Guidance

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

(revised 4 September 2023)

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Guidance

This Guidance is issued by the Department of Treasury and Finance to provide further information to support Agencies to implement the Standing Directions under the *Financial Management Act 1994* (Directions) and Instructions.

Guidance is **not mandatory** and is for reference only.

The numbering of the Guidance corresponds with the associated Directions.

Queries may be directed to Standing.Directions@dtf.vic.gov.au.

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Key revisions/updates to Guidance supporting the Standing Directions 2018 from May 2019		
Guidance revised/updated	**Date of revision**	**Nature of revision/update**
Guidance 1.5 – Exemptions	1 May 2019	Discussion of Treasurer's powers with respect to certain Directions Clarification of circumstances when exemption is not necessary
	13 December 2019	Clarification that retrospective application will only be approved in special circumstances
	1 February 2021	Clarification of processes for exemption from Central Banking System requirements
	12 August 2022	Clarification of exemptions to hold financial assets outside of the Central Banking System (Direction 3.7.2)
Guidance 1.6 – Glossary of terms	12 April 2021 22 November 2022	Updating definition of public body to note that a Corporations Act company may be declared to be a public body in specified circumstances Inclusion of definition of 'fully compliant'
	8 February 2023	Inclusion of definitions of 'Administrative Office' and 'Administrative Office Head'
Guidance 2.4 – Chief Finance Officer	1 May 2019	Incorporation of Government policy in relation to Portfolio Department CFOs
Guidance 2.4.6 – CFO whole of government responsibilities	1 May 2019	Incorporation of Government policy in relation to Portfolio Department CFOs
	1 February 2021	Clarification of compliance and reporting requirements
Guidance 2.5 – Delegations	1 May 2019	New Guidance (based on Guidance 3.3 – Financial authorisations)
	13 December 2019	Clarification that secondees and others may be treated as employees for delegation purposes
	8 February2023	Clarification that Administrative Office Heads, executives, and employees are treated as employees for delegation purposes
Guidance 3.2.1 – Audit Committee	12 August 2022	Inclusion of details of Audit Committee's responsibilities to review and monitor long term investments
Guidance 3.3 – Financial authorisations	1 May 2019	Incorporation of Government policy in relation to Portfolio Department CFOs Clarification that public service body Heads have direct, not delegated, authority to incur employment-related expenditure
	13 December 2019	Clarification that secondees and others may be treated as employees for financial authorisation purposes
	12 April 2021	Clarification that to approve an extension to a contract, a person's financial authorisation limit must be sufficient to cover the whole contract including the extension
	8 February 2023	Clarification that Administrative Office Heads, executives, and employees are treated as employees for financial authorisation purposes
Guidance 3.4 – Internal control system	4 September 2023	Updated reference to *Pricing for Value Guide* and removed some references to the old *Cost Recovery Guidelines*
Guidance 3.6 – Purchasing cards	13 December 2019	Revision to clarify that policy applies to all forms of financial commitment
Guidance 3.7.2 - Treasury management, including Central Banking System	1 May 2019	Incorporation of Government policy in relation to Central Banking System
	1 February 2021	Clarification and updating to current best practice

Key revisions/updates to Guidance supporting the Standing Directions 2018 from May 2019		
	12 August 2022	Clarification and inclusion of further details relating to funds which may be held outside the Central Banking System
Guidance 3.7.2.2 - Treasury and Investment Risk Management Policies	12 August 2022	No longer under this reference. Some provisions included in Guidance 3.7.2.3 and others in Guidance 3.7.2.4, with revisions
Guidance 3.7.2.3 – Borrowings, investments and financial arrangements	12 August 2022	Renumbered (formerly 3.7.2.2) Investment Management Guidance moved to new Guidance 3.7.2.4
Guidance 3.7.2.4 – Investment Management Policy	12 August 2022	Separated from Guidance 3.7.2.3, also clarified and additional information included
Guidance 4.1.1 – Planning and managing performance	1 May 2019 4 September 2023	Clarification and updating to current best practice Added reference to *Pricing for Value Guide* in Appendix 1
Guidance 4.2.1 – Acquisition of assets, goods and services	1 May 2019	Incorporation of Government policy in relation to Social Procurement
Guidance 5.1 – Financial management compliance	1 May 2019	Clarification with respect to materiality

Further information for each section of the Guidance document is provided below.

Guidance 1.5 – Exemptions

Objective	To assist Agencies in applying for exemptions from the Directions
Effective Date	1 July 2016
Relevant Direction	1.5 Exemptions
Last Reviewed	12 August 2022

Summary

Section 8(d) of the FMA, and Direction 1.5, provide that the Assistant Treasurer may exempt an Agency from specific or all requirements in the Directions and Instructions.[1]

Direction 1.5 sets out the minimum requirements for an exemption request: that it be in writing, state the reasons for the exemption, and specify proposed alternative actions or procedures.

The Directions and Instructions are intended to set down the minimum financial management standards for the Victorian Public Sector (VPS). Accordingly, exemptions will only be granted in exceptional circumstances. Agencies should only seek an exemption as a last resort.

Further guidance on which sources of funds are automatically exempt from being held in the Central Banking System or how to seek exemption from Direction 3.7.2 is provided below.

Preparing to apply

Before applying for an exemption, an Agency should closely consider whether the exemption is required. It may be that the relevant Direction can be achieved without the need for an exemption. It should be kept in mind that the Directions are intended to be applied in a manner consistent with the size and risk profile of Agencies: see Direction 1.1(b).

If an exemption is required, the Agency should identify the minimum exemption necessary.

Agencies should consult with their Portfolio Department and DTF as soon as possible before making a formal exemption request. This may save time and effort later and provide a chance to ensure that the application is tailored appropriately.

Agencies should dedicate sufficient time and resources to preparing a strong case for an exemption.

How to apply

An Agency should apply for an exemption by letter from their Accountable Officer or Responsible Minister to the Assistant Treasurer. The application should also be copied to DTF.

An Agency should include the following information in the application:

- the Directions and/or Instructions from which the exemption is sought;
- the reasons for seeking the exemption (see discussion below);
- relevant information about the Agency, including size and risk profile if relevant;
- details of any previous or existing exemptions of the Agency;
- alternative action or procedures to ensure that the objectives of the relevant Directions are achieved; and
- the duration of the exemption: for a specified period, or ongoing.

[1] Note that the Directions provide that the DTF Deputy Secretary may grant exemptions from Instructions. See discussion under 'Exemptions from Instructions' below.

Reasons for an exemption

There is no need for an Agency to seek an exemption in relation to a Direction or Instruction which is not relevant to it (for example, a Direction or Instruction covering financial investments would not be relevant to an Agency which never has funds to invest). In those circumstances, all the Agency is required to do is to note that the particular Direction or Instruction is not relevant to it, and ensure it has procedures in place to alert it to the need to apply the Direction or Instruction should the circumstances change.

An Agency seeking an exemption needs to provide reasons that demonstrate to the Assistant Treasurer that it has a compelling case for an exemption.

An Agency may provide the following information to support its case for an exemption:

- an explanation of how approval of the exemption request and implementation of the proposed alternative arrangements would not undermine the integrity of the Agency's financial management systems and the objectives of the Direction;
- a description of the effects on the Agency of (a) being granted, and (b) being denied, the exemption;
- a cost-benefit analysis, or other analysis, of the exemption; and
- relevant supporting material.

Demonstrating that the exemption will result in a clear net benefit to the Victorian community may be persuasive. A 'net benefit' is an overall positive impact on the community. It takes into account the costs and benefits related to economic impact, financial risks and other matters. Assessment of the benefit to the community will be informed by the nature of the Agency's operation and services. A potential cost of any exemption is the risk associated with an Agency being subject to a different standard of financial management to the rest of the VPS.

Requests for retrospective exemptions

Direction 1.5(d) states that exemptions will not normally be provided with retrospective effect. Providing retrospective effect requires the Assistant Treasurer to determine formally that the exemption commenced on a date that is earlier than the date on which he approved the request for the exemption.

Retrospective effect has the effect of 'excusing' an agency's failure to apply a Direction or Instruction between those two dates. The possibility of obtaining a retrospective exemption could therefore encourage an agency to fail to apply, or to be less than properly diligent in ensuring that it is applying, a relevant Direction or Instruction. DTF will therefore usually not recommend to the Assistant Treasurer that he approve a retrospective exemption unless the agency has made a compelling case to explain why:

- the Direction or Instruction, although relevant, was not or could not be applied during the period for which the retrospective effect is sought; and
- the exemption was not or could not be sought earlier so that the period of non-compliance did not occur.

Agencies need to consider carefully whether a request for an exemption is in fact seeking retrospective impact. For example, section 45(1) of the FMA requires that an agency prepare its report of operations and financial statements 'as soon as practicable after the end of each financial year'. A Direction or Instruction relating to annual reporting is therefore not relevant to a particular financial year until after the end of that financial year, and so a request for exemption from part of it which is made after the end of the financial year but before preparation of the report or financial statement is finalised will not need to raise the issue of retrospectivity.

Evaluation and response

DTF evaluates exemption applications on a case-by-case basis and makes a recommendation to the Assistant Treasurer. Careful consideration will be given to the application, the costs and benefits to the Victorian community, risks, and the impact on the Agency of granting or denying the exemption. DTF will also consider the purpose of the Direction and the impact that granting the exemption would have on the integrity of the financial management framework.

DTF may contact an Agency to clarify aspects of the exemption application. This is more likely if the Agency has not consulted with DTF prior to lodging the application.

The Assistant Treasurer makes the ultimate decision about whether to grant or reject a request for exemption. The Minister will respond by letter to the Agency.

After an exemption

An exemption may be provided for a specified time period or on an ongoing basis. It will relate to specific Directions and/or Instructions, or to the Directions and/or Instructions as a whole.

The exemption may be subject to conditions. Usually, implementation of the proposed alternative action or procedures will be a condition of the exemption. In some cases, the Agency may also be required to provide an annual assurance that there has not been any significant change to the Agency's risk profile and functions, or a relevant adverse key audit finding. If such a condition is not complied with, the exemption may lapse.

Under Direction 3.2.1.2, where an Agency is exempt from the requirement to maintain an Audit Committee, the Responsible Body must actively assume the responsibilities of an Audit Committee, and take appropriate steps to ensure these responsibilities are fully discharged.

After receiving an exemption, the Agency should implement the proposed alternative action or procedures immediately.

Direction 1.5 provides that the Accountable Officer must maintain a register of exemptions (including any conditions) granted by the Minister and must make the register available for inspection by the Auditor-General.

DTF also maintains a register of exemptions.

Exemptions from Instructions

The Directions provide that the DTF Deputy Secretary may make and issue Instructions and may grant exemptions from Instructions. If an Agency intends to seek an exemption from an Instruction, without seeking to be exempt from any Directions, it may do so by writing to the DTF Deputy Secretary. In doing so, the Guidance above should be considered.

The Minister may also give exemptions from Instructions.

Exemptions to hold financial assets outside the Central Banking System (Direction 3.7.2)

Standing Direction 3.7.2.2(a) requires all Financial Assets of agencies to be deposited into the CBS except:

i. notes and coins;
ii. Third Party Funds;
iii. Non-Government Source Funds, other than Own Source Revenue;
iv. Any part of the Agency's Long-Term Investment Funds which the Agency originally received from money appropriated for tangible asset investment, with approval to invest in financial assets pending payment for the tangible asset; or
v. Financial Assets in respect of which an exemption has been provided under Direction 1.5.

Standing Direction 3.7.2.2 (c) therefore requires funds held outside of the CBS, other than notes and coins, to be deposited with VFMC or TCV or as otherwise specified in relevant legislation or as determined by the Assistant Treasurer under Direction 1.5.

Contributed capital, prudential capital, retained earnings and general reserves will not be considered for an exemption. These funds should be invested in the CBS as it is not appropriate to place these funds in investments that put at risk the capital value of these funds which are there to support the financial viability of the entity.

Exemption to invest outside of the CBS – with TCV or VFMC

Exemption requests to invest with VFMC or TCV must be addressed to the Assistant Treasurer and must address the following:

Source of funds

The exemption request will apply to funds other than items i to v above that are automatically exempted. The definitions of the Financial Assets noted above are outlined at Direction 1.6.

Purpose and intended use of funds

An exemption request should include the intended future use of the funds and alignment with government policy, for example to meet a future capital commitment.

Working capital funds are generally required to be held in the CBS. In limited circumstances an exemption may be granted to invest funds on a longer-term basis where it can be demonstrated that the funds should be invested for example, to manage the risk of meeting a future long-term commitment.

In circumstances where an entity has borrowings with TCV, funds should be invested in the CBS or used to repay debt rather than invested in a long-term strategy with VFMC.

Investment horizon

The exemption application should stipulate a minimum investment horizon, an explanation for the basis for choosing this investment horizon, along with details of forecast future cash flows.

The choice of investment strategy and the investment risk associated with that strategy will be heavily influenced by the length of the investment horizon. Once an exemption has been obtained, the agency should work with VFMC to develop an investment policy, including investment objectives (e.g. return and risk targets) based on the intended use of funds and investment horizon. The investment policy should then be submitted to DTF for approval. Investments with VFMC should be for a minimum of two years when investing in highly liquid investment products and greater than ten years for growth orientated investments such as equities.

In certain circumstances, the investment strategy option could include making a term deposit with TCV with an investment horizon of up to 12 months.

Exemption to Invest outside of the CBS – with an ADI or a Fund Manager other than TCV or VFMC

A request for an exemption to invest outside of TCV or VFMC can be made under circumstances where the product offering of TCV or VFMC cannot meet a specific legislative investment requirement. DTF will require confirmation from VFMC and/or TCV before recommending such an exemption to the Assistant Treasurer.

Treasurer's Permanent Exemption of community donations from Direction 3.7.2.2(c)

Under the previous provisions of the Standing Directions, the Treasurer determined an exemption under Direction 1.5 to all agencies (GG, PNFC and PFC) for the investment of community donations and auxiliaries with an ADI outside of the CBS. This exemption is ongoing, subject to periodic review by DTF to ensure that the intent and purpose of the exemption is maintained. Exemptions to 3.7.2.2(c) will need to meet the prescribed reporting requirements stipulated under Direction 3.7.2.3(b).

Reporting of funds invested outside of the CBS

When an exemption is granted to invest with TCV or VFMC, the Responsible Body must ensure that the investments are reported separately in the financial reports and clearly identified as 'State Funds' by including this in the name of the investment (part of the Unit holder name) with VFMC. For example, Hospital A would register its investment with VFMC as 'Hospital A – State Funds'. This will assist to meet DTF's reporting requirements.

Guidance 1.6 – Glossary of terms

Objective	Provides definitions as guidance in interpreting the Directions and Instructions.
Effective date	1 July 2016
Relevant Direction	1.6 Definitions and interpretation
Last reviewed	8 February 2023

The following glossary of terms is provided as guidance to help interpret the Directions.

* An asterisk indicates that the relevant term is defined in the Directions. Definitions so marked are repeated here for convenience.

Term	Description
Accountable Officer*	Has the same meaning as para (a) of the definition of *accountable officer* in section 3 of the FMA.
Administrative Office*	Has the same meaning as section 4(1) of the *Public Administration Act 2004*.
Administrative Office Head*	Has the same meaning as section 4(1) of the *Public Administration Act 2004*.
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 (ADI)*	Has the same meaning as *ADI* in section 38 of the *Interpretation of Legislation Act 1984*. ADIs include banks, building societies and credit unions.
Authority*	Has the same meaning as *authority* in section 3 of the FMA.
Borrowing/financial accommodation	Has the same meaning as in the *Borrowing and Investment Powers Act 1987.*
CFO *or* Chief Finance Officer*	Each has the same meaning as *chief finance and accounting officer* in section 3 of the FMA.
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.
Commercial based acquisitions	Includes a range of acquisition activities such as procuring goods, services (including commissioning), and investing in assets and infrastructure.
Compliance Deficiency*	Attribute, condition, action or omission that is not **fully compliant** with an applicable requirement in the FMA, Directions and/or Instructions.
Compliant	A Public Sector Agency which is compliant with the Directions and Instructions.
Commodity risks	Risks arising from future changes in the price and/or availability of commodities.
Corruption*	Has the same meaning as in the latest Australian Standard on *Fraud and Corruption Control* (AS 8001). [Dishonest activity in which an employee of an entity acts contrary to the interests of the entity and abuses his/her position of trust in order to achieve some personal gain or advantage for him/herself or for another person or entity.]
CSV*	Means Court Services Victoria established under the *Court Services Victoria Act 2014*.
Department*	Has the same meaning same as in section 3 of the FMA.

Term	Description
Departmental funding model	The model used by the Government to fund the general government sector (comprising the department and the portfolio general government sector Agencies), where the Government determines the outputs to be delivered by a Portfolio Department and the price for each of the outputs for a given level of quantity, quality and timeliness. The output price is derived from unit pricing, where revenues need to be sufficient to cover all expenses incurred in the delivery of an output, including depreciation (in the form of depreciation equivalent revenue).
Directions*	Standing Directions under the *Financial Management Act 1994*, issued by the Assistant Treasurer under section 8 of the FMA.
Discretionary financial benefits	A financial benefit given to a person or body for a specified purpose directed at achieving outcomes sought by government policy (e.g. grants, sponsorships and donations).
Donations	Gifts given to the Victorian Public Sector Agency, typically for charitable purposes and/or to benefit a cause. They impose no obligations on the recipient and offer little or no rights or benefits to the provider.
DTF*	Means the Department of Treasury and Finance in its capacity as a central agency supporting the Minister 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.
Employee	A person employed by a Victorian Public Sector Agency and paid an annual salary. This includes persons employed on a 'fixed term' basis who are on the Agency's payroll and performs a public service function. On-hire workers are the employees of the master vendors, not the Department. For differences between employees, contractors and consultants, refer to Financial Reporting Direction 22D and Guidance, and the Victorian Public Sector Commission's Guidance for Managers Engaging Contractors and Consultants to Perform a Public Sector function[2].
Exempt trust money	Money, other than money held on trust for the State or a Public Body, invested pursuant to a statutory function to hold it on trust for a known beneficiary. Consequently, these funds should be sourced from an entity or person external to the State of Victoria, and must be returnable to this source. These funds should be held in a separate trust account.
Financial arrangement/derivative	Has the same meaning as in the *Borrowing and Investment Powers Act 1987.*
Financial Reporting Direction*	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).
Fully compliant	Means that there was no period during the relevant financial year in which there was non-compliance with respect to an applicable requirement in the FMA, Standing Directions and/or Instructions.
General government (GG) sector Agencies	Comprises all government Departments, offices and other government Agencies engaged in providing public services free of charge or at prices significantly below the cost of production. Some of these entities may also earn revenue from commercial activities, however such revenue represents less than half of their total revenue.
Government objectives and/or priorities*	Means: (a) in relation to all Agencies apart from Independent Offices and CSV, the stated objectives and priorities of the government of the day; and (b) in relation to Independent Offices and CSV, the functions and/or objectives for which they were established as specified in their governing legislation.

