

## 5. Compliance and reporting

### 5.1 Financial management compliance

#### 5.1.1 Financial management compliance framework

The Responsible Body must establish a framework for financial management compliance to ensure compliance with:

- (a) the FMA, these Directions and the Instructions;
- (b) applicable Commonwealth and State laws relating to financial management; and
- (c) applicable industry codes and standards relating to financial management.

#### 5.1.2 Annual assessment of financial management compliance

- (a) The Responsible Body must conduct an annual assessment of compliance with all applicable requirements in the FMA, these Directions and the Instructions.
- (b) The Audit Committee must review the assessment under Direction 5.1.2(a).

#### 5.1.3 Detailed periodic review of financial management compliance

- (a) The Responsible Body must ensure that the internal audit function conducts a detailed review of the Agency's compliance with all requirements in the FMA, these Directions and the Instructions over the period specified in Direction 5.1.3(b).
- (b) The period of review under Direction 5.1.3(a) must be the same as the period of the strategic internal audit plan under Direction 3.2.2.2(b).<sup>54</sup>
- (c) A plan for the review under Direction 5.1.3(a) must be included in the strategic internal audit plan under Direction 3.2.2.2(b).

#### 5.1.4 Financial management compliance attestation<sup>55</sup>

- (a) The Responsible Body, or a member of the Responsible Body, must, in the Agencies' Annual Report, in relation to the relevant financial year, attest to compliance with applicable requirements in the FMA, these Directions and the Instructions, and disclose all Material Compliance Deficiencies.
- (b) The compliance attestation under Direction 5.1.4(a) must relate to compliance for the entire period of the relevant financial year.
- (c) The Audit Committee must review the attestation under Direction 5.1.4(a).

#### 5.1.5 Dealing with Compliance Deficiencies

The Accountable Officer must take remedial action to address, and to mitigate the risk of recurrence of, any Compliance Deficiency as soon as practicable.<sup>56</sup>

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<sup>54</sup> A period of three or four years. See Direction 3.2.2.2(b).

<sup>55</sup> This Direction is subject to transitional arrangements in Direction 1.4.5. This attestation should take into account the advice from the Audit Committee under Direction 3.2.1.1(d).

<sup>56</sup> This includes those Compliance Deficiencies identified in reviews under Directions 5.1.2 and 5.1.3.

## 5.1.6 Reporting Material Compliance Deficiencies<sup>57</sup>

- (a) The Accountable Officer must notify the Responsible Minister and, for Portfolio Agencies, the Accountable Officer of their Portfolio Department, of any Material Compliance Deficiency, and of planned and completed remedial actions,<sup>58</sup> as soon as practicable.
- (b) The Accountable Officer of an Independent Office, CSV, JCV, and the Judicial Commission must discuss any Material Compliance Deficiency, and planned and completed remedial actions, with the DTF Accountable Officer.

## 5.1.7 Portfolio Departments' reporting to DTF

The Accountable Officer of a Portfolio Department must, at least annually, inform DTF of:

- (a) all Material Compliance Deficiencies reported to the Accountable Officer by a Portfolio Agency under Direction 5.1.6;
- (b) all actual or suspected Significant or Systemic Fraud, Corruption or Other Losses reported to the Accountable Officer by a Portfolio Agency under Direction 3.5.3; and
- (c) strategies of the Portfolio Department to mitigate the risk of future non-compliance by their Portfolio Agencies.
- (d) The Accountable Officer of a Portfolio Department must meet with the DTF Accountable Officer or DTF Deputy Secretary on their request to discuss compliance performance, including to discuss the matters reported to DTF under Direction 5.1.7(a)-(c).

**Instruction 5.1** *Financial management compliance*

**Guidance 5.1** *Financial management compliance*

## 5.2 Annual reporting

### 5.2.1 Requirements

- (a) The Accountable Officer must implement and maintain a process to ensure the Agency's Annual Report is prepared in accordance with the FMA, these Directions, the Instructions, applicable Australian Accounting Standards and Financial Reporting Directions.
- (b) A Portfolio Department must apply the *Model Financial Report for Government Departments*.
- (c) An Agency must publish its Annual Report on the Agency's or their Portfolio Department's public website.

#### ***Model Financial Report for Government Departments***

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<sup>57</sup> In addition to disclosing Material Compliance Deficiencies in its annual report, an Agency must report Material Compliance Deficiencies as set out in this Direction.

<sup>58</sup> The Audit Committee has a role to review and monitor remedial actions taken to address Compliance Deficiencies, under Direction 3.2.1.1(f).

## 5.2.2 Declaration in financial statements

- (a) An Agency's financial statements must include a signed and dated declaration by:
  - (i) the Accountable Officer;
  - (ii) subject to Direction 5.2.2(c), the CFO; and
  - (iii) for Agencies with a statutory board or equivalent governing body established by or under statute, a member of the Responsible Body.
- (b) The declaration required under Direction 5.2.2(a) must state that in the joint opinion of the signing persons:
  - (i) the financial statements present fairly the financial transactions during the reporting period and the financial position at the end of that period; and
  - (ii) the financial statements have been prepared in accordance with applicable requirements in the FMA, the Directions, the Financial Reporting Directions and Australian Accounting Standards.
- (c) If an Agency's CFO (including an acting CFO) does not have expertise and qualifications in compliance with Direction 2.4.5(a), or if an Agency does not have a CFO:
  - (i) the CFO must not sign financial statements; and
  - (ii) the Accountable Officer must ensure that the financial statements are instead signed by a person with the expertise and qualifications required under Direction 2.4.5(a).

