

AUGUST 2024

2022-23 Financial Management Compliance Report

Effective financial governance and resource management

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

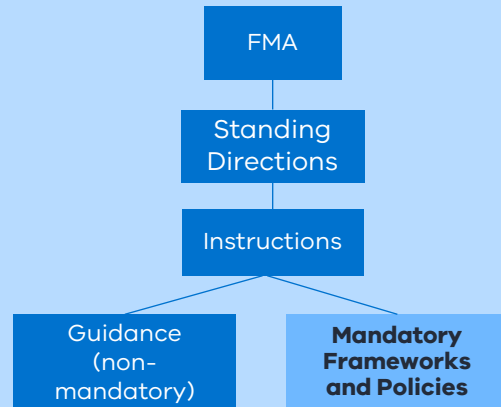
VICTORIA
State
Government

Treasury
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Background

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

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



Standing Directions

- Establish minimum financial management requirements for robust management of Victorian public resources issued under the *Financial Management Act 1994* (FMA).
- Standing Directions, Instructions and mandated Government Frameworks and Policies, such as the Asset Management Accountability Framework, apply to all departments and agencies subject to the FMA, unless exempt or not within scope.

Exemptions

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

2022-23 coverage

- 245 departments and agencies self-assessed compliance against the applicable mandatory requirements of the Standing Directions, Instructions and various Frameworks.
- The majority of portfolio agencies adhered to the timelines for reporting annual compliance outcomes to portfolio departments.

Roles and responsibilities

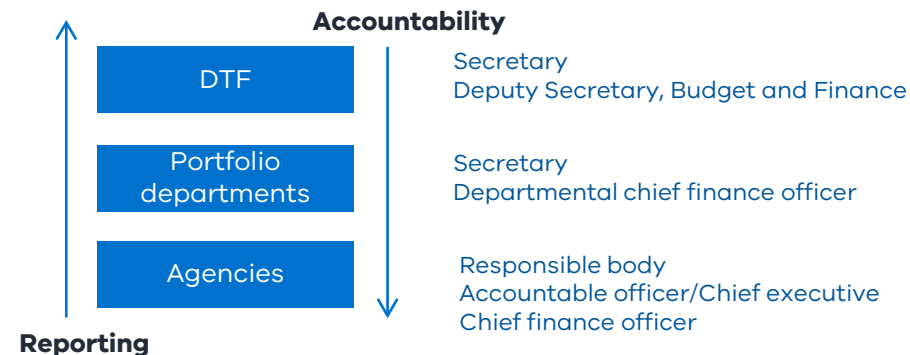
Stronger roles for:

- Portfolio departments
- Audit committees
- Internal audit.

Increased accountability for:

- Responsible bodies
- Accountable officers
- Chief finance officers.

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



2022-23 whole of government compliance results

- Compliance results are expected to continue to improve over time as departments and agencies fully embed best practice from the 2018 Standing Directions and related requirements in their day-to-day business activities.
- Agency audit committees review their agency's compliance assessment and annual report attestation statement and endorse the annual compliance report to portfolio departments.
- Reported compliance deficiencies indicate departments and agencies are taking financial management legislative obligations seriously and see good financial management governance as a critical aspect of their business operations.

- Overall, there was another positive reduction in the number of departments and agencies reporting material compliance deficiencies; this trend is in line with the expectation that departments and agencies focus on rectifying these material issues.
- There were no reported material deficiencies this year, the first time since the 2018 Standing Directions have been in place.
- Reported non-material compliance deficiencies increased in 2022-23 mainly due to agencies now required to comply with frameworks that have been expanded across the Victorian public sector (VPS), including the Victorian Government Purchasing Board (VGPB) supply policies and the Central Banking System and Banking Services state purchasing contract requirements.
- The reported compliance deficiencies continue to include not meeting best practice requirements in the following key areas:
 - Asset management accountability
 - Maintenance of internal control systems, policies and procedures
 - Risk management, including business continuity planning
 - Procurement of goods and services
 - Purchasing card administration
 - Public construction accountability.
- Non-material compliance outcomes highlighted common themes to previous years.
- Where compliance deficiencies have been reported all departments demonstrated a strong commitment to working with portfolio agencies to develop capabilities and implement strategies to address these in future reporting years.

Key compliance and emerging risks

- Departments and agencies identify and detail key areas of the Directions and Instructions that represent a significant compliance risk to the organisation and the strategies to manage these risks.
- A significant compliance risk has the **potential** for both financial and/or reputational loss due to failure to comply with the Directions and Instructions. A significant compliance risk is not necessarily a deficiency (which is an actual instance of non-compliance), however, compliance deficiencies may be an indicator of a compliance risk.

Reported compliance risks

- Departments and agencies identified a number of key compliance risks, describing the potential for financial or reputational loss due to failure to comply with the Directions and Instructions.
- In 2022-23, identified risks were largely consistent with reported compliance deficiencies and included risks in the areas of:
 - Asset management accountability
 - Internal control systems, policies, and processes
 - Fraud, corruption and other losses
 - Risk management framework processes
 - Managing specific risks - Business continuity planning
 - Managing financial information.
- These risks continue to be monitored with rectification plans implemented as necessary.

Emerging risks

- Several emerging financial management risks have also been identified in 2022-23, including agency financial sustainability, the creation of new complex agencies and managing financial information around the threat of cyber-attacks.
- DTF is looking at what additional support or guidance it can provide to relevant areas to assist them in dealing with these key emerging issues.

Reporting and public attestation process going forward

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

Areas for focus for the 2023-24 reporting and attestation year

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

Building a culture of compliance improvement

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

Strategies for improving future compliance

- Reported compliance deficiencies are supported by rectification strategies, ensuring issues are resolved in a timely manner.
- Fraud and corruption prevention continues to be a focus for departments and agencies.

Rectification

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

Fraud, corruption and other losses

- Fraud prevention and detection are complementary strategies to reduce fraudulent activity and losses. Fraud detection and reporting identifies fraud that has occurred or been attempted. It responds to an existing threat. With fraud prevention, agencies implement policies and safeguards that make it harder to commit fraud. The Directions focus on both aspects and includes required reporting of significant incidents fraud, corruption, and other losses to key stakeholders above \$5,000 in money, or \$50,000 in property.
- The number of reports of significant fraud, corruption and losses was similar in 2022-23 to those reported in 2021-22. There was a positive decrease in the number of grant programs with frauds, mainly relating to numerous COVID grant programs winding up, however this was offset by a noted increase in property/equipment damage, arson, theft or loss, requiring better vigilance around property protection.
- Departments have implemented new checks and processes, and will continue to improve its systems, to mitigate these risks.

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