[2] vpsc.vic.gov.au/html-resources/guidance-for-managers-engaging-contractors-and-consultants

Term	Description
Grant	Money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy, where the recipient is selected on merit against a set of criteria.
High Value High Risk (HVHR)	Projects that have a total estimated investment (TEI) of $100 million or more (regardless of funding source), and/or are projects identified as high risk under the Gateway Project Profile Model (PPM), and/or are projects nominated by Government as HVHR.
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 mandatory instructions made by the DTF Secretary under delegation of the Assistant Treasurer.
Intangible assets	Identifiable non-monetary assets without physical substance (AASB 138 *Intangible Assets*). They are the long-term resources of an entity and derive their value from intellectual or legal rights, and from the value they add to the other assets.
Investment	A financial asset, as defined in Australian Accounting Standard AASB 132 *Financial Instruments: Presentation,* which is not a trade receivable, a loan receivable and an advance receivable.
JCV*	Judicial College of Victoria established under the *Judicial College of Victoria Act 2001.*
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*	A loss caused by any intentional or negligent act or omission, including theft, vandalism and arson and excluding acts of God.
Portfolio Agency*	In relation to a Portfolio Department, an Agency (apart from Independent Offices and CSV) which shares the same Responsible Minister as that Portfolio Department.
Portfolio Department*	Has the same meaning as defined in part (a) of *department* in section 3 of the FMA.
Prepaid debit card (also known as stored value card)	Means a card which has money 'stored' via prepaid deposits made by a Public Sector Agency for use by the Agency and their employees for official business, or in the case of cards issued to the public for the benefit of the recipient of the card. The card must not link directly to a bank account or credit facility.
Public body*	Has the same meaning as *public body* in section 3 of the FMA. Legal advice obtained in 2021 is that a company formed under the Corporations Act may be declared to be a *public body* under item (c) of this definition if the company is controlled by the State and a Minister or the Governor in Council had originally instructed that the company was to be formed (noting that an already-formed company subsequently purchased by the State would not satisfy this requirement).
Public financial corporations (PFCs)	Agencies engaged primarily in the provision of financial intermediation services or auxiliary financial services.
Public non-financial corporations (PNFCs)	Agencies engaged in the production and sale of goods and services within a competitive market that is non-regulatory or non-financial in nature.
Public resources	All financial resources the Agency is responsible for directly or indirectly (e.g. resources managed on behalf of the State), including budgeted expenditure, revenue and administered items.

Term	Description
Purchasing card	Means any electronic facility which enables the person using it to commit a Public Sector Agency to pay for the provision of goods and services (i.e. general government purchasing card, corporate card, credit card, purchasing card facility, prepaid debit card, or virtual card, whether in Australian currency or a foreign currency), including a purchasing card issued by an Agency to the employee in the name of the Agency.
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, the Responsible Body; (c) in relation to all other Agencies, the Minister or Ministers for the time being administering the legislation or enactment 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; 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.
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.
Sponsorship	Purchase or receipt of rights or benefits, including naming rights, delivered through association with an organisation's products, services or activities. The rights or benefits typically relate to the sponsor's reputation management or communication objectives. Sponsorship includes partnership arrangements, except where the arrangement is governed by the *Partnerships Victoria Requirements 2010* or otherwise involves the development or management of infrastructure. It does not include grants, donations/bequests, sale of advertising space, editorial comment, or advertorials.

Guidance 2.3.4 – Portfolio relationship

Objective	Provides Portfolio Departments and Portfolio Agencies with guidance on their roles and responsibilities in relation to one another, including: • advice to the Minister from Portfolio Departments on matters relating to Portfolio Agencies; • Portfolio Departments support for their Portfolio Agencies; • Portfolio Agencies responsibility to inform their Portfolio Departments; and • how the relationship can contribute to managing the Government's whole of state financial management performance.
Effective date	1 July 2016
Relevant Directions	2.3 Accountable Officer 2.4.4 Responsibilities of Portfolio Department CFO 5.1.7 Portfolio Departments' reporting to DTF 5.3 External reporting and information provision
Last reviewed	1 May 2019

Ministers are accountable to the Parliament and public for the performance of their Agencies. They have constitutional and legislative governance responsibility for the Agencies in their portfolio. To carry out these responsibilities, Ministers require support from portfolio Departments to provide advice on the operations and performance of Portfolio Agencies. Portfolio Departments and Portfolio Agencies also have responsibilities in relation to one another.

These relationships are described in section 13A of the *Public Administration Act 2004* (PAA), which provides that[3]:

- the Accountable Officer of a portfolio Department must advise the relevant Minister on matters relating to a Portfolio Agency, including the discharge by the Agency of its responsibilities;
- the Accountable Officer of a portfolio Department must work with, and provide guidance to, their Portfolio Agencies to assist them on matters relating to public administration and governance;
- a Portfolio Agency must provide to the Accountable Officer of a portfolio Department any information required to enable the Accountable Officer to advise the Minister on matters related to the Agency (this requirement does not apply if the Agency is prohibited from doing so under law); and
- the Accountable Officer of a portfolio Department must not direct or control a Portfolio Agency in the performance of the functions conferred on the Agency under law.

The Treasurer and the Assistant Treasurer are accountable to Parliament for the financial management performance of the State of Victoria and their obligations under the FMA.

Portfolio Departments have a role to help:

- safeguard the State's resources;
- manage financial risks;
- support the government's financial management and performance accountability to Parliament at Agency, portfolio and whole of State levels;
- support the portfolio Ministers in their oversight of the portfolio as a whole, and of Agencies individually;
- support the Treasurer and Assistant Treasurer by providing DTF with quality information about the portfolio; and
- facilitate portfolio outcomes and their contribution to achieving the State's fiscal objectives and strategy.

The Directions include specific requirements for Portfolio Departments, Portfolio Agencies and DTF in relation to the portfolio relationship, including in Directions 2.3.3, 2.3.4, 2.3.5, 2.4.3, 2.4.4, 5.1.7 and 5.3.

[3] This is a summary of section 13A of the PAA. See the PAA for the full details.

The focus for Portfolio Departments is on working with, and providing guidance to, their Portfolio Agencies. A Portfolio Department cannot direct or control a Portfolio Agency in relation to the performance of its statutory functions.

The Directions seek to improve the relationship between Portfolio Departments and Portfolio Agencies in relation to financial management, performance and sustainability. This will improve the information available to Portfolio Departments to support:

- their portfolio Ministers, on individual Agency and portfolio financial performance matters; and
- government, on whole of state financial performance.

These expectations aim to ensure portfolio and whole of government issues and risks are managed effectively and to improve government outcomes.

Portfolio Department responsibilities

Key functions

The Victorian Public Sector Commission (VPSC) articulates the role of the departmental Secretary as the principal portfolio adviser to government on policy matters and to assist Ministers maintain an awareness of operations within their portfolios. The Departmental Secretary often acts as the interface between Ministers, portfolio Agencies and stakeholders.

Consistent with these expectations, portfolio Departments advise and support their portfolio Ministers on financial management by:

- monitoring Portfolio Agencies to the extent required to appropriately advise the Minister;
- advising the Ministers on matters relating to portfolio Agencies;
- working with, and providing guidance to, their portfolio Agencies;
- facilitating and coordinating portfolio delivery of intended government policies and priorities including efficiency and effectiveness; and
- facilitating liaison and information sharing between Agencies and their Ministers, and with DTF on whole of government financial management and performance matters.

Appropriately advising the Minister of matters relating to portfolio Agencies will usually require a Portfolio Department to monitor its Portfolio Agencies to some extent. In doing so, Portfolio Departments should maintain an up-to-date record of portfolio Agencies and be aware of the portfolio Agencies' roles and responsibilities, risks and issues, and planned and actual performance.

The requirement to advise Ministers will assist to provide Ministers with early warning of portfolio issues. This advice should focus on governance, risk and organisational profile matters, assessing the financial and related performance of Agencies, and advising Ministers of issues to avoid surprises and mitigate risks.

Major Portfolio Agency risks/issues may include:

- outstanding legal action or potential legal exposure;
- performance audits/investigations scheduled or underway;
- current media issues and attention;
- governance and management issues such as Fraud, financial performance and sustainability; and
- any other reputational risks.

This is not an exhaustive list of risks, but is intended to prompt Agencies to identify key risks.

Working with, and providing guidance to, Portfolio Agencies is required to assist agencies and to improve the advice available to the Minister.

Facilitating and coordinating portfolio delivery will help to ensure that Agencies' plans align with the delivery of government policy and priorities, and can consider establishing more effective and efficient governance and operational inter-agency arrangements across the portfolio (e.g. shared services, co-location).

Facilitating liaison and information from and between portfolio Agencies builds on the portfolio coordination function to ensure timely and accurate information is provided to government Ministers and DTF, to effectively manage whole of government matters.

Nature and extent of portfolio relationship

The nature and extent of portfolio relationship will vary according to the level of financial management risk and performance of the individual Portfolio Agency in question. For example, incorporated committees of management are likely to require a different nature and extent of relationship with the Portfolio Department than a large statutory corporation.

The requirement for a relationship applies, at some level, to all portfolio Agencies, regardless of the form of establishment and whether they are legally required to fully apply the FMA (e.g. government-controlled companies).

An alternative to a 'one size fits all' approach to managing the relationship between Portfolio Departments and Portfolio Agencies is for Departments to tailor their approach to meet the relevant materiality, complexity, capability, risk and performance of individual Agencies and/or groups of Agencies, and to complement any existing relationship frameworks (which may be outlined in specific establishing legislation). The approach may consider specific monitoring based on whether portfolio Agencies are funded through general revenue sources or their own revenue sources, and the specific governance and accountability arrangements in place.

The 'fit for purpose' approach could be enhanced by considering, for example, an 'earned autonomy' model. The model recognises and grants greater autonomy to portfolio Agencies when they have 'earned' this privilege by demonstrating consistently high standards in discharging their financial management responsibilities. Such a model could be based on specifying minimum requirements/controls across all portfolio Agencies and further tailored requirements.

Whatever model(s) is chosen, Portfolio Departments need to be satisfied that the level of assurance will meet their portfolio responsibilities. Common key features for any model chosen include:

- periodic risk assessment in which the portfolio Department regularly assesses the risk of portfolio Agencies and when necessary, adjusts the monitoring and reporting requirements appropriate to the change in the risk environment;
- monitoring and reporting capability requirements of the Portfolio Department to critically analyse Agency information, performance and compliance and identify necessary improvements; and
- effective accountability mechanisms for management at both the portfolio Department and Agency levels.

Portfolio Departments may consider establishing a portfolio board or a portfolio level audit and risk committee (including members external to government) to support their Departmental Secretary in effectively undertaking this portfolio role.

Mechanisms to improve support

To provide the necessary support to Ministers and Agencies, Portfolio Departments may:

- review Portfolio Agencies' planning documents to ensure they align with government priorities and intended objectives for the Agencies and to advise the Minister on the suitability of the plans, including financial sustainability. In the case of general government sector Agencies, this provides the ability to discuss and shape key strategies as part of corporate and long-term planning for the portfolio and in the development of objectives, indicators and performance measures;
- facilitate Portfolio Agencies' understanding and interpretation of government policy objectives and priorities and provide greater clarity in the definition of Agencies' purpose, direction and objectives to ensure government's intended purpose for establishing the Agency is achieved. This could be achieved through the relationship between government, portfolio Departments and Agencies, including through regular communication of expectations;
- review Portfolio Agencies' periodic performance reports and advise on progress towards achieving targets;
- review portfolio Agencies' annual report to Parliament for alignment with government policies and priorities and review annual reports for smaller Agencies not required to table in Parliament;
- monitor overall compliance with financial management requirements (including the FMA, Directions, Instructions and Compliance Framework), identify Significant or Systemic risk issues and remedial actions, and provide advice to the Minister; and
- provide timely, relevant and quality advice and information to government and DTF on Departmental and Portfolio Agency performance, and ensure effective relationships with DTF to enable the management of whole of government financial risks and reporting on the State's finances.

Portfolio roles, responsibilities and relationships

For Portfolio Departments to be well placed to provide timely advice to their Ministers and DTF, it is important that Departments:

- have strong working relationships with portfolio Agencies, in particular between the departmental Secretary and Agency Accountable Officer; and
- maintain effective communication channels.

Provision of information that is appropriate and of sufficient quality by the Agencies will assist Departments to develop policy, advise Ministers and provide information to DTF.

In supporting their Minister(s)' responsibilities, Departments should not interfere with the statutory independence of portfolio Agencies.

By providing the required support to Ministers, Portfolio Departments will have the business intelligence and relationships necessary to better support DTF in their whole of State advice to government. Departments contribute to managing whole of State outcomes by actively monitoring and advising on the overall portfolio performance, in addition to individual Agency performance and facilitating information flows.

Portfolio Agency responsibilities

Under the Directions, Portfolio Agencies are required to:

- notify their Portfolio Department's Accountable Officer of any significant issue of which the they are aware that may affect or have affected the Agency's or State's financial management, performance, sustainability or reputation (Direction 2.3.3); and
- in the case of their CFO, provide quality and timely information to the relevant Portfolio Department CFO to meet portfolio reporting obligations, and establish and maintain an effective relationship with the relevant Portfolio Department CFO (Direction 2.4.3);
- notify the Portfolio Department of any Material Compliance Deficiency, and of planned and completed remedial actions, as soon as practicable (Direction 5.1.6);
- for Portfolio Agencies that are Controlled Entities, comply with additional reporting requirements (Direction 5.3.2).

These Directions are intended to be broadly consistent with section 13A of the PAA. The focus is on providing reliable and timely information to the Portfolio Department, which can then support the Department to advise the Minister on matters affecting the Portfolio Agency. There is also a focus on fostering a positive relationship.

Further information

- Victorian Public Sector Commission: Serving Victoria: A Guide for Public Sector CEOs[4].

[4] vpsc.vic.gov.au/resources/serving-victoria

Guidance 2.3.5 – Responsibility to establish requirements for excluded entities

Objective	Provides information to assist relevant Agencies to implement the responsibility to establish financial management requirements for certain excluded entities.
Effective date	1 July 2016
Relevant Directions	1.2 Application 2.3.5 Responsibility to establish requirements for excluded entities
Last reviewed	1 May 2019

Application of Directions

Direction 1.2 provides that the Directions and Instructions apply to all Agencies, except for: school councils; incorporated committees of management; class B cemetery trusts; VicSES registered units; and Country Fire Authority volunteer brigades (note, however, that these Agencies remain subject to the requirements of the FMA).

Direction 2.3.5 then provides that appropriate financial management requirements must be established for these excluded Agencies.

This means that:[5]

- the Department of Education and Training must establish requirements for school councils;
- the Department of Environment, Land, Water and Planning (DELWP) must establish requirements for incorporated committees of management;
- the Department of Health and Human Services must establish requirements for class B cemetery trusts;
- VicSES must establish requirements for their registered units; and
- the Country Fire Authority must establish requirements for their volunteer brigades.

Entities such as school councils and volunteer brigades are excluded from the Directions because in most cases their size and risk profile are such that many of the requirements would be inappropriate for them. These entities usually have low financial risk, and unique staffing arrangements (such as the extensive use of volunteers) that require tailored financial management requirements. Further, these entities have a closer relationship with their Portfolio Department or (in the case of volunteer brigades) with their Agency than most other Agencies, including shared financial arrangements. Accordingly, it is more appropriate for their Portfolio Department or Agency to establish appropriate financial management requirements for them.

Establishing appropriate financial management requirements

'Appropriate financial management requirements' means a set of requirements that impose an appropriate level of financial management accountability, governance and compliance, having regard to the nature of the entities in question, including size, risk profile, and the financial risk that they pose to the State, both individually and as a class.

The requirements should be proportionate to the financial management needs and responsibilities of the relevant entities. For example, because school councils collectively manage state assets of significant value, it would be appropriate for them to be subject to sophisticated asset management requirements proportionate to the collective value of the assets they manage. By contrast, the requirements for other entities and classes of entities that do not manage significant assets would be focused on other aspects of financial management.

The meaning of 'appropriate financial management requirements' is given more detail in Direction 2.3.5(c), which provides that the requirements must:

- be established having regard to the requirements in the Directions and Instructions;

[5] The following is the relevant Portfolio Departments as at the date of issue of this Guidance. Note that actual responsibility within the Agency falls on the Accountable Officer.

- include appropriate accountability arrangements and monitoring by the relevant Portfolio Department/Agency to ensure entities' compliance with the requirements; and
- be consistent with relevant Agencies' governing legislation.

Having regard to the requirements in the Directions and Instructions

The requirements must be established having regard to the Directions and Instructions. However, the requirements do not need to replicate the documents. In establishing requirements, relevant Portfolio Departments and Agencies are encouraged to use the Directions and Instructions as a starting point. A Direction or Instruction should only be excluded from the requirements if there is a strong case to do so in the entity's circumstances.

Compliance requirements

The requirements must also include appropriate accountability and monitoring to ensure compliance.

Specific compliance accountabilities should be placed on key staff in the Portfolio Department/Agency, and on the excluded entities. For example, it may be appropriate to make the Accountable Officer of the entity accountable for annually reporting to the Portfolio Department on compliance. Similarly, the Accountable Officer of the Portfolio Department may have a specific accountability to provide advice and support to the entities on compliance.

The requirements also must include monitoring by the relevant Portfolio Departments and Agencies of the relevant entities' compliance with the requirements. A risk based annual process to monitor compliance, with reporting from the relevant entities, is encouraged.

Consistency with governing legislation

The requirements must have regard to, and be consistent with, the relevant entities' governing legislation.

Other requirements

In most circumstances, the requirements should also at least include:

- general accountabilities for key staff, volunteers and/or members;[6]
- effective governance and oversight;
- appropriate internal controls, such as those set out in Instruction 3.4;
- appropriate risk management, informed by the Victorian Government Risk Management Framework[7]; and
- where the entity manages assets, requirements to manage the assets informed by the Victorian Government's Asset Management Accountability Framework.

Preparation and implementation of requirements

As at the commencement of the Directions, some Portfolio Departments/Agencies may already have established financial management requirements for their excluded entities. These requirements should be reviewed by reference to Direction 2.3.5.

Relevant Portfolio Departments and Agencies are encouraged to consult with DTF in establishing financial management requirements for their entities.

The requirements may differ within a class of entities. For example, it would be open to DELWP to establish a number of sets of requirements that apply to different classes of incorporated committees of management.

The requirements should be written clearly, distributed widely, accessible online and updated as necessary. The Portfolio Department or Agency should support the entities to implement the requirements.

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[6] In addition to the compliance accountabilities required under Direction 2.3.5(c).

[7] http://www.vic.gov.au/victorian-risk-management-framework-and-insurance-management-policy

Accountability

Direction 5.1 imposes compliance requirements on relevant Portfolio Departments and Agencies. The requirement to establish appropriate requirements for relevant entities under Direction 2.3.5 is subject to this compliance, which includes:

- an annual assessment of compliance with the requirement;
- a detailed period review by the internal audit function of compliance with the requirement;
- remedying a Compliance Deficiency in relation to the requirement;
- reporting of a Material Compliance Deficiency in relation to the requirement to the Responsible Minister and Portfolio Department; and
- attestation in the Annual Report to compliance with the requirement.