## 5.2.3 Declaration in report of operations

The report of operations must be signed and dated by the Responsible Body or a member of the Responsible Body.<sup>59</sup>

## 5.3 External reporting and information provision

### 5.3.1 Agency reporting and information provision

The Accountable Officer must provide financial and financial related information:

- (a) requested by their Portfolio Department to support advice to the Responsible Minister;
- (b) requested by DTF to facilitate reporting and Government decision making, within the time provided in the request; and
- (c) relevant to the Portfolio Department and/or DTF on:
  - (i) any significant foreseeable issues that may affect Government decision making and/or the Agency's or the State's financial management, performance, sustainability or reputation as soon as practicable; and
  - (ii) any significant issues that have affected the Agency or the State's financial management, performance, sustainability or reputation as soon as practicable.
- (d) Information provided by the Accountable Officer under this Direction must be relevant, of sufficient quality, and provided in a timely manner.

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<sup>59</sup> In an Agency without a statutory board or equivalent governing body established by or under statute, this will be the Agency's Accountable Officer.

### 5.3.2 Additional reporting for Controlled Entities

Portfolio Agencies that are Controlled Entities must prepare and submit to their Portfolio Department and DTF, in a timely manner:<sup>60</sup>

- (a) robust estimates for the budget year and forward estimates period that fairly present the estimated financial impacts of the Portfolio Agency's activities for the period, within reasonable time for portfolio consolidation;<sup>61</sup> and
- (b) regular actuals based financial and performance reports that fairly present the Portfolio Agency's activities for the relevant period.<sup>62</sup>

### 5.3.3 Portfolio department to report material issues to DTF

The Accountable Officer of a Portfolio Department must:

- (a) notify the DTF Accountable Officer, as soon as practicable, of any material issues within the Department or a Portfolio Agency that may affect the State's financial management, performance, sustainability or reputation; and
- (b) provide the DTF Accountable Officer with relevant reports, documents and other information to support a notification under this Direction.

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<sup>60</sup> Note that under Direction 2.3.1(j), the Accountable Officer must provide assurance to the Audit Committee on budgets and financial projections, and actual financial and performance reports.

<sup>61</sup> This Direction 5.3.2(a) is only relevant to general government sector entities that form part of the State budget.

<sup>62</sup> The *DTF Information Request Calendar* provides information and timelines in relation to Portfolio Department and Agency reporting requirements to DTF for government financial publications.

# Delegation of the Minister for Finance

## DEPARTMENT OF TREASURY AND FINANCE

### DELEGATION PURSUANT TO SECTION 7 OF THE *FINANCIAL MANAGEMENT ACT 1994* OF POWERS AND FUNCTIONS RELATING TO THE STANDING DIRECTIONS OF THE MINISTER FOR FINANCE

I, **ROBIN SCOTT**, Minister for Finance, pursuant to section 7 of the *Financial Management Act 1994* ('Act'), hereby delegate to any person who is for the time being the Deputy Secretary, Budget and Finance Division or anyone who occupies that office temporarily or any officer of the Department of Treasury and Finance who becomes responsible for the functions of that office from time to time ('Authorised Officer') the power to:

- (a) make, issue, amend or revoke directions pursuant to section 8 of the Act, known as 'Instructions', that relate to the subject matter of the Standing Directions of the Minister for Finance issued under the section 8 of the Act ('Standing Directions'); and
- (b) make minor or technical amendments to:
  - i. the Standing Directions; and
  - ii. the Financial Reporting Directions issued under section 8 of the Act;

subject to the following conditions:

- only the Authorised Officer may exercise power under this delegation;
- the exercise of power under this delegation must adhere to relevant Government and departmental policies and guidelines and must be consistent with the Act, the *Financial Management Regulations 2014*, and the Standing Directions; and
- every exercise of power authorised under this delegation must be centrally recorded by the Department of Treasury and Finance.

For the avoidance of doubt, the delegated power contained in (a) above includes the power to provide, amend or revoke exemptions to the Instructions pursuant to section 8(3)(d) of the Act, and any power referred to in section 41A of the *Interpretation of Legislation Act 1984*.

This delegation instrument replaces and revokes any previous delegation of powers under section 8 of the Act given to the Deputy Secretary, Budget and Finance pursuant to section 7 of the Act. Such revocation does not affect the validity of any decision made in reliance on previous delegations, except to the extent that such decision is inconsistent with, or expressly or impliedly revoked or amended by, any decision made under this instrument of delegation.

This instrument of delegation takes effect from the day it is signed and continues until revoked. The revocation of some or all of this instrument of delegation does not affect the validity of any decision made in reliance on it.



**ROBIN SCOTT MP**

Minister for Finance

Date: 23/2/16