Further, the Auditor-General may audit against this requirement.

As for the accountability placed on excluded entities, the requirements that are set down should include accountability for key financial management roles in the entities. Further, Portfolio Departments and Agencies are required to include appropriate accountability and monitoring to ensure compliance.

Guidance 2.4 – Chief Finance Officer

Objective	Provides guidance on the role, responsibilities and qualifications of the CFO
Effective Date	1 July 2016
Relevant Direction	2.4 Chief Finance Officer
Last Reviewed	1 May 2019

The role of CFO

Section 43 of the FMA requires the Accountable Officer to designate a position of 'Chief Finance and Accounting Officer' (CFO). The person holding that position is responsible for ensuring that proper accounting records/systems and other records are maintained in accordance with the regulations and Directions.

The Directions incorporate Government policy that each Portfolio Department CFO be employed by the Secretary of DTF, and be responsible to him or her for matters relating to whole of government financial strategy and priorities, without diminishing the CFO's responsibilities to the Secretary of the Department within which the CFO is working.

The Directions describe the CFO's role. The requirements include those traditionally associated with the role, such as preparing accurate financial information. The Directions also encourage a strategic role for CFOs, such as the requirement to provide strategic advice to management on matters such as future financial sustainability.

Access to executive

To support this more strategic role, CFOs must have access to the Responsible Body and Accountable Officer. Access may include a direct reporting line, regular formal access (for example, through attendance at board meetings) and/or more informal access as required (such as meetings). In larger Agencies and Departments, it may be more appropriate for the CFO to directly report to the Accountable Officer.

Job title

Section 43 of the FMA requires the Accountable Officer to designate a position of 'Chief Finance and Accounting Officer'. However, it is not necessary for the holder of this position to be referred to in this way. The Directions use the more modern title of 'Chief Finance Officer' to refer to the person appointed as Chief Finance and Accounting Officer under the FMA.

Alternative titles include 'General Manager, Finance' or 'Deputy Secretary, Financial Management'. Alternative titles are appropriate, provided that the person appointed under the Act exercises the functions and has the responsibilities assigned to the role in the FMA and the Directions.

In some organisations, the person with the job title of 'Chief Finance Officer' does not hold the position designated as CFO under the FMA. This situation creates confusion and is strongly discouraged.

Portfolio responsibilities

The Directions provide certain portfolio responsibilities for CFOs. The CFO of a Portfolio Agency needs to form a strong relationship with the CFO of the Portfolio Department, including by providing quality and timely information. The CFO of a Portfolio Department needs to help their Accountable Officer and DTF to support their Portfolio Agencies.

Outsourcing a CFO

For most Agencies and all Departments, outsourcing a CFO is unlikely to be consistent with the Directions. A strong, internal, full time CFO role is central to proper financial management. For example, in such Agencies, it would be difficult to adequately fulfil the requirements in Direction 2.4 with an outsourced CFO.

However, the Act and Directions do not expressly prohibit the role of the CFO from being undertaken by a person who is not an employee. Accordingly, in a small Agency, which may not have the size or risk profile to require an internal CFO, the CFO may be outsourced. A key consideration when outsourcing a CFO is ensuring there is an appropriate separation of duties of the collection and processing of information from the preparation of the financial statements.

Agencies considering an outsourced CFO should have regard to:

- Direction 2.4.1, which requires the CFO to have access to the Accountable Officer and the Responsible Body in carrying out the CFO's responsibilities;
- Direction 2.4.2, which requires the CFO to sign a declaration in the Agency's financial statements;
- Directions 2.5 and 3.3, which require delegations and financial authorisations be given to employees not contractors or consultants (with the CFO of a Portfolio Department treated as though he or she were an employee for these purposes);
- Instruction 4.2.1, which requires appropriate contract management and performance. These requirements would apply to a contract to engage an outsourced CFO. Relevant requirements include that the Accountable Officer:
  - establish an effective performance management framework for the contract;
  - include appropriate contract specification;
  - regularly monitor and manage performance; and
  - regularly report to the Responsible Body on the contractor's performance;
- Departments and some Agencies are subject to the policies issued by the Victorian Government Procurement Board. These policies will apply to the proposed engagement of an outsourced CFO.

Joint Accountable Officer/CFO

The Act and Directions do not prohibit the role of the CFO from being undertaken by the Accountable Officer. This may be appropriate in some very small Agencies where resources are limited and financial risk is low.

However, in most Agencies, it is unlikely that a joint Accountable Officer/CFO role would be workable or appropriate. A person in such a joint role would be subject to significant and diverging responsibilities under both the Directions are other legislation, standards and policies. Further, the separation of the roles is important in most Agencies to ensure sufficient focus on financial management.

CFO expertise and qualifications

The Directions provide that the CFO must be suitably experienced and hold a graduate or post graduate qualification in accounting or a relevant discipline granted by a tertiary education provider. What constitutes a 'relevant discipline' will depend on the judgement of the Accountable Officer having regard to the circumstances of the Agency. It may include a qualification in finance, business or economics, particularly if the qualification is supported by relevant prior experience.

Professional designation (such as membership of Chartered Accountants Australia New Zealand (CA ANZ) or CPA Australia) is not a mandatory requirement for CFOs. However, it is a relevant qualification and will help to ensure that a CFO complies with the requirement to keep their knowledge and expertise up to date with developments in financial management.

Guidance 2.4.6 – CFO whole of government responsibilities

Objective	Provides guidance on setting down accountabilities for public sector CFOs to support ministerial and whole of government financial objectives and to provide information to portfolio departments or DTF.
Effective Date	1 February 2017
Relevant Directions	2.4 Chief Finance Officer 2.4.6 CFO whole of government responsibilities 5.1 Financial management compliance
Last Reviewed	1 May 2019

Background

Direction 2.4.6 sets down accountabilities for public sector Chief Finance Officers (CFOs) to support ministerial and whole of government financial objectives and to provide information to portfolio departments or DTF. This reflects the broader priorities of Government to increase the accountability and transparency of departments' and agencies' finances.

Direction 2.4.6 is subject to the compliance and reporting requirements in the FMA and Standing Directions. This is discussed further below.

Application

Direction 2.4.6 applies to 'relevant Departments' and to 'Agencies', depending on the direction in question.

At the time of publication of this version, the relevant Departments were:

- Department of Education and Training (DET);
- Department of Environment, Land, Water and Planning (DELWP);
- Department of Families, Fairness and Housing (DFFH);
- Department of Health (DH);
- Department of Jobs, Precincts and Regions (DJPR);
- Department of Justice and Community Safety (DJCS);
- Department of Premier and Cabinet (DPC);
- Department of Transport (DOT); and
- Department of Treasury and Finance (DTF).

The definition of 'Agencies' captures public bodies as defined by the FMA, and bodies specified in section 16(1) of *Public Administration Act 2004*. It excludes those agencies that are already excluded from the Standing Directions, such as school councils. It also excludes Court Services Victoria, the Judicial College of Victoria, the Judicial Commission of Victoria, and independent offices as defined in the Standing Directions, such as the Victorian Auditor-General's Office.

Direction 2.4.6.1: Whole of government financial accountability of CFOs

Direction 2.4.6.1 sets down whole of government, and portfolio-wide, accountability for CFOs. It requires CFOs to support the principles of sound financial management set down in section 23D of the FMA.

The concept of 'whole of government financial objectives' in Direction 2.4.6.1(a) refers to the stated financial objectives of the Government of the day. It includes the financial policy objectives and strategies statement in the most recent Budget and Budget Update.

The ways in which a CFO might comply with this Direction will vary widely in practice. For example, it might be achieved through advice to a minister or the Government on an issue affecting the agency that has regard to factors such as the financial risks faced by the State; the prevailing economic circumstances; financial effects on future generations; financial sustainability and/or whole of government financial implications. This advice would be provided in various contexts, such as advising on policy decisions, budget bids, services or assets. The advice is only required to be provided in relation to matters relevant to the department or agency.

Directions 2.4.6.2 and 2.4.6.3: Accountability of CFOs to inform DTF/Portfolio Departments

Direction 2.4.6.2 requires CFOs of relevant departments to provide information to DTF in certain circumstances. Similarly, Direction 2.4.6.3 requires agency CFOs to provide information to their portfolio departments.

Notification of issues and risks

Directions 2.4.6.2(a) and 2.4.6.3(a) impose a requirement for CFOs to inform DTF or their portfolio department of issues and risks that may have an impact on the financial performance and position of the State. This requirement is ongoing, and arises at any time that the CFO identifies such an issue or risk. Preferably, the information is to be provided in written form (e.g. an email or letter). If in verbal form (e.g. a phone call or in person), a dated file note evidencing the conversation should be maintained.

The requirement placed on departmental CFOs in Direction 2.4.6.2(a) includes informing DTF of issues and risks identified in their portfolio agencies. This would include both issues identified by the departmental CFO, and issues notified to the departmental CFO by an agency. Accordingly, when a departmental CFO receives a notification from an agency under Direction 2.4.6.3(a), they should consider whether this needs to be passed on to DTF.

The provision of information under Directions 2.4.6.2(a) and 2.4.6.3(a) may be subject to the internal approval processes of the department or agency. For example, it may be that the department requires secretarial approval for the content of the notification.

There is an expectation that a CFO would exercise sufficient judgement to determine a significant issue or risk impacting on the State's financial performance and position, including reputation. For example, if the CFO thought it a significant enough impact to raise it with their departmental Secretary, they should use the same judgement to determine whether to inform DTF.

A CFO can also apply the same ‘reasonableness test’ used in the Standing Directions definition of ‘significant’ more broadly.

The AASB definition of ‘materiality’ is also a useful guide in a broader financial management context, not just in relation to financial reporting. It is material if 'in relation to information, that information which **if omitted, misstated or not disclosed** has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report' (this definition can be applied to broader information on financial management issues and risks).

An issue or risk is likely to be of significant impact in relation to the financial position and performance of the State if it extends beyond the capacity of a department to manage within its annual appropriation and other resources. For example, if seeking additional resources from government and/or unused surpluses, there is a need to inform DTF. Risks can also relate to the reputation of the State as an exemplary manager of public monies.

Examples, both at a departmental or portfolio agency level, that may have significant financial management implications include:

- a human or natural event/disaster resulting in a need for additional services;
- a change or reduction in Commonwealth funding arrangements;
- output or asset overspend/underspend;
- changes in ministerial or government priorities which impact on funding;
- issues with outsourced service providers (e.g. financial difficulties or poor service delivery);
- workforce issues (e.g. Enterprise Bargaining Agreement increases or industrial action);
- unexpected need for major asset replacement (e.g. fire or flood);
- losses or fraud which has severely compromised the financial governance and internal control framework or resulted in a significant financial cost;
- issues with or the loss of IT financial systems and/or information which may impact on data feeds and data quality to DTF;
- outstanding legal issues or potential legal exposure or claims;
- insurance and indemnity claims;
- audit findings of serious financial mismanagement or adverse audit opinions on financial statements; and
- concerns relating to the current or future financial sustainability of a portfolio agency.

This is not an exhaustive list of all the financial management issues or risks facing a portfolio department and/or agencies, but it illustrates some of the key risks that may impact upon government decision-making.

Responding to information requests

Directions 2.4.6.2(b) and 2.4.6.3(b) require CFOs to directly provide to DTF or their portfolio department factual financial information requested to facilitate reporting and Government decision making, within the time provided in the request.

Relevant financial information may include:

- strategic planning information (e.g. risks, challenges, options);
- the past, present and future allocations of resources;
- the outputs and outcomes resulting, or expected to result, from allocations;
- economic and financial analysis of policy proposals;
- program/service delivery information;
- business cases for outputs and assets; and
- savings information.

Factual financial information could include things like the quantum of spend on a particular program or sub-program. It does not include policy advice or recommendations.

By contrast to Directions 2.4.6.2(a) and 2.4.6.3(a), the requirement in Directions 2.4.6.2(b) and 2.4.6.3(b) is for the direct provision of information from the CFO to DTF or their portfolio department in response to a request.

Direction 2.4.6.4: Employment arrangements of departmental CFOs

Direction 2.4.6.4 requires aspects of departmental CFOs' employment arrangements to reflect a whole of government focus.

Direction 2.4.6.4 clarifies that departmental CFOs are employed by the Secretary of DTF under the *Public Administration Act 2004* and have whole of government accountabilities. Departmental Secretaries retain decision-making power in relation the internal departmental responsibilities of their CFOs, and are not subject to direction by DTF in respect of those internal matters.

Changes to position description, employment contract and performance plan

Direction 2.4.6.4(a) requires the Secretary of DTF to ensure that the position description, employment contract and performance plan of the department's CFO includes accountability to achieve Directions 2.4.6.1 and 2.4.6.2. The documents should replicate the wording in Directions 2.4.6.1 and 2.4.6.2, clarifying that whole of government financial accountability, and accountability to inform DTF, form a key part of the employment arrangement.

For example, the position description, employment contract and performance plan could include wording as follows:

The CFO will comply with Direction 2.4.6 issued by the Assistant Treasurer, by:

- **supporting whole of government financial objectives and the principles of sound financial management;**
- **supporting their portfolio Ministers in relation to the financial management of the department, the relevant Minister's portfolio and whole of government;**
- **informing 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**
- **directly providing to DTF factual financial information requested by DTF to facilitate reporting and Government decision making, within the time provided in the request.**

Consultation on CFO employment

Direction 2.4.6.4(b) requires the Secretary of DTF to consult the departmental Secretary on the appointment, removal, remuneration level and performance assessment of the department's CFO, including by ensuring that a representative of the department is included on any CFO recruitment panel. This consultation may be delegated by the Secretary of DTF or of the department concerned to other executives or officers in their respective departments.

A department may negotiate with DTF to determine the nature of the consultation in a given case, and DTF intends to take a practical approach. It is expected that such consultation would usually involve:

- **Appointment**: DTF seeks the department's input on the advertisement; a representative of the department is included on the recruitment panel; and a discussion is held between DTF and the department on the preferred candidate/s.
- **Removal**: A discussion is held between DTF and the department on the considerations and consequences of removal.
- **Remuneration**: At the time of appointment and any renegotiation of remuneration, DTF seeks the department's input on the appropriate remuneration range commensurate with the responsibilities of the role (the department would not need to be involved in the specific pay negotiations between the Secretary of DTF and the CFO).
- **Performance assessment**: DTF involves the department in the CFO's performance assessment, providing an opportunity to provide feedback directly to the CFO, their manager and/or the Secretary. This feedback will cover the achievement of whole of government accountabilities, as set down in Directions 2.4.6.1 and 2.4.6.2, as well as the CFO's internal departmental responsibilities. The department will also have the opportunity to make a recommendation to DTF in relation to any salary increase.

The consultation undertaken should be documented by both DTF and the department.

In circumstances where the CFO is absent for a period of time and an acting CFO arrangement is proposed, the department should consult with DTF on whether anything is required under Direction 2.4.6.4(b). Acting departmental CFOs are otherwise still subject to Directions 2.4.6.1 and 2.4.6.2.

Similarly, acting agency CFOs are still subject to Directions 2.4.6.1 and 2.4.6.3.

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.

Amongst other requirements, this means that Direction 2.4.6 is subject to:

- an annual assessment of compliance with the requirements;
- a detailed periodic review by the internal audit function;
- remedying any compliance deficiencies;
- reporting any material compliance deficiencies to the responsible Minister and DTF/Portfolio Department; and
- attestation in the Annual Report to compliance with the requirements.

Further, the Auditor General may audit against the requirements.

Further information on the compliance requirements in the Standing Directions is available in Standing Direction 5.1, Instruction 5.1 and Guidance 5.1 .

Guidance 2.5 – Delegations

Objective	This guidance provides information to support Public Sector Agencies in following Direction 2.5, including how to ensure delegations are properly exercised, reviewed and recorded.
Effective date	1 May 2019
Relevant Directions	2.2 Responsible Body 2.3 Accountable Officer 2.4 Chief Finance Officer 2.5 Delegations
Last reviewed	8 February 2023

Note: For delegations which confer authority to commit an Agency's financial resources, refer Guidance 3.3 – Financial Authorisations.

Delegation is appropriate

Delegations may be used when:

- it is required for the effective conduct of the business; and/or
- a formal separation of duties is required.

Formal separation of duties is a key internal control element designed to reduce errors.

Delegates should have:

- an understanding of the scope of their delegation (e.g. the type of activity);
- an understanding of any limits applying to their delegation (e.g. time limits);
- knowledge of processes for exercising a delegation;
- knowledge of mechanisms for managing any conflicts of interest (actual or perceived) related to a delegation; and
- awareness and understanding of all relevant policies, procedures and guidelines in the Agency's internal control system as well as external legislative requirements.

Central record of delegations

A central record of delegations should contain the following details:

- the transaction type, for example administrative and operational types;
- a list of positions holding delegations for each transaction type;
- operational limitations for each transaction or delegation type;
- a list of staff names holding positions; and
- specimen signatures and/or electronic approval processes for each holder of a delegation.

Delegations are current and reviewed

A review of delegations should occur regularly to ensure they are appropriate for the efficient and effective conduct of the business of the Agency.

The following could be considered as a part of the review:

- Is there any evidence of non-compliance with delegations?
- Are there instances of delegations not operating effectively?
- Are there any concerns about conflicting delegations?
- Have there been any significant changes to the structure, objectives and roles of the Agency and positions?
- Has a delegation never or very rarely been used?

Delegation following machinery of government changes

Following the announcement of machinery of government changes, Accountable Officers of Portfolio Departments should endeavour to facilitate the making of new delegations to ensure they are in place from the effective date of the proposed changes.

This is essential where new responsibilities have been assigned to the Portfolio Department in consequence of the machinery of government changes. Delegations previously given to employees engaged in those responsibilities by the Secretary (Accountable Officer) of the Portfolio Department from which the responsibilities have been transferred will cease to be effective from the date of the transfer. This occurs because the Secretary of that Portfolio Department no longer has any powers or duties relating to those transferred responsibilities, and therefore has no authority to delegate with respect to them.

It is not legally necessary for the Secretary of a Portfolio Department to revoke formally delegations relating to responsibilities which have been transferred from that Portfolio Department to another. As stated above, those delegations will cease to have effect from the date of the transfer. However, it is good practice to update documentation of delegations by removing from them responsibilities which are no longer within the Portfolio Department, as this avoids confusion as to the scope of a delegate's duties.

Employees of the (Victorian Public Sector) Agency

Direction 2.5(c)(i) requires that delegates are to be employees of the Agency, subject to Direction 2.5(d). For differences between employees, contractors and consultants, refer to Victorian Public Sector Commission's Guidance for Managers Engaging Contractors and Consultants to Perform a Public Sector Function[8].

Direction 2.5(d) provides that four categories of persons who are not employees of an Agency may be provided with delegation authority by the Responsible Body, Accountable Officer or CFO, as the case may be, of that Agency. For example, Direction 2.4.6.4 requires that the CFO of a Portfolio Department be an employee of DTF. Accordingly, Direction 2.5(d)(i) specifically provides that for delegation purposes, the Portfolio Department CFO is considered to be an employee of the Portfolio Department. Similarly, Direction 2.5(d)(ii) and (iii) provide that employees of one Agency seconded to another Agency, or undertaking responsibilities for another Agency under a formal agreement between the two Agencies, may be considered to be an employee of the second Agency for delegation purposes.

Direction 2.5(d)(iv) provides that Administrative Office Heads, executives and employees may also be considered to be an employee of the relevant Agency for delegation purposes. The relevant agency in this instance is the Department to which the Administrative Office is established under the *Public Administration Act 2004*. The Governor in Council may change the Department in relation to which the Administrative Office is established. This is done by an Order made under section 11 of the *Public Administration Act 2004* and is published in the Victorian Government Gazette.

It should be noted that in each case set out in Direction 2.5(d)(i) to (iii), the person must be an employee of the first Agency (i.e. DTF in the case of a Portfolio Department CFO).

The conditions set out in Direction 2.5(b) regarding accountability, oversight, appropriateness, recording, review and updating of delegations continue to apply to all delegations including those to which Direction 2.5(d) applies.

If the Responsible Body, Accountable Officer or CFO for an Agency considers that in particular circumstances it is necessary to give a delegation to a contractor or other non-employee, the Responsible Body, Accountable Officer or CFO must apply under Direction 1.5 for an exemption from Direction 2.5(c)(i).

Further information

For more information on delegations, please visit the Victorian Public Sector Commission's website[9].

[8] vpsc.vic.gov.au/html-resources/guidance-for-managers-engaging-contractors-and-consultants
[9] vpsc.vic.gov.au/governance/governance-structure-and-roles/governance-structure

Guidance 3.2.1– Audit Committee

Objective	Provides further guidance on the role of the Audit Committee, including a description of what should be included in an Audit Committee charter, a definition of appropriate skills and experience of an Audit Committee member, and what constitutes an independent member.
Effective Date	1 July 2016
Relevant Directions	3.2.1 Audit Committee 3.2.2 Internal audit 3.4 Internal control system 3.7 Managing risk 5.1 Financial management compliance
Last Reviewed	12 August 2022

Assess the effectiveness of the financial reporting control framework

Safeguarding the integrity of Agency financial reporting includes two important and interrelated roles for the Audit Committee. These are to independently assess the financial statements for completeness, consistency and conformity with Accounting Standards, and to regularly review the related financial policies, systems and processes.

The internal audit strategic plan and annual work program should include reviews of the effectiveness and efficiency of Agency financial systems and processes.

Such reviews, together with ongoing management and internal or external audit advice of significant issues that may affect the financial statements should enable the Audit Committee to assess whether the internal control systems are working, issues are adequately resolved, and the financial statements can be produced to present a true and fair view of the Agency's financial position and performance.

Management is responsible for the production of Agency financial statements/reports. The CFO is to provide a declaration to the Audit Committee that the Agency's:

- 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;
- 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
- systems and controls for financial management, performance and sustainability are operating efficiently and effectively in all material respects.

The Audit Committee reviews the financial statements using its knowledge of the entity, skills in financial accounting, outcomes of internal and external audits of financial management policies, systems and processes and the explanations from the CFO. This enables the Audit Committee to advise the Responsible Body whether the financial statements presents fairly, in all material aspects, the Agency's financial position and performance.

Review and assess the effectiveness of systems and controls

A key role for the Audit Committee is to review and assess the effectiveness of a range of systems, processes and controls under Direction 3.2.1.1.

Further information and checklists on Audit Committee considerations in its review and assessment can be found in The Australian National Audit Office (ANAO), Public Sector Audit Committees: Independent assurance and advice for Accountable Authorities[10].

NOTE: *In 2017 the ANAO decided to discontinue and cease distribution of a range of better practice guides therefore they are no longer updated but are available via archive links on the ANAO website. Various previous ANAO guidance are referenced throughout this document.*

Oversee internal audit activities

The Audit Committee's oversight of internal audit activities should include the following:

- review of the internal audit charter, resources and budget to determine whether these maintain internal audit's independence from management, and the function is adequately resourced;
- address all issues of independence and objectivity with the Internal Audit function;
- provide counsel to the agency as part of the agency's appointment process of the internal auditors;
- regular reviews of the adequacy and appropriateness of the rolling strategic internal audit plan and annual internal audit program based on Agency size, complexity and risks;
- review of the performance (effectiveness and efficiency) of internal audit, including:
  - internal audit's self-assessment of its performance;
  - the quality of internal audit services and reports delivered;
  - progress of the internal audit program; and
  - how internal audit has acquitted against its charter;
- reviewing internal audit's participation in non-assurance roles to assess potential impairment of independence and alignment with the internal audit program;
- review all audit reports and provide advice to the Accountable Officer/Responsible Body on significant issues identified and action to be taken on issues raised that are relevant to the Agency;
- reviewing management's implementation of internal audit's findings and recommendations; and
- having an open and transparent relationship with the internal audit function and to meet periodically without management.

The Institute of Internal Auditors' Audit Committee Oversight Brochure [11], provides guidance on internal audit oversight considerations, including quality of performance.

When the internal audit function is co-sourced or outsourced, it is expected that the Committee would provide input to the statement of requirements developed as part of an appointment or tender process. In particular, the Audit Committee needs to ensure the independence of the function is not compromised and consider potential relationships with the external provider that may impair the independence of the assurance process internal audit provides.

[10] www.anao.gov.au/work/better-practice-guide/review-anao-better-practice-guides
[11] na.theiia.org/services/quality/Public_Documents/Forms/AllItems.aspx

Considering audit recommendations and agency management actions

While the FMA and Directions require Audit Committees to consider audit recommendations relating to or impacting on financial management, performance and sustainability, it is recommended that Agency Audit Committees consider all audit recommendations made by either internal or external audit, even if they may fall outside this scope.

Audit Committees should establish effective processes for monitoring the implementation of all Agency management actions relating to audit recommendations, and a risk-based approach[12] for assessing whether completed management actions have effectively addressed the underlying risks or issues raised by audit.

The Victorian Auditor-General recommended this approach in his report on Audit Committee Governance (August 2016).[13] The report made a number of recommendations regarding best practice governance arrangements for Agency Audit Committees to ensure they operate in a fully effective manner.

Review annual financial statements

As the Audit Committee independently reviews the Agency's annual financial statements and makes a recommendation to the Accountable Officer/Responsible Body, it is important for Audit Committee members to have a sound understanding of the Agency's financial reporting requirements and the significant policies and principles that underpin these reports.

In general, the Audit Committee should consider the following more specific responsibilities in relation to the annual financial statements of the Agency:

- obtain assurance from the CFO that the financial statements comply with all prescribed accounting requirements and are materially correct before recommending the financial statements for certification by the Accountable Officer or Responsible Body;
- assess the appropriateness of Agency accounting policies;
- assess the process used by management to make material estimates and judgements in financial statements;
- identify and actively assess any unusual financial or operational trends or variations from forecasts;
- review the impact of any materially adverse audit findings on the integrity of the Agency's financial statements;
- assess whether the information contained in the financial statements is consistent with the Audit Committee's knowledge of the Agency's 'business' and the significant issues raised throughout the year that may affect the financial statements;
- perform other due care and diligence processes, including whether the statements are complete and operationally accurate and 'present fairly' the Agency's activities for the period under review and the state of its affairs at balance date. Of particular relevance are the various notes and other disclosures that complement the statements, including any performance indicators; and
- enquire of management and external audit that the financial statements have been prepared in accordance with the timeframes agreed with the external auditors and whether there are any unresolved issues with external audit.

The judgement in the 2011 Federal Court case of *ASIC v Healy* (the Centro Case) highlighted the directors' responsibilities in relation to a company's financial statements. The judgement outlined that directors cannot simply rely on specialist advice (e.g. from external auditors) or advice from others (e.g. management) in discharging their duties. The general principles covered by the judgement could be applied to Agencies when the Accountable Officer and, in addition for Public Bodies, a member of the Responsible Body, are responsible for certifying the Agency's financial statements.

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[12] For an example of a risk-based approach to compliance auditing, refer global.theiia.org/standards-guidance/topics/Documents/201501GuidetoRBIA.pdf

[13] www.audit.vic.gov.au/report/audit-committee-governance

Review of annual report of operations

The Directions require the Audit Committee to review the report of operations before it is finalised. The Audit Committee review should be limited to checking the consistency of financial information in the report with the audited financial statements.

The Audit Committee review should only focus on relevant financial related information in the report of operations that impacts the Agency's financial management, financial performance and financial sustainability, not all the information in the report of operations.

For example, this may include financial related performance indicators, historical financial position summaries and any other information containing financial outcomes or data in the report of operations.

In considering the financial related information the committee should be satisfied that the messages conveyed from such information are not inconsistent with the view presented by the audited financial statements.

Review and monitor compliance

A key responsibility of an Agency's Audit committee is to review and monitor compliance with relevant risk and financial management laws and standards and the Directions. This will enable the Committee to provide assurance and make recommendations to the Responsible Body on the level of compliance attained, issues to be resolved and proposed mitigation plans.

Reviewing the effectiveness of how an Agency is monitoring its financial management compliance with relevant legislation, regulations and associated government policies is generally an established function of Audit committees.

However, in larger Agencies, with significant operational risks, the Responsible Body may establish a separate Risk Committee to undertake overall Agency risk oversight.

Agencies must comply with a considerable volume and complexity of legislation and policy, including the Directions. Therefore, it would be expected the Audit Committee will focus on those aspects that pose the highest risk to the Agency, and on how the Agency manages its compliance responsibilities.

Similarly, in reviewing an Agency's compliance with the FMA, Directions and Instructions, it is expected that Audit Committees will take a practical, risk-based approach[14] to the evidence required to demonstrate compliance. This is particularly relevant to those Directions that require Agencies to achieve broad principles of good financial management. An example is Direction 2.2(a), which requires the Responsible Body to ensure that the Agency furthers government objectives and priorities. Reasonable evidence for compliance with such a requirement could include a brief summary of significant Government priorities that the Agency has pursued in the relevant year. It would usually be unreasonable to require that the Agency undertake a detailed analysis of all actions taken under such requirements.

An Audit Committee should, at least annually, in relation to financial management, performance and sustainability, undertake the following:

- review management processes to ensure the Agency is kept up to date with new legislation and/or changes to existing legislation relevant to the Agency;
- review the effectiveness of internal control and other systems for monitoring the Agency's compliance with the relevant legislation and associated government policies;
- monitor remedial actions for significant and systemic breaches of compliance;
- determine whether management has appropriately considered legal and compliance risks as part of the Agency wide risk management plan;
- regularly review the adequacy of the strategic internal audit plan and annual internal audit program based on the size, complexity and risks of the Agency;
- provide advice and assurance to the Responsible Body/Accountable Officer regarding the Agency's annual compliance assessment report; and
- provide advice (including mitigation strategies) to the Responsible Body/Accountable Officer regarding the Agency's responsibilities in relation to any Fraud, Corruption and Other Losses, and Material Compliance Deficiencies (see Directions 3.5 and 5.1.6).

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[14] For an example of a risk-based approach to compliance auditing, refer global.theiia.org/standards-guidance/topics/Documents/201501GuidetoRBIA.pdf

Audit Committee responsibility to review and monitor long term investments

Consistent with the Responsible Body's overarching governance responsibilities on financial management, sustainability and performance, a key responsibility of the Audit Committee is to recommend, where relevant, the investment policy, incorporating risk and return objectives within appropriate risk parameters to the Agency's board for approval. The Audit Committee should review these on an annual basis or when a material change has occurred.

Where the agency has long term investments, the Audit Committee should recommend the Strategic Asset Allocation, developed with guidance from VFMC, to meet the investment objectives to the Agency's board for approval.

The Audit Committee should meet with VFMC once per year to oversee performance in line with expectations. Additionally, they should endeavour to attend investment updates provided by VFMC in order to obtain relevant context surrounding the management of the investments in the execution of the Committee's governance activities.

Audit Committee performance and membership review

Under Direction 3.2.1.4, the Responsible Body must formally review the Audit Committee's performance and membership at least once every three years. The membership aspect of the review will help to ensure the individual members and the overall composition of the Audit Committee continue to meet performance expectations and the membership requirements of Direction 3.2.1.3.

Annual self-assessment

In assessing its own performance under Direction 3.2.1.3(g), the Audit Committee should consider at least the following:

- the effectiveness of the Audit Committee as a whole;
- the performance of individual Audit Committee members (for external members, performance criteria may be included in their letter/contract of engagement, and for Agency staff, performance criteria may be included in their performance plans);
- identifying the process for implementing action plans that respond to areas identified for improvement; and
- compliance with the Audit Committee's charter.

The Audit Committee might assess its performance collectively and individually against criteria such as:

- a good understanding of, and commitment to, the Audit Committee's role and responsibilities;
- objectivity and independence;
- an ability and willingness to take difficult but constructive positions at meetings when necessary;
- a good understanding of the Agency's business;
- a good understanding of the Agency's risk management and internal control processes;
- participation in activities to maintain current knowledge of their business, industry, financial and regulatory environment; and
- preparation for, and participation in, Audit Committee meetings.

Audit committees can use tools such as self-assessment questionnaires to assist with the evaluation of a member's performance and contribution to the Audit Committee. The Audit Committee may also seek input from non-member attendees and separately assess the information received.

The self-assessment approach adopted by the Audit Committee should cover areas in the Committee's charter such as authority, membership, meetings, organisation and responsibilities.

The results of the self-assessment should be used by the Audit Committee for discussion to identify areas for improvement and be provided to the chair of the Responsible Body.

Audit Committee Charter

The Audit Committee charter should be consistent with the requirements of the Audit Committee as specified in the Directions and specify at a minimum, the following:

- authority, role, operations and membership requirements (including declarations of interests) of the Committee;
- frequency of meetings, quorum, how and when the minutes and recommendations of the Audit Committee are forwarded to the Responsible Body;

- the process and authority for the Committee to access staff and information held by the Agency relevant to the Committee's responsibilities;
- authorisation for the Chair to have direct access to the Responsible Body to discuss any matters deemed necessary; and
- authorisation for the Committee to seek independent professional advice, as and when required to enhance its independence and capacity to obtain a full appreciation of relevant issues.

Sample Audit Committee charters are available on the Victorian Public Sector Commission[15] or the Australian National Audit Office[16] websites.

Appropriate skills and experience

The appropriate skills and experience for the Audit Committee include:

- integrity, objectivity, accountability, honesty and openness;
- an understanding of the Agency, its products, its services, risks and controls (it is noted that new audit committee members may not have a full understanding of the Agency when joining and should be given sufficient time to understand the business);
- the ability to read or understand basic financial statements, ask relevant questions about them and interpret and evaluate the answers;
- the ability to enquire, evaluate and make independent judgement;
- the ability to offer different perspectives to management and constructive suggestions; and
- an understanding of Audit Committee functions.

In addition, Audit Committee members should have the capacity to dedicate sufficient time and energy to the role.

Appropriate expertise in financial accounting or auditing

Appropriate expertise includes any of the following:

- a thorough knowledge of Australian accounting standards and financial statements;
- experience in applying the Australian accounting standards in connection with financial reporting and public financial statements;
- experience in preparing or auditing general purpose financial statements;
- an understanding of the accounting issues within the specific industry;
- a thorough knowledge of Australian auditing standards; or
- experience with internal controls and procedures for financial reporting.

A Responsible Body may look beyond their own Board to appoint an external Audit Committee member should no member of their Board be able to provide the appropriate expertise in financial accounting or auditing, or to meet the requirement for a majority of independent members.

Independent members

An independent member of an Audit Committee is not involved in the day-to-day management of the Agency. This seeks to ensure that the independent Audit Committee member acts in an objective, impartial manner, is free from conflict of interest, inherent bias or undue external influence.

For Departments, independent members must be external to the Department. Where Departments have an even number of independent (external) and non-independent members (management) on the Committee, the independent chair will have the casting vote in any decisions requiring a vote. In this situation a Department will be compliant with the Direction.

For Agencies in which the Responsible Body is the board, at least three members must be non-executive directors of the board. At least two of those three members must be independent.

[15] vpsc.vic.gov.au

[16] www.anao.gov.au

Relationships that may be seen to impair an Audit Committee member's independence include:

- current or previous employment by the Agency or having been a non-executive Board director after ceasing to hold such employment;
- receipt of material consulting, advisory or contractual relationship with the Agency other than as a Board or committee member of the Agency; or
- any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the person's ability to act in the best interests of the Agency.

A non-executive director is a member of the Board of directors of an Agency who does not form part of the executive management team. For example, they are not the Chief Executive Officer or Chief Finance and Accounting Officer.

Generally, Audit Committee members are sourced from non-executive directors on the Board. As such, a non-executive board member (director) can also be an independent member of the Audit Committee. The concepts of 'non-executive director' (i.e. member of the Board) and 'independent Audit Committee member' are therefore not mutually exclusive.

An employee of the Agency can be a member of the Audit Committee, however they are not considered an 'independent' member.

While under the Directions an Audit Committee may have internal management representatives, these should not include executive members of the board. For Departments members of the executive team may be members of the Audit Committee (except those excluded in the Direction). However, while these members can participate in discussions, they should not vote on issues related to their functional area due to conflict of interest.

Whether a non-executive director's independence is affected for the purposes of them serving as an independent member of an Audit Committee should be judged on whether the member's service on the board or committee has been for a period which could, or could reasonably be perceived to, materially interfere with the person's ability to act in the best interests of the public sector Agency.

Members of an Audit Committee should be appointed for an initial term of up to three years and, subject to a formal review of performance and independence, may be appointed for further terms of up to three years but no more than nine years in total.

Smaller Agencies

To reduce the burden on smaller Agencies, for example a one-member Responsible Body such as a Commissioner, they may consider sharing an appropriately constituted Audit Committee with other similar Agencies.

Alternatively, any smaller low risk Agency may seek an exemption from this requirement. In this case, the Responsible Body takes on the role.

Further information

The Australian National Audit Office (ANAO) Better Practice Guide March 2015, Public Sector Audit Committees: Independent Assurance and Advice for Accountable Authorities[17] – sets out comprehensive guidance including a discussion on: a range of functions and responsibilities that may be undertaken by the Audit Committee of a Commonwealth entity; shared committee arrangements; and sharing resources between entities. The Guide also includes a number of checklists and other material for use by committees and entity management.

ASX Corporate Governance Principles and Recommendations 3rd Edition[18] – sets out recommended corporate governance practices for entities listed on ASX. As they reflect a contemporary view of appropriate corporate governance standards public sector Agencies may find them helpful in formulating their governance rules and practices.

The Institute of Internal Auditors Audit Committees: A guide to good practice[19] – is a joint publication from the Auditing and Assurance Standards Board, Australian Institute of Company Directors and The Institute of Internal Auditors – Australia. It provides a practical introduction to the role and responsibilities of an Audit Committee. Although the guide is written largely for directors and Audit Committees of Australian listed companies, Directors, boards of management and Audit Committees of public sector entities may also find this guide a useful reference. The guide can be purchased from the IIA website.

[17] www.anao.gov.au/work/better-practice-guide/review-anao-better-practice-guides
[18] www.asx.com.au/documents/regulation/cgc-principles-and-recommendations-fourth-edn.pdf
[19] www.iia.org.au/technical-resources/knowledgeCentre.aspx

Victorian Auditor-General's Report – Water Entities Results of 2013-14 (February 2015)[20] – provides a useful list of key elements (good practices) for an effective Audit Committee framework.

Victorian Auditor-General's Report – Audit Committee Governance (August 2016)[21] – makes a number of recommendations regarding best practice governance arrangement for Audit Committees to ensure they are fully effective.

[20] www.audit.vic.gov.au/report/water-entities-results-2013-14-audits?section=31406--6-audit-committees-

[21] www.audit.vic.gov.au/report/audit-committee-governance

Guidance 3.2.2 – Internal audit

Objective	To guide consideration of an internal audit charter, a rolling strategic internal audit plan and an annual audit work program.
Relevant Directions	3.2.1 Audit Committee 3.2.2 Internal Audit 3.4 Internal control system 5.1 Financial management compliance
Effective date	1 July 2016
Last reviewed	1 May 2019

Internal audit

Internal audit is an important part of an Agency's governance framework, providing an independent and objective assessment of the efficiency and effectiveness of an Agency's controls, and practical recommendations for improvement.

To ensure independence of the internal audit function, it should functionally report to the Audit Committee, and administratively to management.

The internal audit charter provides the framework for the conduct of the Agency internal audit function.

The Internal Audit function is intended to provide the Audit Committee and Responsible Body with a level of assurance that key risks to the achievement of an Agency's objectives are appropriately addressed.

Independent of management

Internal auditors must be independent of management in carrying out their functions. Independence includes that they must not:

- have operational duties; and
- be subject to direction from management in how they undertake their functions.

In relation to functional matters, the internal audit function is accountable to the Responsible Body generally through its Audit Committee. In relation to administrative matters such as human resource administration and budgets, the internal audit function reports to management (e.g. Accountable Officer or its delegate).

Suitably experienced and qualified

Internal auditors must be suitably experienced and qualified. What constitutes this will depend on the judgement of the Responsible Body having regard to the circumstances of the Agency. A relevant tertiary qualification would usually be required. A professional designation (such as membership of the Institute of Internal Auditors) is not a mandatory requirement. However, it is a relevant qualification and will help to ensure that internal auditors are suitably qualified and keep their knowledge and expertise up to date with developments in internal auditing.

Conflicts of interest

The internal audit function can be in-sourced, co-sourced or outsourced. Whichever resourcing model the Agency adopts, the split between functional and administrative reporting still applies. For example, the contract administration of an outsourced function can remain with management, but contract performance remains with the Audit Committee.

When the Internal Audit role is to be filled by an external service provider, relationships that may be seen to impair Internal Audit member's independence could include:

- current or previous employment by the Agency, or having been a non-executive director after ceasing to hold such employment;
- receipt of a material consulting, advisory or contractual relationship with the Agency, other than as an internal auditor of the Agency; or
- any interest or business or other relationship that could, or could reasonably be perceived to, materially interfere with the internal auditor's ability to act in a capacity independent of management and in the best interests of the Agency.

Charter

The internal audit charter defines the purpose, responsibilities and accountability of the internal audit function. It should be consistent with the internal audit requirements in the Directions and specify at a minimum, the following:

(a) purpose;

(b) role;

(c) authority and accountability, including access to records and personnel;

(d) independence and objectivity;

(e) responsibilities (some of the key responsibilities can be further expanded as separate topics e.g. planning, review of internal audit activity);

(f) outsourcing/co-sourcing arrangements (if applicable);

(g) reporting and monitoring;

(h) annual review of the charter by the Audit Committee; and

(i) standards of audit practice, reflecting Australian and international auditing and professional standards relating to internal audit.

Helpful guidance on the contents of an internal audit charter can be found at:

- Institute of Internal Auditors (Australia) – Internal Audit Charter checklist[22];
- Australian National Audit Office – Model Internal Audit Charter[23].

Strategic internal audit plan and an annual audit work program

Internal audit planning needs to be appropriate for the Agency's size, complexity of functions and risk profile. It should consider the key risks and areas outlined in the Agency's Corporate plan. Potential areas for internal audit coverage include:

- compliance with legislation, standards, policies and procedures;
- operational/financial processes and controls and review of transactions;
- information and communication technology including IT systems and controls on information quality, integrity and reliability;
- evaluation of the efficiency and effectiveness of the Agency's performance, including specific areas of Agency functions;
- governance arrangements and planning;
- the risk management framework;
- project/program management; and
- special investigations and ad hoc reviews.

The strategic internal audit plan and annual audit work program need to be of sufficient detail to assure the Audit Committee and Responsible Body that the proposed audit coverage will address the business needs and key risks.

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[22] www.iia.org.au/sf_docs/default-source/quality/internal-audit-charter-review-checklist8E790F548D4A.pdf?sfvrsn=2

[23] www.anao.gov.au/work/better-practice-guide/review-anao-better-practice-guides

Strategic internal audit plan

The strategic internal audit plan must cover a period of three to four years. It supports the Direction requirement of reviewing all financial management obligations over a medium-term cycle.

For Portfolio Departments, this timeframe also aligns with the rolling four- year corporate planning process which considers how a Department will respond to challenges and expectations in the medium term.

The strategic internal audit plan should be reviewed and updated annually and describe the role of internal audit in the Agency's overall assurance processes, and provide an important link between the internal audit charter and the internal audit annual work program.

Good practice internal audit planning involves a risk assessment of the areas of strategic and operational significance to the achievement of an Agency's objectives to determine appropriate timing and frequency of coverage for these areas over the planning period. Key risk areas may be reviewed more frequently, even yearly, whereas lower risk areas may only be reviewed in detail every three to four years.

One key risk area is the investment of financial assets. Since each Agency's Responsible Body must attest annually that it complies with the requirements of SDs 3.7.2.1 and 3.7.2.2 with respect to its financial assets and the separation of third party funds from the Agency's funds, it would be prudent for internal audit to ensure that its annual plan specifically covers this.

The strategic internal audit plan provides a comprehensive view of an Agency's governance, risk and control activities and helps to focus the internal audit effort. The plan communicates the medium-term internal audit direction in supporting the achievement of the Agency's objectives and the mitigation of risks. Senior management provides an important input into this planning process.

Annual audit work program

The annual internal audit work program sets out in detail the key areas for internal audit review for the upcoming year.

Evidence required for compliance

In conducting audits under the strategic internal audit plan, it is expected that Internal Audit will take a practical, risk-based approach[24] to the evidence required to demonstrate compliance. This is particularly relevant to those directions that require Agencies to achieve broad principles of good financial management. An example is Direction 2.2(a), which requires the Responsible Body to ensure that the Agency furthers government objectives and priorities. Reasonable evidence for compliance with such a requirement could include a brief summary of significant Government priorities that the Agency has pursued in the relevant year. It would usually be unreasonable to require that the Agency undertake a detailed analysis of all actions taken under such requirements.

Further information

Planning reference material

Further guidance on the contents of the strategic internal audit plan and annual internal audit program can be obtained from the following:

- Institute of Internal Auditors (Australia), Practice Guide – Developing the Internal Audit Strategic Plan[25];
- Australian National Audit Office, Better Practice Guide, Public Sector Internal Audit (September 2012)[26];
- Australian National Audit Office – Planning Internal Audit Activities[27]; and
- Australian National Audit Office – Templates and guidance on internal audit strategy and work plan[28].

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[24] For an example of a risk-based approach to compliance auditing, refer global.theiia.org/standards-guidance/topics/Documents/201501GuidetoRBIA.pdf
[25] www.iia.org.au/technical-resources/professionalGuidance/practiceGuides.aspx
[26] www.anao.gov.au/work/better-practice-guide/review-anao-better-practice-guides
[27] www.anao.gov.au/work/better-practice-guide/review-anao-better-practice-guides
[28] www.anao.gov.au/work/better-practice-guide/review-anao-better-practice-guides

Professional standards

The Institute of Internal Auditors (IIA Australia) website provides a number of best practice guides and training, including:

- International Standards for the Professional Practice of Internal Auditing[29];
- International Professional Practices Framework[30];
- Assisting Small Internal Audit Activities in Implementing the 'International Standards for the Professional Practice of Internal Auditing[31]; and
- Best practice and updated skills training for Audit Committee members.

Measuring and assessing effectiveness

- The IIA Practice Guide – Measuring Internal Audit Effectiveness and Efficiency [32]will help Internal Audit measure, monitor and report the results of its effectiveness and efficiency to the Audit Committee.
- The IIA Practice Guide – Assessing the Adequacy of Risk Management[31][33] using ISO 31000 will help Internal Audit assess any risk management process established by the Agency.

Victorian Auditor-General's Office

Audit reports with internal audit recommendations for Agencies to consider:

- Internal Audit Performance[34] – examination of the internal audit functions of seven portfolio departments and assessed how well they use their internal audit resources.
- Public Hospitals: Results of the 2013–14 Audits.[35]
- Portfolio Departments and Associated Entities: Results of the 2013–14 Audits.[36]

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[29] www.iia.org.au/technical-resources/professionalGuidance/standards.aspx
[30] www.iia.org.au/technical-resources/professionalGuidance.aspx
[31] www.iia.org.au/technical-resources/professionalGuidance/practiceGuides.aspx
[32] www.iia.org.au/technical-resources/professionalGuidance/practiceGuides.aspx
[33] www.iia.org.au/technical-resources/professionalGuidance/practiceGuides.aspx
[34] www.audit.vic.gov.au/report/internal-audit-performance
[35] www.audit.vic.gov.au/report/public-hospitals-results-2013-14-audits?section=32320--4-internal-audit&show-sections=1#4-internal-audit
[36] www.audit.vic.gov.au/report/portfolio-departments-and-associated-entities-results-2013-14-audits?section=31422--4-internal-audit-&show-sections=1#4-internal-audit-

Guidance 3.3 – Financial authorisations

Objective	This guidance provides information to support Public Sector Agencies in following Direction 3.3, including how to ensure authorisations are properly exercised, reviewed and recorded.
Effective date	1 July 2016
Relevant Directions	2.2 Responsible Body 2.3 Accountable Officer 3.3 Financial Authorisations
Last reviewed	8 February 2023

Authorisation is appropriate

A financial authorisation is a particular type of delegation (refer Direction 2.5). An authorisation may be used when:

- it is required for the effective conduct of the business; and/or
- a formal separation of duties is required; and/or
- there is a need to mitigate financial risk, including Fraud.

Formal separation of duties is a key internal control element designed to reduce errors and the risk of Fraud. Authorisations for the spending and receipt of public monies should be allocated in such a way that no one authorised position has control or authority over the end to end process.

Authorised persons should have:

- an understanding of the scope of their authorisation (e.g. the type of activity);
- an understanding of any limits applying to their authorisation (e.g. financial limits);
- knowledge of processes for exercising an authorisation;
- knowledge of mechanisms for managing any conflicts of interest (actual or perceived) related to an authorisation; and
- awareness and understanding of all relevant policies, procedures and guidelines in the Agency's internal control system as well as external legislative requirements.

Central record of financial authorisations

A central record of financial authorisations should contain the following details:

- the transaction type, for example financing, investing and operational types;
- a list of positions holding financial authorisations for each transaction type;
- financial and operational limitations for each transaction or authorisation type;
- a list of staff names holding positions; and
- specimen signatures and/or electronic approval processes for each holder of an authorisation.

Authorisations are current and reviewed

A review of authorisations should occur regularly to ensure they are appropriate for the efficient and effective conduct of the business of the Agency.

The following could be considered as a part of the review:

- Is there any evidence of non-compliance with authorisations?
- Are there instances of authorisations not operating effectively?
- Is there any evidence of Fraud?
- Are there any concerns about conflicting authorisations?
- Have there been any significant changes to the structure, objectives and roles of the Agency and positions?
- Has an authorisation never or very rarely been used?

Mechanisms should be in place to enable continuous and efficient running of the Agency in the absence of the holders of an authorised position. In the event of a major restructure of an Agency (e.g. a restructure affecting 50 per cent or more of the positions in the Agency), financial authorisations should be reassessed and reapproved within one calendar month.

Financial authorisation following machinery of government changes

Following the announcement of machinery of government changes, Portfolio Departments should endeavour to facilitate the making of new financial authorisations to ensure they are in place from the effective date of the proposed changes.

This should also be done following a change of Minister, even if the Minister is part of the same Government. If following a re-assignment of Ministerial responsibilities, a Portfolio Department has one or more continuing Ministers as well as a new one, only the new Minister needs to sign a new instrument of financial authorisation (unless changes are being made to one or more authorisations).

For Portfolio Departments, the Responsible Minister is the Minister or the Ministers jointly if there is more than one Minister for that Portfolio Department. Accordingly, in a Portfolio Department with multiple portfolio Ministers, a financial authorisation should be conferred 'jointly' by all of its respective Ministers.

A financial authorisation may be conferred 'jointly' by having each Minister sign the one instrument of authorisation (i.e. the same document). Alternatively, each Minister could provide separate written authorisation by signing a counterpart copy of the instrument of delegation.

Equally, when remaking financial authorisations, each relevant Minister could sign the one instrument of delegation or provide separate written authorisations by signing a counterpart copy of the instrument of delegation.

If an instrument of authorisation is being signed in counterpart, it should expressly state that it is to be (or can be) signed in counterpart by the relevant Ministers. Departments should also advise their Ministers that each portfolio Minister has been provided with a counterpart copy for signature.

Financial authorisation limits – extensions to contracts

Whatever financial authorisation limit an employee has (noting that under SD 3.3, for Departments, a limit **over** $10 million can only be delegated directly by a Minister, not subdelegated by the Secretary), from a financial authorisations perspective an extension to a contract should be considered to be part of the original contract.

This means that if the combined cost of the original contract and the extension goes over the employee's authorisation limit, the decision whether or not to extend needs to be referred to some-one with a high enough limit to cover the whole contract, including the extension.

This is consistent with DTF's position that an original contract must not be split into several sub-contracts to get around a financial authorisation limit. Multiple contracts should only be entered into where the obligations are clearly separate and not interlinked. Great caution should be exercised where:

- the multiple contracts are with the same counterparty in respect of the same project; or
- where the contracts are with different counterparties, but the satisfactory completion of one contract is entirely or very largely dependent on the satisfactory completion of the other.

This also means it is not acceptable for a different person to approve the extension as though it was a stand-alone contract, if the authorisation limit of the person who approved the original contract would be breached by approving the contract extension.

For example, suppose a person with a limit of $1 million has signed a contract for $800,000 and is considering an extension to that contract of another $400,000. The combined cost of the contract now will be $1.2 million, so he or she can't approve the extension. However, they also cannot ask another employee with a limit of, say, $500,000 to approve just the extension, because while the extension is within the second employee's limit, the contract as a whole, after the extension is approved, would be outside the limit of either employee.

An extension to an existing contract can be a genuinely separate decision subsequent to the original contract. On the other hand, it can sometimes indicate under-specification of the original contract to disguise the true total cost.

For these reasons, DTF considers that financial authorisations do not allow any person to authorise an extension to a contract if the total contract cost would then exceed the person's financial authorisation limit.

Employees of the (Victorian Public Sector) Agency

Directions 3.3(b)(v) and (c)(i) requires that an authorised person is an employee of the Agency, subject to Direction 3.3(d). For differences between employees, contractors and consultants, refer to Victorian Public Sector Commission's Guidance for Managers Engaging Contractors and Consultants to Perform a Public Sector Function[37].

Direction 3.3(d) provides that four categories of persons who are not employees of an Agency may be provided with financial authorisations by the Responsible Body of the Agency. For example, Direction 2.4.6.4 requires that the CFO of a Portfolio Department be an employee of DTF. Accordingly, Direction 3.3(d)(i) specifically provides that for financial authorisation purposes, the Portfolio Department CFO is considered to be an employee of the Portfolio Department. Similarly, Direction 3.3(d)(ii) and (iii) provide that employees of one Agency seconded to another Agency, or undertaking responsibilities for another Agency under a formal agreement between the two Agencies, may be considered to be an employee of the second Agency for financial authorisation purposes.

Direction 2.5(d)(iv) provides that Administrative Office Heads, executives and employees may also be considered to be an employee of the relevant Agency for delegation purposes. The relevant agency in this instance is the Department to which the Administrative Office is established under the *Public Administration Act 2004*. The Governor in Council may change the Department in relation to which the Administrative Office is established. This is done by an Order made under section 11 of the *Public Administration Act 2004* and is published in the Victorian Government Gazette.

It should be noted that in each case set out in Direction 3.3(d)(i) to (iii), the person <u>must</u> be an employee of the first Agency (i.e. DTF in the case of a Portfolio Department CFO).

The conditions set out in Direction 3.3(b) regarding appropriateness, duties, review, updating and recording of delegations continue to apply to <u>all</u> delegations <u>including</u> those to which Direction 3.3(d) applies.

If the Responsible Body for an Agency considers that in exceptional circumstances it is necessary to give a financial authorisation to a contractor or other non-employee, the Responsible Body must apply under Direction 1.5 for an exemption from Direction 3.3(b)(v).

Financial Authorisations relating to employment within a department

Under the *Public Administration Act 2004*, the Secretary of a Portfolio Department or an office holder included under section 16(1) of that Act has the rights, powers, authorities or duties of an employer with respect to the Portfolio Department or other body of which he or she is the public service body Head.

This means that the Secretary or s. 16(1) office holder has the legal authority to incur expenditure directly related to employment, including salaries, superannuation, WorkCover premiums and the like. The Responsible Minister does not have employment powers with respect to the Department or s. 16(1) Agency and so cannot provide a financial authorisation for employment-related costs.

Further information

For more information on financial authorisations, please visit the Victorian Public Sector Commission's website[38].

[37] vpsc.vic.gov.au/html-resources/guidance-for-managers-engaging-contractors-and-consultants

[38] vpsc.vic.gov.au

Guidance 3.4 – Internal control system

Objective	Describes the five key components of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework, and provide further information on maintaining and implementing policies and procedures.
Effective date	1 July 2016
Relevant Directions	3.3 Financial Authorisations 3.4 Internal control system 3.5 Fraud, Corruption and Other Losses 3.6 Purchasing cards 3.7 Managing risk 3.9 Managing financial information 4.2 Using and managing public resources 5.3 External reporting and information provision
Last reviewed	1 May 2019

Internal control system

An internal control system is a range of processes established by an Agency's Responsible Body, management, and other personnel, to provide reasonable assurance regarding:

- effectiveness and efficiency of operations, including financial and operational performance goals and safeguarding assets against loss;
- reliability of reporting, including internal and external financial and non-financial reporting; and
- compliance with applicable laws and regulations to which the Agency is subject.

An Agency's internal control system should clearly articulate expectations and internal accountabilities for the management of the Agency's activities and key risks.

COSO Framework

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) *Internal Control – Integrated Framework* [39] provides approaches and examples of how Agencies can apply key principles in designing, implementing, or conducting control over the Agency's operations.

The framework sets out five components of internal control. It also sets out seventeen principles representing the fundamental concepts associated with each component. The principles can apply to any size or type of Agency. However, the extent to which these principles are implemented by Agencies may vary depending on risk profile and complexity of operations. For example, government Departments and Agencies with more complex risk profiles and operations may include additional principles (such as Prudential Requirements and Insurance Requirements for Public Finance Corporations). Application of the principles will also evolve as circumstances change over time.

The five components of the COSO Framework and associated principles are described below.

Control environment

The control environment is the foundation for all other components of internal control. The Accountable Officer and senior management should set the tone for the organisation in relation to the importance of internal control and expected standards of conduct. The control environment provides discipline, process and structure.

[39] na.theiia.org/standards-guidance/topics/documents/executive_summary.pdf

The five principles relating to the control environment are:

- the Agency demonstrates a commitment to integrity and ethical values;
- the Responsible Body demonstrates independence of management and exercises oversight for the development and performance of internal control;
- the Responsible Body establishes structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives;
- the Agency demonstrates a commitment to attract, develop and retain competent individuals in alignment with objectives; and
- the Agency holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk assessment

Risk assessment involves a dynamic and iterative process for identifying and analysing risks to achieving the Agency's objectives and forming a basis for determining how risks should be managed. Management should consider possible changes in the external environment and within its own business model that may impede its ability to achieve its objectives. See Direction 3.7.1 for specific requirements in the VPS.

The four principles relating to risk assessment are:

- the Agency specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives;
- the Agency identifies risks to the achievement of its objectives across the Agency and analyses risks as a basis for determining how the risks should be managed;
- the Agency considers the potential for fraud in assessing risks to the achievement of objectives; and
- the Agency identifies and assesses changes that could significantly impact the system of internal control.

Control activities

Control activities are the actions established by policies and procedures to help ensure management's directives to mitigate risks are carried out. Control activities are performed at all levels of the Agency and at various stages in business processes, and over the technology environment.

The three principles relating to the control activities are:

- the Agency selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels;
- the Agency selects and develops general control activities over technology to support the achievement of objectives; and
- the Agency deploys control activities as manifested in policies that establish what is expected and in relevant procedures to affect the policies.

Information and communication

Sharing information is necessary to achieve organisational objectives. Communication occurs both internally and externally and provides the Agency with the information needed to carry out day-to-day internal control activities. Communication enables all personnel to understand responsibilities in relation to internal controls and their importance in achieving objectives. See Direction 3.9 for specific requirements in the VPS.

The three principles relating to information and communication are:

- the Agency obtains or generates and uses relevant, quality information to support the functioning of other components of internal control;
- the Agency internally communicates information, including objectives and responsibilities for internal control necessary to support the functioning of other components of internal control; and
- the Agency communicates with external parties regarding matters affecting the functioning of the components of internal control.

Monitoring activities

Ongoing evaluations, one-off evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to affect the principles within each component, are functioning effectively. Findings are evaluated and deficiencies are communicated in a timely manner, with serious matters reported to senior management and to the Responsible Body.

The two principles relating to monitoring activities are:

- the Agency selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning; and
- the Agency evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Responsible Body, as appropriate.

Policies and procedures

In maintaining and implementing policies and procedures, the Accountable Officer may wish to consider:

- defining and documenting roles and responsibilities for positions in the financial management team structure to ensure the most effective and efficient allocation of tasks and resources (prerequisite skills, qualifications and experience for each position should also be defined and documented);
- implementing procedures relating to the completion, review and monitoring of reconciliations;
- ensuring internal control procedures are not compromised when more than one financial delegation is assigned to a particular position;
- accessing whether financial management systems and data is not commensurate with roles and responsibilities; and
- reviewing all policies and procedures over a three to four-year period.
- The following circumstances could trigger a review of policies and procedures to ensure they are in line with requirements and the Agency's direction:
- significant change in the underlying business of the Agency, e.g. organisational restructure, merging or alteration of finance structure, changes to staff numbers or the finance team;
- legislation or regulation introduction/amendment with financial management impact (these changes often impact procedures rather than policies);
- new accounting standards or policies;
- the benefits of periodic review;
- whole of government or departmental change to financial management, e.g. implementation of shared services; and
- machinery of government changes.

Separation of roles (segregation of duties)

Separation of roles aims to prevent fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple individuals. In the event that this cannot be achieved due to limited resources or staff, compensating safeguards are to be established to manage the risks.

Conflicting roles and responsibilities relating to authorisation, record keeping, asset custody and relevant management functions should be identified and appropriately segregated. The Accountable Officer may wish to consider:

- enhancing the separation of roles by implementing proper controls over access to systems, programs, data, important documents or physical assets (access should be restricted to authorised staff commensurate with the duties assigned to them);
- ensuring physical controls restrict physical access to negotiable assets such as cash or for items that might easily be converted to cash or personal use;
- ensuring controls are documented and subject to periodic review by an independent function (that is, a business unit or person not associated with the internal control); and

- ensuring segregation of duties and restricted access controls are established in light of factors such as:
  - volume, complexity and financial significance of different types of transactions;
  - sequence of steps necessary to process transactions;
  - technology and application system(s) used to process transactions;
  - opportunities or motives for individuals to commit fraud or perpetuate errors;
  - risk of loss or financial misstatement due to errors or fraud; and
  - existence of alternative or compensating controls.

Financial authorisations

The Accountable Officer should establish and maintain financial authorisations to ensure that the financial obligations are undertaken by delegates with appropriate levels of authority.

Direction 3.3 outlines further requirements, including for financial authorisations. The associated guidance material provides details on how to ensure financial authorisations are properly exercised.

Monitoring and assessment activities and control representations

Internal control systems need to be monitored to assess the quality of the system's performance over time.

When the Agency determines a deficiency, management should assess the impact of that deficiency on the effectiveness of the Agency's internal control system. The responsibility of identifying and assessing deficiencies rests with the Agency in the normal course of performing its functions.

The controls representation should include:

- the system of internal control across the Agency mitigates risk to an appropriate, acceptable level;
- the control objectives and performance expectations are communicated to all relevant staff and used to design efficient controls to mitigate identified risks;
- decisions are made by those authorised to make them;
- resources are safeguarded against material loss due to waste, abuse, mismanagement, errors, fraud, omissions and other irregularities;
- relevant laws, regulations, policies, directives and standards regarding financial management and internal controls are adhered to;
- decision-makers receive relevant, reliable and timely financial and related non-financial information to monitor performance and effectiveness of the internal control system;
- appropriate actions are taken to correct suboptimal performance of internal controls; and
- adequate, objective and independent assurance has been sought over the design and operational effectiveness of the internal control system, which is generally undertaken by Internal Audit and the Audit Committee.

Managing revenue

Pricing for Value Guide

The Directions require Agencies to apply the *Pricing for Value Guide* (the Guide) in the setting of fees and charges for government services (including regulatory services).

The guide is intended to improve consistency and capability in price-setting across government. The guide is based on a set of 12 principles and a practical methodology for undertaking pricing reviews, that are aligned with current best practice and provide practical step-by-step guidance for undertaking pricing reviews. Cost recovery remains one principle among a broad range of principles, and cost analysis continues to play a critical role in effective financial management more broadly.

The guide also requires that pricing arrangements be monitored annually and reviewed periodically, and for any proposed new prices or price changes that will have a revenue impact exceeding $500 000 a year (indexed), agencies will require the Treasurer's approval.

Further information about the Guide can be found on the DTF's website: https://www.dtf.vic.gov.au/pricing-value or by email: pricing@dtf.vic.gov.au.

Managing payroll

Agencies are encouraged to consider carefully whether to recover the costs of administering voluntary deductions from gross pay (e.g. health insurance contributions). If an Agency decides it is cost effective and feasible to proceed with cost recovery, the *Cost Recovery Guidelines* outline the steps for implementing cost recovery arrangements. Where such arrangements are already in place, the *Cost Recovery Guidelines* outline costing approaches as a basis for determining an appropriate commission or charge.

There may be various factors that influence the feasibility and/or cost effectiveness of cost recovery. For example, in some cases the revenue involved might be very small and decreasing over time, possibly as employees make greater use of financial institutions' direct debit options. The *Cost Recovery Guidelines* state that 'the cost of administering cost recovery arrangements should be less than the value of the costs recovered'. It follows that, where this is not the case, it would not be cost effective or worthwhile to pursue cost recovery.

This approach is consistent with the principles set out in the *Pricing for Value Guide*.

Receipt of money by payment card (credit/debit card)

Agencies should refer to the Payment Card Industry – Data Security Standards [40](PCI-DSS) when money is received via payment card.

Managing financial assets

Borrowing and investing financial assets

The borrowing and investing of financial assets is managed through established financial management policies and processes between Agencies, DTF, the Treasury Corporation of Victoria and the Victorian Funds Management Corporation.

For those Agencies who are able to borrow or invest financial assets, refer to Direction 3.7.2 for obligations and guidance.

Managing expenditure

Whole of government policies https://www.dtf.vic.gov.au/standing-directions-2018-under-financial-management-act-1994 - standing-directions-2018

Gifts, Benefits and Hospitality: Gifts, Benefits and Hospitality Policy Framework[41], issued by the Victorian Public Sector Commission.

Travel: Victorian Public Sector Travel Policy[42] which is available from VGPB.

Advertising and Communications: Victorian Government Communication Guidelines [43] issued by DPC.

Remuneration of Boards, Statutory Bodies and Advisory Committees: Appointment and Remuneration Guidelines for Victorian Government Boards, Statutory Bodies and Advisory Committees[44] issued by DPC.

Managing taxes

Taxation obligations and concession requirements applicable to an Agency

Depending on an Agency's individual circumstances, various Commonwealth taxation obligations and concessions may apply. These obligations are administered by the Australian Taxation Office[45] (ATO).

Commonwealth taxation obligations that may apply to an Agency include:

- Goods and Services Tax (GST);

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[40] www.pcisecuritystandards.org/pci_security
[41] vpsc.vic.gov.au/html-resources/vpsc-gifts-benefits-hospitality-policy
[42] buyingfor.vic.gov.au/sites/default/files/2018-10/VPS-Travel-Policy%20%281%29.pdf
[43] www.vic.gov.au/advertising-government-communications
[44] www.vic.gov.au/guidelines-appointment-remuneration
[45] www.ato.gov.au

- Pay-As-You-Go (PAYG);
- Fringe Benefits Tax (FBT);
- Superannuation Guarantee Charge (SGC);
- Excise and customs duty;
- *Taxation Administration Act 1953*;
- National Tax Equivalent Regime (NTER); and
- ATO publications including, but not limited to, GST Rulings, FBT Rulings, Interpretative Decisions, and Determinations.

Commonwealth taxation concessions may be available to an Agency, including:

- Deductible gift recipient status;
- Public benevolent institution status; and
- Fuel tax credits.

Conduct of Commonwealth taxation obligations and concessions reviews

Consistent with Direction 5.1.2, an Agency is to conduct an annual review on a range of obligations. Whether the annual review of compliance includes Commonwealth taxation obligations and concessions is to be determined based on an assessment of tax risks.

Consistent with Direction 5.1.3, internal audit is to review in detail the Agency's compliance with all Commonwealth taxation obligations and concessions over a three or four year cycle.

When conducting a tax compliance review, the Agency should refer to the Australian Taxation Office's[46] website and its available supporting material.

Other relevant taxation compliance information

A better practice guide for the management of GST[47] – this guide has been published by the ATO to assist Agencies establish appropriate internal control frameworks for the effective management of goods and services tax (GST) administration.

Better practice for the administration of FBT[48] is also published by the ATO to help Agencies better administer their fringe benefits tax (FBT) obligations.

Agencies may also refer to the Australian Taxation Office's website for further information on Commonwealth taxes.

Managing shared services and outsourcing

Outsourcing is a process by which an Agency contracts with a third party to provide a specific service or group of services. Services are typically outsourced to achieve cost savings, improve quality, and access specialised skills or other efficiencies. Some examples of commonly outsourced services include payroll, investment consulting, debt collection and the maintenance of financial systems.

While the Instruction relates to the VPS agency receiving a service, where a VPS agency is providing a service to another agency it should have appropriate documented arrangements in place to ensure the service is effectively delivered.

Outsourcing – models of service delivery

There is a broad spectrum of models to deliver services. The following table provides an overview of the spectrum of service delivery models.

Internal delivery	**Delivery of the service is managed and resourced internally. Third parties may provide discrete products or services.**
Full outsourcing	Where a single contract with a single supplier covers a broad scope of services and needs. This model is typically implemented as a strategic partnership between management and the service provider and is usually put in place for the long term.

[46] www.ato.gov.au
[47] www.ato.gov.au/Business/Government-entities
[48] www.ato.gov.au/business/government-entities/fbt-for-government

Co-sourcing	Responsibility for delivery of service is split between an outsourcer and internal delivery. This model often involves an internal delivery team working with the outsourcer as a single group.
Insourcing/shared services	Insourcing or shared services disconnect a service from the organisation via a separate business unit. The business unit is usually set up with its own profit/loss statement. An agreement such as a Service Level Agreement (SLA) is commonly in place to govern the provision of the service and payment levels. The underlying concept is to run the separate unit like a business and emulate outsourcing services and pricing. The benefits of this type of arrangement are that organisations can achieve consolidation, integration, and standardisation while maintaining direct control of the service provider and openness to changing market options.
Selective sourcing	Where multiple contracts are set up with multiple suppliers. This type of arrangement is common in the public sector. This model is often implemented when the sourcing strategy is undefined and there is a variety of service delivery options. Benefits of this type of outsourcing model include the ability to leverage the markets' best capabilities in a very competitive environment. Innovation is available and the cost associated with the change is typically minimal. When managed effectively, agility, flexibility, and scalability are readily available.

The following should be considered in complying with Instruction 3.4.10 *Managing shared or outsourced services*:

Before engaging a service – cost-benefit analysis

Prior to engaging an outsourced service provider, Agencies should undertake a cost-benefit analysis. The cost benefit analysis should include:

- the costs and basis for estimating the cost;
- the benefits and basis for estimating the benefits;
- an assessment of planned non-financial benefits;
- potential risks associated with outsourcing the function and how they will be mitigated; and
- a recommendation for future proposed action.

Management of outsourced services

Direction 3.1 requires that the Responsible Body ensure effective management and oversight of shared services arrangements and private sector providers of financial management activities and obligations (outsourcing).

The Responsible Body should be aware that entering into shared services arrangements does not diminish the responsibilities of the Chief Finance Officer (CFO) and the Accountable Officer for the outsourced function – a service can be outsourced, but the risk and responsibilities cannot.

An outsourced financial service will impact on the financial management, financial processing or financial statements of an Agency. Accordingly, specific assurance on the control procedures of the outsourced service provider is needed to ensure the:

- Agency's responsibilities and accountabilities for good governance and sound financial management are not negatively impacted by the outsourced activities;
- provider is complying with the agreed terms and conditions (e.g. performance measures as outlined in the contract or Service Level Agreement);
- controls for activities and processes are effective and result in accurate reporting of financial and other relevant information;
- control environment surrounding the outsourced services facilitates complete and accurate processing of underlying transactions and/or data; and
- Accountable Officer and CFO can sign off on their formal annual statements that the:

– financial reports are presented fairly;

– risk management, internal compliance and control framework is sound; and

– internal control framework is operating effectively and efficiently.

In addition, to ensure all legislative requirements are being met, the outsourced or shared services should operate within the requirements of the FMA, the Directions, Instructions and other relevant legislation applicable to the Agency. For example, if the payroll function is being outsourced, the Accountable Officer and the CFO need to ascertain that the service is being delivered in compliance with the relevant requirements in the Directions.

Obtaining assurance from an outsourced service provider

Before engaging an outsourced service provider, an Agency should consider the Assurance or Auditing Standard requirements[49], and liaise with its internal and/or external auditors to discuss the best approach to obtain assurance. This will ensure the Agency receives assurance reports that are fit for purpose and provide an accurate reflection of the control environment in the outsourced provider.

The type and level of assurance required should be determined in the context of an Agency's individual risk profile (e.g. complexity of operations and size) and be factored in as part of the initial contract negotiation. The service contract should also provide access to the service provider's information by an Agency's internal and external auditors.

Note: If an Agency is aware that several Agencies are using the same outsourced service provider, it may initiate discussions with those Agencies and the provider to obtain a combined assurance report. However, such a report should meet the individual assurance needs of each Agency.

The following options for obtaining assurance may be considered:

Option 1: **Assurance from the outsourced service provider**	**This may be either:** • **A publicly available opinion on internal control (usually this is an opinion in accordance with Australian Auditing Standards that is made available to all customers of the outsourced service provider); or** • **An opinion or report specifically designed (e.g. letter of comfort) for the use of the Agency. In these instances, a tailored scope of work will typically be requested by the Agency, but the work is performed and report provided by the outsourced service provider's internal or external auditors.**

Option 2:
 	
Assurance provided by an independent auditor
	An Agency may arrange for an **independent auditor** (e.g. the Agency's internal auditor or a third party) to visit the outsourced service provider to obtain assurance.
	In these instances, the Agency will determine the scope of work and results will be reported in a format the Agency is familiar with.
	Factors that need to be considered in interpreting the results include, but are not necessarily limited to:
	• What type of opinion or report has been issued?
	  – Is there a reference to an auditing standard? If so, is there an expression of the level of assurance provided and are there any limitations on scope referred to?
	• What period of time is covered by the opinion or report?
	  – Is this consistent with the period of interest to the Agency?
	• What locations, specific business processes and/or transactions have been reviewed and reported on?
	  – Do these cover the full scope of the Agency's activities or transactions provided by the outsourced service provider? If not, are the activities or transactions not covered material or significant to the Agency?
	• What issues or concerns have been identified? What is their impact?
	• What resolution plans has the provider put in place?

Agencies are encouraged to closely consider, and act on, the findings in assurance reports.

Financial information: Direction 3.9 requires the Accountable Officer to ensure that the Agency applies relevant legislation, standards and policies in relation to the management of financial information, including financial information systems. Appropriately managing financial information (including IT systems) is a key internal control of Agencies. For example, it may not be possible to have confidence in financial statements that have not been kept on adequate IT systems. Guidance 3.9 provides more guidance on managing financial information.

[49] Australian Standard on Assurance Engagements ASAE 3402 Assurance Reports on Controls at a Service Organisation or Auditing Standard AUS 810 Special purpose reports on the effectiveness of control procedures.
www.auasb.gov.au/admin/file/content102/c3/Jan15_ASAE_3150_Assurance_Engagements_on_Controls.pdf

Guidance 3.5 – Fraud, Corruption and Other Losses

Objective	Provides further information to assist Agencies in establishing a Fraud, Corruption and Other Losses prevention and management policy and establishing a sound control environment and assessing risks of Fraud, Corruption and Other Losses.
Effective date	1 July 2016
Relevant Directions	3.2.1 Audit Committee 3.4 Internal control system 3.5 Fraud, Corruption and Other Losses 5.1.5 Dealing with Compliance Deficiencies
Last Reviewed	1 May 2019

Fraud and Corruption

The AS 8001 -2008 *Fraud and Corruption Control Standard* defines Fraud and Corruption as follows:

Fraud is dishonest activity causing actual or potential financial loss including theft of monies or other property by employees or persons external to the entity and where deception is used at the time, immediately before or immediately flowing from the activity. This includes:

- the deliberate falsification, concealment, destruction or use of falsified documentation used or intended for use for a normal business purpose; or
- the improper use of information or position for personal financial benefit.

Corruption is a dishonest activity in which an employee of an entity acts contrary to the interests of the entity and abuses his/her position of trust in order to achieve some personal gain or advantage for him/herself or for another person or entity.

Fraud, Corruption and Other Losses prevention and management policy

The Agency's Fraud, Corruption and Other Losses prevention and management policy should document the Agency's approach to controlling Fraud and Corruption exposure at strategic, tactical and operational levels. It should also detail the Agency's intended action in implementing and monitoring the policy.

The policy drives the development and operation of the control framework. Both the policy and control framework should be consistent with the latest AS 8001 -2008 Fraud and Corruption Control Standard (the Standard). The extent to which the Standard should be applied will differ depending on the size of the Agency and the outcome of the Fraud and Corruption risk assessment.

There are a number of internal and external Corruption risks associated with financial management including procurement, contract management and collecting and/or distributing funds and other property. As such, the policy and internal control framework should place high importance on prevention and detection, as well as recovery of any funds defrauded from the Agency. In these Agencies, the AS8001 standard should be applied in its entirety.

For Agencies with lower Fraud or Corruption risk, the Responsible Body should apply those elements of the Standard applicable to the Agency's circumstances.

The policy should include:

(a) responsibilities for Fraud and Corruption management in the Agency;

(b) processes for managing employee awareness;

(c) thresholds that define significant Fraud;

(d) processes for managing the safety and security of assets (refer to Direction 4.2.3 for more details);

(e) Fraud and Corruption detection and reporting processes;

(f) fraud risk profile development and assessment processes;

(g) protected disclosure systems and contacts;

(h) investigation procedures;

(i) recovery systems and processes; and

(j) disciplinary procedures.

Establishing a sound control environment

The Agency's control environment should include the safeguard and security of property and money. It also includes the systems, rules, delegations and accountabilities to minimise the prospect of Fraud or Corruption occurring. In the event that the Agency's preventative control systems fail, Agencies should implement systems aimed at detecting Fraud and Corruption as soon as possible after it has occurred. Recommended elements of Fraud and Corruption policy and sound control environment are outlined below.

Culture

Implementing and maintaining a sound ethical culture is a key strategy in managing the risk of Fraud and Corruption in an Agency. An Agency should aim to ensure that it has a healthy and sustainable ethical culture underpinned by example setting by senior management. Refer to the Victorian Public Sector Code of Conduct[50] for more details.

Line management accountability

Agencies should ensure that line managers are aware of their accountabilities for the prevention and detection of Fraud and Corruption. The management of Fraud and Corruption should be incorporated into the performance measurement system and each line manager's performance should be measured against relevant benchmarks.

Separation of roles and delegations

Agencies should ensure appropriate separation of roles exist in their internal processes. Separation of roles is the concept of having more than one person to complete a task. Official delegations are required for the spending and receipt of public monies and should be allocated in such a way that no one delegate has control or authority over the end to end process. Such separation of roles provides for checks and balances to be the responsibility of different employees. Such separation of roles and delegations is important in transactions involving the receipt or payment of moneys, entering into or administering contracts and in the employment or remuneration of staff. Refer to Directions 3.3 and 3.4 for more details.

Risk consciousness

A high level of risk consciousness for the risks of Fraud and Corruption should be present across the senior management group. Agencies exhibiting 'best practice' in the control of Fraud and Corruption invariably have a senior management group that recognises the need for Fraud and Corruption prevention and detection even in the absence of recently detected incidents.

Process controls

Agencies should ensure that all business processes, particularly those assessed as having a higher predisposition to the risks of Fraud and Corruption, are subject to a rigorous system of internal controls that are well documented, updated regularly and understood by all personnel.

Protected disclosure program

Agencies should be aware of their obligations under the *Protected Disclosure Act 2012*. Processes designed to comply with the Act are one component of a sound internal control system for Fraud and Corruption prevention and assessment.

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[50] vpsc.vic.gov.au/resources/code-of-conduct-for-employees

Employment screening

Employment screening should be conducted within the confines of relevant legislation and with the informed and express consent of the employee. Agencies should have regard to the Victorian Public Service Commission's Integrity in Recruitment Guidance Note[51]. Employment screening is contemplated for all new employees joining the organisation (including contractors) and all personnel being transferred to a senior executive position or to a position considered by the Agency to be 'higher risk' in terms of the potential exposure to Fraud or Corruption associated with those positions. Levels of vetting will vary depending on the risk associated with the Agency and with the specific position.

Supplier vetting

Agencies should take steps to ensure the bona fides of new suppliers and periodically confirm the bona fides of continuing suppliers. The Agency should consider its ongoing commercial relationship with the other party if inquiry finds a heightened risk of Fraud or Corruption in continuing to deal with that party.

Investigation

An investigation into apparent or suspected Fraud, Corruption and Other Losses should be conducted as soon as possible after Agency management becomes aware of it. Any investigation should be managed and conducted by people who:

- have appropriate skill and experience;
- are independent of the business unit in which the alleged fraudulent or corrupt conduct occurred; and
- do not have a conflict of interest.
- The investigator(s) does not need to be a staff member of the Agency. Suspicions of Fraud or Corruption may also be referred to more appropriate Agencies for investigation including:
- the Victorian Auditor-General – for mismanagement of public funds and services or where funds have not been properly raised, protected from loss, or spent with maximum efficiency and effectiveness; or
- Victoria Police – where the matter constitutes a criminal offence and where an indictment is likely; or
- the Independent Broad-based Anti-corruption Commission – for identifying, investigating and preventing corrupt conduct across the whole public sector.

An Agency should include in its internal discipline policy how disciplinary proceedings should be conducted against employees found to be involved in Fraud, Corruption or Other Losses.

Recovery systems and processes

As Fraud, Corruption and Other Losses involve the loss of public monies, assets or property, all reasonable attempts should be made to recover those losses. The resources applied to recover such losses should be commensurate with:

- the size of the loss;
- the reputation issue for Government; and
- the likelihood of successful recovery.

Section 57 of the FMA provides for the investigation and recovery of loss or damage by an officer.

Where an Agency wishes to use external skills for recovery of losses, only reputable Agencies or individuals should be used.

[51] vpsc.vic.gov.au/html-resources/integrity-in-recruitment-guidance-note

Assessing risks of Fraud, Corruption and Other Losses

Agencies should adopt a policy and processes for the systematic identification, analysis and evaluation of Fraud, Corruption and Other Losses risk and should periodically conduct a comprehensive assessment of the risks of Fraud, Corruption and Other Losses in their business operations.

The frequency with which the Agency should conduct an assessment of these risks will be dependent upon factors such as the Agency's size, complexity of business operations, and the extent to which the Agency is monitored by other Agencies. Typically, an assessment should be conducted at least every two years. The risk assessment should be conducted in accordance with AS/NZS ISO 31000:2009, *Risk management – Principles and guidelines*.

Agencies should ensure that adequate means for reporting suspicious or known illegal or unethical conduct are available to all personnel. The Agency should consider a policy of mandatory reporting of known or suspected Fraud, Corruption or Other Losses through one or more alternative reporting lines.

Systems should be in place for confidential reporting of suspicious conduct and for the reporter to suffer no repercussions.

Audit of business processes or units

Directions 3.2.2.2 (b) and (c) requires a strategic audit plan and annual work program to be developed. These must include audits to identify business processes likely to be vulnerable to Fraud or Corruption, and targeted reviews for potential or actual Fraud, Corruption and Other Losses in those business areas or processes identified as vulnerable to Fraud or Corruption.

Audits should:

- involve senior management;
- be documented; and
- include areas for detailed review.

Targeted reviews should include:

- assessment of controls to prevent Fraud, Corruption and Other Losses in that business area or business process;
- suitable treatment plans and remedial actions; and
- accountabilities assigned for administering the treatment plans.

Guidance 3.6 – Purchasing cards

Objective	Provides guidance to establish an efficient and effective process for achieving the objectives of the Instruction and outcomes of the Direction.
Effective Date	1 July 2016
Relevant Directions	3.3 Financial Authorisations 3.5 Fraud, Corruption and Other Losses 3.6 Purchasing and prepaid debit cards 5.1 Financial management compliance
Last reviewed	1 May 2019

Roles and responsibilities

Accountable Officer

Accountable Officers are responsible for establishing the purchasing card program in their Agency in accordance with the requirements in the Instruction. They have the ability to delegate these responsibilities in accordance with Direction 3.3.

Accountable Officers and program administrators are responsible for having effective administrative policies and procedures for the use and administration of these cards, thereby providing the Responsible Minister with assurance that rigorous controls are in place.

Accountable Officers are to review all instances of unauthorised use and non-compliance with the Instruction reported by the program administrator. They are to report any Significant or Systemic non-compliance to the Audit Committee and as soon as practicable of the non-compliance occurring, to the Responsible Minister, Portfolio Department and the Auditor-General (refer Direction 3.5.3). If necessary, the non-compliance should be referred to the police for investigation and action, or in the case of **corruption**, to the Independent Broad-based Anti-corruption Commission. Otherwise it should be referred for disciplinary action unless the Accountable Officer considers the unauthorised use was accidental or was not part of a pattern of unauthorised use (accidental or not).

Program administrator

Program administrators provide operational support to Accountable Officers in administering the purchasing card program for their Agency. They are the main contact for the card providers, cardholders and authorised signatories (approver of expenditure).

A program administrator should be nominated when the Agency provides administrative support to Responsible Ministers for the management of purchasing cards to relevant statutory office holders.

Program administrators should consider applying the following procedures for each authorised signatory appointed by the Accountable Officer:

- confirm that the authorised signatories hold a financial authorisation (this does not have to be of a particular quantum); and
- the authorised signatories understand their responsibilities, what constitutes purchases for official purposes and how to report unauthorised use.

Program administrators should when issuing cards to cardholders:

- confirm the employee has the appropriate financial authorisation at least equivalent in value to the transaction limit agreed by the authorised signatory, and in instances when the employee does not have financial authorisation for the prepaid debit card, the authorised signatory has the appropriate financial authorisation;
- ensure the employee reads the card provider's terms and conditions provided with the card;

- ensure the employee reads and signs an 'Undertaking by the cardholder' which sets out the policies and procedures of the Agency (Attachment A provides a sample of an agreement) and any restrictions on the types of goods or services for which the cardholder may use the card (e.g. restrictions on domestic and overseas travel, hospitality and entertainment);
- ensure the employee is appropriately trained on the operation and use of the cards;
- ensure the employee signs the purchasing card immediately (obviously this does not apply to virtual cards);
- circulate any revised obligations or Agency policies to the cardholder in a timely manner;
- record information about cardholders; and
- assess the requirement for ongoing issue of the card to the current cardholder including limits and types of expenses, when the cardholder changes position in an Agency.

Program administrators are to refer promptly all cases of unauthorised use or non-compliance with the Instruction to their Accountable Officer.

Authorised signatory (approving expenditure)

Authorised signatories should generally be employees who are senior to the cardholders they are responsible for. For Accountable Officers who are cardholders, the chair of the relevant Audit Committee should be the authorised signatory. For statutory office holders and Agencies exempted from having an Audit Committee, the authorised signatory should be the chair of the relevant Portfolio Department's Audit Committee.

An authorised signatory must hold a financial authorisation, and have undertaken training and developed an understanding of all responsibilities and requirements of holding a financial authorisation.

The purpose of the authorised signatory's approval is to serve as a review of the transaction. When approving purchases, authorised signatories should scrutinise the purchases as if they were made through the mainstream procurement and payment systems. For example, are they for official purposes, appropriate for business use, have goods and services been received and is there sufficient supporting documentation. The approved statement is forwarded to the program administrator for processing. Any non-accidental unauthorised use should be reported to the program administrator.

Cardholders

Cardholders must be employees of an Agency (since a purchasing card is a form of financial authorisation, the provisions of Direction 3.3 will apply). Ministers and their staff are not eligible to be cardholders as they are not employees of an Agency. Statutory office holders (e.g. the Auditor-General, Electoral Commissioner and Ombudsman) may require access to purchasing and prepaid debit card services. Although not technically employees of the Agencies, the Minister has authorised the provision of these cards to persons occupying these offices, subject to the cardholders adhering to a control regime which is at least equivalent in its standards to that applying to employees of Agencies. The Minister may provide advice from time to time to assist the Responsible Minister's or Parliamentary officer's oversight of the use and administration of purchasing cards outside the direct control of Accountable Officers in their portfolio.

Cardholders should acknowledge their responsibilities regarding the security and use of the cards as specified in the Instruction and read the card provider's terms and conditions. They should safeguard the card and its details at all times, especially when purchasing online or making payments, no different to how they would protect their personal credit or debit cards.

Cardholders should only use the card for official purposes. In determining whether a purchase is of a private or official nature, cardholders need to consider whether the purchase can legitimately be paid as if the transaction were being managed through mainstream procurement and payment systems. When it is unclear, for example the purchase of gifts or flowers for staff who are leaving the organisation or are ill, they should take advice from their authorised signatory before incurring the expenditure. Purchasing and prepaid debit cards are a purchasing facility and should not be used as a convenient alternative to seek reimbursement for minor work-related expenses. Cardholders should not purchase items using a 'stringing' arrangement, i.e. splitting one transaction into many to avoid exceeding card limits.

Cardholders should review and sign their card statement/transaction report and provide this to their authorised signatory to approve. They should follow up any discrepancies on the statement with the card provider and promptly advise the program administrator.

Mitigate risk

The objective of card use policies and procedures is to assist in the management of risk. As a consequence, Agencies should consider the following as part of a broader risk management strategy overseen by its Audit Committee and internal audit program. Adherence to the Purchasing Card Instruction is, therefore, more than a compliance exercise.

Agencies can perform a number of roles to mitigate risks in administering purchasing and prepaid debit card programs, including:

- appointing relevant administrative personnel (e.g. authorised signatories, program administrator) to ensure the efficient and effective administration of the facility account in that Agency. Persons appointed to such positions are to be at a level appropriate to the responsibilities of that position;
- assessing the costs and benefits of using purchasing cards;
- developing adequate internal controls, security measures and reporting procedures to implement and control the operation of the purchasing cards;
- determining their own internal rules or policies for the use and administration of the purchasing cards, particularly regarding electronic commerce;
- administering and monitoring the operation of purchasing cards in compliance with the Department of Treasury and Finance (DTF) Instructions and any Agency policies or procedures. Service issues should first be raised with the card provider;
- authorising and processing the relevant documentation for the operation of purchasing cards;
- maintaining all documents, statements and reconciliations required to be kept in relation to the use and administration in accordance with the Instruction; and
- providing administrative support to Responsible Ministers for the management of purchasing cards as it applies to relevant statutory office holders. This function includes nominating a program administrator regarding these cardholders.

Internal controls

It is important that an Agency has appropriate internal controls to ensure the integrity and security of the card program, including:

- providing appropriate training to employees on their obligations under the Directions before they are issued with a purchasing card;
- limiting the number of credit cards issued per employee to a maximum of one credit card and when necessary, to only one card per facility account (e.g. one Visa credit card and an American Express credit card);
- appropriate card limits (facility and transaction limits) are set and reviewed in line with the cardholder's actual usage;
- sufficient documentation is obtained and maintained covering the authorisation and identification of transactions, including merchant records and approved and reconciled statements;
- the allocation of transactions to expenditure types is made in the same manner as other Agency expenditure;
- a policy where cards are withdrawn and/or immediately cancelled:
  - on the termination, or notification of resignation of the cardholder's employment in an Agency;
  - when the card has been lost, stolen or misused;
  - when the card is no longer relevant to the performance of the cardholder's functions and duties in an Agency;
  - if the cardholder's account is inactive; or
  - when the cardholder incurs a number of separate instances of unauthorised use; and
- monthly reports are monitored by the program administrator.
- Card linked directly to a bank account are covered by Direction 3.4 and Instruction 3.4 and not by Direction 3.6 and Instruction 3.6.

Sufficient supporting documentation

Instruction 3.6 *Purchasing cards* (Requirement 5.1) requires a cardholder to obtain and retain sufficient supporting documentation for every transaction made using a purchasing card.

Supporting documentation substantiates that transactions are made for valid business purposes and meet taxation requirements.

The requirement for sufficient supporting documentation applies irrespective of whether the transaction is:

- made directly with a merchant; or
- made by telephone, mail or electronic means.

Each transaction should be supported by the invoice, receipt or receipt reference the cardholder receives at the time of purchase or requested to be sent at the time of making the order.

Such documentation consists of, but is not limited to, receipts, tax invoices and merchant records (e.g. an aeroplane boarding pass).

When original supporting documentation is not obtainable, copies of such documentation can be provided with a cardholder-signed statement of why the original documentation was not available.

In exceptional circumstances when appropriate supporting documentation cannot be obtained, alternate certification may be acceptable. In these cases, the advice of the authorised signatory and/or appropriate Agency personnel (e.g. card program administrator) is best sought before a monthly statement is verified.

All supporting documentation is to be sufficiently detailed to adequately support the payment processes.

To avoid any doubt as to the level of documentation required regarding various transactions, Agencies may wish to determine transaction thresholds and matching substantiation requirements.

Review and approve the monthly statements or transaction report

A cardholder's expenses are to be authorised by the authorised signatory, who is senior to the cardholder. In the case of expenses incurred by Accountable Officers who are cardholders, arrangements are to be made for cardholder statements to be authorised by the chairman of the relevant Audit Committee. In the case of statutory office holders and those operating in an environment where there is no Audit Committee, arrangements are to be made through the relevant departmental Audit Committee to gain authorisation.

Good practice procedures for reviewing monthly statements

On a monthly basis, the cardholder is required to acquit and verify the transactions on the card to substantiate that they are valid and ensure no unauthorised use of the card by the cardholder or by a third party.

Good practice procedures include:

- reconciliations on a timely basis upon receipt of the monthly statement;
- discrepancies on the statement are to be followed up with the card provider and promptly advised to the program administrator;
- goods or services paid for using the card are actually delivered or provided;
- credits on the card are raised when, for example, a good or service is not delivered or not provided in accordance with original expectations;
- each transaction appearing on the card provider's statement is appropriately coded for accounting purposes; and
- sufficient supporting documentation for each transaction is attached to the card provider's statement when statements are provided by the cardholder to the authorised signatory for approval.

Reporting of significant or systemic instances of purchasing card non-compliance

Unauthorised use should be reported by the cardholder and/or authorised signatory to the program administrator. The program administrator needs to promptly review each instance of unauthorised use or non-compliance and refer all cases of unauthorised use or non-compliance to the Accountable Officer.

The Accountable Officer is responsible for investigating Significant or Systemic instances of unauthorised use or non-compliance and reporting these to the Agency's Audit Committee, Responsible Minister, Portfolio Department and the Auditor General as required under Direction 3.5.

The *Australian Standards on Fraud and Corruption Control* (AS 8001) provides information on investigative, reporting and disciplinary considerations. When the Accountable Officer has determined that a significant non-compliance has occurred but does not warrant police involvement, the Accountable Officer should refer the matter for disciplinary action. Disciplinary action should conform with the Agency's disciplinary or misconduct policy.

Instruction 3.6 states that the purchasing card must be withdrawn if any unauthorised transaction involves an amount greater than the limit deemed appropriate by the Accountable Officer or $1 000, whichever is the lower, or is part of a pattern of unauthorised use. In addition to referral for disciplinary action, when three separate instances of unauthorised use occur with the same cardholder, irrespective of the dollar amount, consideration should be given to withdrawing the purchasing or prepaid debit card immediately to minimise risk of future unauthorised use or non-compliance.

Role of Portfolio Departments

Direction 5.1.6 requires public sector Agencies to inform their Responsible Ministers and Portfolio Departments of any Material Compliance Deficiency. Direction 2.3.4 requires the Accountable Officer of a Portfolio Department to oversee the discharge of financial responsibilities and to provide information to the Responsible Minister on key assurance and risk matters.

For purchasing cards, Portfolio Departments are expected to:

- monitor portfolio compliance with the Instruction on Purchasing cards;
- provide briefings to the Responsible Minister on non-compliance reported by the Portfolio Agencies; and
- review reports of non-compliance and implement strategies to promote compliance throughout portfolios.

DTF role

Direction 2.3.6 requires DTF to undertake the role of adviser to the Assistant Treasurer regarding the use and administration of purchasing cards policies as part of the financial management framework in the Victorian public sector.

Attachment A: Undertaking by the cardholder

Purchasing card cardholder agreement

Cardholder name:	
Position:	
Branch:	
Division:	
Agency:	
Accountable Officer:	
Authorised signatory:	
Program administrator:	

I understand and agree that the Purchasing Card is issued to me on the express understanding that I will, at all times, comply with the following conditions:

Use

1. The purchasing card is the property of (specify provider) and is in my possession and under my strict control.
2. I will not permit the purchasing card to be used by any person other than myself.
3. I will only use the purchasing card for official purposes.
4. I will immediately report any suspected or known unauthorised use of the purchasing card to the card provider and the program administrator.
5. I will not use the purchasing card to pay for expenses that have already been claimed (or will be claimed) by any form of allowance.
6. I will not use the purchasing card to pay for tips or gratuities, except in countries other than Australia, to the minimum extent expected in accordance with common practice in the country.
7. I will not use the purchasing card to obtain cash, except for prepaid debit cards, where cash may only be obtained if the Accountable Officer has authorised the use of the card for this purpose.
8. I can use the purchasing card to a maximum limit of $ in any one transaction and to a maximum monthly limit of $. My use of the purchasing card is subject to the following restrictions on transaction types (specify):
9. I will not split transactions on the purchasing card to avoid exceeding purchasing card transaction limits.
10. I hold a financial authorisation that is at least equivalent in value to the transaction limit in 8 above.
11. In the case of general government purchasing cards, I understand that purchasing information may be periodically reviewed by the Department of Treasury and Finance.

Transaction/monthly reconciliation

12. I will be issued with a monthly statement by the card provider. I will ensure that all transactions that appear on the monthly statement are verified by me and that sufficient supporting documentation is attached to the monthly statement when it is submitted for approval. I will ensure that goods or services paid for using the purchasing card are actually delivered or provided. I will ensure that each transaction appearing on the card provider's statement is appropriately coded for accounting purposes.
13. I will sign the monthly statement provided by the card provider to indicate that the transactions being paid by the State have been made only for official purposes.
14. I will ensure that credits are requested in relation to transactions made using the purchasing card as soon as I become aware of the need for a credit, for example, where a good or service is not delivered or not provided in accordance with original expectations.

Change in cardholder details

15. I will immediately advise the program administrator of any change in my name or contact details.

Upon resignation or transfer

16. I will immediately return my purchasing card to the program administrator if I resign or retire, or if my services as an employee of the Agency or statutory office holder are otherwise terminated, or if I take up a position in another Agency, or if I am instructed to do so by the Accountable Officer or the program administrator.

Lost or stolen cards

17. I will immediately report the loss or theft of my purchasing card to the card provider (24 hour ☎ service) and the program administrator.

Declaration

18. I confirm that I have access to only one purchasing card.
19. I acknowledge receipt of Instruction 3.6 (Purchasing and prepaid debit cards).
20. I have been briefed on all aspects of the operation and use of the purchasing card.

Signature of cardholder	Signature of Agency program administrator
Name of cardholder	Name of Agency program administrator
Date	Date

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

Objective	Provides guidance on managing risks, business continuity planning, insurance, indemnity and immunity considerations.
Effective date	1 July 2016
Relevant Directions	3.2 Oversight and assurance 3.4 Internal control system 3.7 Managing risk
Last reviewed	1 May 2019

Business continuity management

Business continuity management aims to support continuous operations before, during and after a significant business disruption or failure. The applicable Australian standard is AS ISO 22301:2020 *Security and resilience - Business continuity management systems – Requirements*. This standard assists in implementing and maintaining effective business continuity management, plans, systems and processes to ensure a more effective response to and a quicker recovery from a business disruption or failure.

Further guidance on business continuity management is available:

- Standards Australia – AS ISO 22313:2020 *Security and resilience - Business continuity management systems - Guidance on the use of ISO 22301*[52]
- Business Continuity Institute - Victoria and Tasmania – Education and training[53]
- Australian Government – When things don't go to plan[54]

Treasurer's indemnity and statutory immunity

An indemnity is an agreement to be responsible for the financial liability for all, or a part, of the loss or damage that another party may suffer. An indemnity creates a potential financial risk or liability that may be realised at a later date due to the occurrence or non-occurrence of a specified event. Indemnities may be provided by the Government whereby it accepts responsibility for the liability that its employees or agents, or occasionally, another entity or person, may incur.

An immunity is a legislative provision that prevents action being taken against a person and confers protection from all forms of civil liability.

[52] https://www.standards.org.au/standards-catalogue/sa-snz/other/mb-025/as--iso--22313-colon-2020
[53] https://www.thebci.org/group/australia-victoria-tasmania.html
[54] https://www.business.gov.au/new-to-business-essentials/series-two/when-things-dont-go-to-plan

Guidance 3.7.2 – Centralised Treasury and Investment management, including Central Banking System

Objective	Provides information on: • the Centralised Treasury and Investment Policy • the Central banking System and exceptions; • exemptions provided in Directions 3.7.2.1, 1.2.1 and 1.2.2; • applying for an exemption; • the Treasury Corporation of Victoria and Victorian Funds Management Corporation; and • the policy and process for borrowing.
Effective date	1 July 2016
Relevant Direction	3.7.2.1 Borrowings, investments and financial arrangements
Last reviewed	12 August 2022

Centralised Treasury and Investment Policy

A Centralised Treasury and Investment Policy has been determined by the Treasurer.

The Centralised Treasury and Investment Policy creates significant benefits to the State by:

- providing the capacity through the Central Banking System to net the State's borrowings prior to approaching financial markets, thus reducing net interest expense and overall external borrowings;
- centralising the borrowing and investment needs of the State and agencies to establish economies of scale, which reduces execution and administration costs;
- enabling the State's overall counterparty risk to be centrally monitored and managed;
- improving prudential oversight of the State's overall borrowing and investment exposures; and
- centralising and reducing governance functions, enabling cost savings and the development of expertise by concentration of appropriate financing and investment expertise into key agencies, rather than being spread thinly and duplicated across a range of agencies.

Central Banking System

All general government sector (GG) departments and agencies, unless specifically exempted, are required to hold Eligible Financial Assets and surplus cash holdings in a bank account contracted with a Banking Services SPC supplier, otherwise known as a Central Banking System (CBS) account[55]. This precludes departments and agencies from establishing transactional bank accounts outside of the Banking Services SPC (refer to Directions 3.7.2).

All public non-financial corporations (PNFCs) and public financial corporations (PFCs), unless specifically exempted by the Assistant Treasurer or by legislation, are also required to hold Eligible Financial Assets and surplus cash holdings in bank accounts in the CBS (refer to Directions 3.7.2). Compliance with Direction 3.7.2 is subject to the transitional arrangements set out in Direction 1.4.1. The specific requirements of Direction 3.7.2 (subject to Direction 1.4.1) in respect of the Banking and Financial Services State Purchase Contract prevail over any general requirements of the Victorian Government Purchasing Board with respect to the date by which entities must utilise State Purchase Contracts.

Types of investments that can be held outside of the Central Banking System

Standing Direction 3.7.2.2(a) requires all Financial Assets of agencies to be deposited into the CBS except:

i. notes and coins;
ii. Third Party Funds;

[55] A CBS bank account is an account held with under the Banking and Financial Services State Purchase Contract (Banking Services SPC),

iii. Non-Government Source Funds, other than Own Source Revenue;
iv. Any part of the Agency's Long-Term Investment Funds which the Agency originally received from money appropriated for tangible asset investment, with approval to invest in financial assets pending payment for the tangible asset; or
v. Financial Assets in respect of which an exemption has been provided under Direction 1.5.

Standing Direction 3.7.2.2(c) therefore requires funds held outside of the CBS, other than notes and coins, to be deposited with VFMC or TCV or as otherwise specified in relevant legislation or as approved under Direction 1.5.

Guidance 1.5 sets out the details and requirements for obtaining an exemption from Standing Direction 3.7.2.2(a). When funds are invested with VFMC or TCV, the Responsible Body must ensure that the investments are recorded in accordance with Direction 3.7.2.3(b) and are:

- held separately from third-party funds which are not held on the State's balance sheet: an example of third-party funds are bonds that have been lodged with the Residential Tenancy Bond Authority; and
- be clearly identified as 'State Funds' by including in the investment name the Unit holder name: Further advice on the requirement to hold financial assets in the CBS, the classification of the source of funds or how to seek an exemption can be obtained from DTF using the following contact details:

Executive Director, Financial Assets and Liabilities
Department of Treasury and Finance
Level 5, 1 Treasury Place
MELBOURNE VIC 3002
Tel: 03 7005 9229

Email address: working.capital@dtf.vic.gov.au

Investments and Borrowings with Victorian Funds Management Corporation and Treasury Corporation of Victoria

Investing with VFMC

The Victorian Funds Management Corporation (VFMC) was established in 1994 as the centralised long-term investment manager for State Agencies. VFMC manages multi sector and single sector investment options and provides guidance on the development of appropriate investment objectives, including Strategic Asset Allocations. VFMC does not provide investment advice.

Requests for further information concerning VFMC's products and services in relation to the management and execution of investments should be directed to:

Head of Client and Market Development
Victorian Funds Management Corporation
Level 13, 101 Collins Street
MELBOURNE VIC 3000
Tel: 03 9207 2900

Email: clientservices@vfmc.vic.gov.au

The multi asset and single sector investment options provide different risk/return profiles and related investment horizons. Refer to VFMC Client Services for details.

Agencies seeking to invest with VFMC should follow the following process:

Step 1

Agencies to consult with DTF to ensure funds can be invested outside of the CBS and with VFMC (see Section 1.5).

DTF will confirm if the investment exemption request is in compliance with the Directions, i.e. an explicit exemption has been provided or if an exemption is required.

If an exemption is required, the agency should formally request the approval of the Assistant Treasurer to invest funds with VFMC. The approval would generally be subject to the agency developing a Board approved investment policy and strategy with VFMC and approved by DTF.

Requests for information should be sent to DTF at working.capital@dtf.vic.gov.au.

Step 2

DTF will confirm with VFMC and the agency that the exemption request is in compliance with the Directions, and the exemption request has been approved by the Assistant Treasurer.

Without approval being confirmed, the agency is not approved for an investment with VFMC. This applies to all GG, PNFC and PFC agencies.

Step 3

Following approval by the Assistant Treasurer, the agency should contact VFMC to begin the onboarding process, including the development of an Investment Policy Statement and Strategy.

Agencies are required to have a Board approved Investment Policy Statement (IPS) in place to invest with VFMC. The IPS and any later material changes should be reviewed by DTF prior to final Board approval. Refer to Instruction 3.7.2.3 for further details on the requirement to develop an Investment Risk Management Policy. Direction 3.7.2.2(e) requires that, as the expected time to expenditure for funds held with VFMC falls to within 12 months, the Agency should as soon as is practicable move the funds to a CBS account to reduce the potential volatility in the market value of the investment.

Ongoing

DTF will conduct periodic reviews of agencies' investments with VFMC to ensure that:

- funds are still eligible for investment; and
- the investment strategy remains appropriate.

Borrowing from or making short term investments with TCV

Treasury Corporation of Victoria (TCV) was established in 1993 as the centralised treasury manager for the State. Part of its role is to ensure the State sources funds at the lowest possible cost and to manage associated financial risks. TCV provides borrowings, short-term deposit facilities and financial arrangements to hedge, protect or manage the value of assets and liabilities. TCV does not offer bank overdrafts or leases.

Under the centralised treasury and investments framework all borrowings and financial arrangements should be transacted through TCV. TCV can advise on appropriate funding and hedging strategies, taking into account the financial requirements and risk appetite of the Agency. TCV is also able to offer advice in the development of treasury policies and the outsourcing of treasury operations.

TCV provide the option to place funds on term deposit. Note: when funds are to be utilised within twelve months, they should be invested in the CBS. An investment policy is not required to invest with TCV.

Requests for further information concerning TCV's products and services, should be directed to:

Treasury Client Services
Treasury Corporation of Victoria
Level 12, 1 Collins Street
MELBOURNE VIC 3000
Tel: 03 9911 3636
Email: treasuryclientservices@tcv.vic.gov.au

Borrowing approval process

The majority of regular borrowers are public non-financial corporations such as water corporations. They have borrowing powers under the *Borrowing and Investment Powers Act 1987*. Other Agencies also have borrowing powers under their establishing or governing legislation. Agencies can obtain borrowings subject to obtaining the Treasurer's approval of a borrowing limit. TCV will be authorised to lend up to the approved limit.

Annual borrowing cycle

The borrowing approval framework operates on an annual cycle. The Treasurer approves the borrowing requirements for each Agency for the following financial year. This approval is based on data submitted to DTF via the annual budget and corporate planning process. The Agency borrowing requirements for the forthcoming year should be reflected in its annual budget feeds. Once approved, the Agency is provided with written confirmation of its annual borrowing limits and these limits are provided to TCV. The borrowing approval for all agencies now includes leases (using the accounting definition).

Borrowing approval process for public non-financial corporations outside of annual cycle

There may be occasions when an Agency borrows on a 'once-off' or project basis outside the annual borrowing cycle, or requires additional borrowings (over and above the borrowing limit approved in the annual cycle). Public Sector Agencies should submit a written request to DTF detailing the amount of additional borrowings with an accompanying explanation or business case if project related.

Written requests for borrowing limits outside of the annual approval cycle should be forwarded to:

Executive Director, Financial Assets and Liabilities
Department of Treasury and Finance
Level 5, 1 Treasury Place
MELBOURNE VIC 3002

Approvals for general government agencies

General government agencies are not normally given approval to borrow as they are subject to the Expenditure Review Sub-Committee (ERC) process and funded by Budget Appropriations. General government public sector agencies permitted to borrow by exception include:

Hospitals

As a result of a previous ERC decision, hospitals may request borrowings for new car park developments when a commercially viable business case has been submitted to DTF for approval. Such borrowings are outside the scope of the annual borrowing cycle, and will require the approval of the Minister for Health, the Assistant Treasurer and the Treasurer.

School cooperatives

School cooperatives may borrow from TCV to finance school building projects. A business case is required along with support from the Department of Education and Training (DET) and the Treasurer via DTF. Further information (only accessible to schools) is contained on the DET intranet.

Finance leases

The *Borrowing and Investment Powers Act 1987* includes finance leases in the definition of financial accommodation or borrowing (see Instruction 3.7.2.3). This Act and most other Victorian legislation require a Public Sector Agency to obtain the Treasurer's approval before obtaining financial accommodation (including finance leases). TCV or VFMC do not offer finance leases. Therefore, when an Agency requests approval from the Treasurer to enter into a finance lease, an exemption to the Direction should also be sought. Agencies entering into finance leases as part of Public Private Partnership (PV) arrangements should also consider obtaining an exemption along with all other relevant approvals as part of the PV framework.

Operational leases

The introduction of the accounting standard, *AASB 16 Leases* results in operating leases being recognised on the State's balance sheet. This means that the value of balance sheet 'borrowings' will include the impact of operating leases. Therefore, the value of operating leases needs to be closely monitored and controlled by Departments, agencies and DTF to ensure that 'borrowings' are maintained within the Government's fiscal targets.

The change in accounting Standards and related financial reporting does not impact the legal status of operating leases nor the authority for an agency to enter an operating lease. Agencies will continue to have the power to enter into operating leases in line with existing practices. However, it is now necessary to impose limits on the total accounting value of leases held.

The need to maintain whole of State balance sheet 'borrowings' within the Government's fiscal targets means that it's essential that the stock of leases can be accurately monitored, and any increase tightly controlled.

The Government sets the target for the level of whole of State borrowings/net debt and within this whole of State limit, a sub limit will be established for leases. The sublimit for leases will then be delegated (or allocated) to Portfolio Departments, which in turn will allocate limits to portfolio agencies.

Departments or agencies can only enter new leases provided the accounting value of their total leases (including the new lease) does not exceed the Department or Agency Limit.

Transfer Negotiation Authority and Similar Payroll Arrangements

A Transfer Negotiation Authority (TNA), also known as a Transactional Negotiation Agreement, is an arrangement which guarantees that a client's bank will honour all payroll related instructions from a specialist third party payroll company. TNAs are used by a number of public sector agencies such as hospitals. DTF does not consider a TNA to be a borrowing, and therefore no exemption request is necessary if an agency uses a TNA.

Foreign Currency Hedging

Agencies may undertake foreign currency hedging transactions of less than $1 million with TCV or an ADI contracted through the Banking and Financial Services SPC. Hedging of foreign currency transactions in excess of $1 million must be transacted with TCV.

Transition

Direction 3.7.2 is subject to a transitional arrangement in Direction 1.4.1.

- Agencies must email a transition plan to workingcapital@dtf.vic.gov.au for approval

Guidance 3.7.2.3 – Treasury Management Policy

Objective	Provides information to assist with the preparation of Financial Market Risk Management Polices, in particular Treasury and Investment policies and in complying with the requirements.
Effective date	1 July 2016
Relevant Directions	3.7.2 Treasury management, including Central Banking System
Last reviewed	12 August 2022

Treasury Policy

The State has a conservative philosophy for the management of treasury risks and accordingly agencies must establish treasury (borrowing and/or investment) policies appropriate to the borrowing and investment risks of their business.

An agency must maintain a Treasury Policy if it has borrowings. An agency must maintain an Investment Policy if it invests with VFMC or seeks to maintain any investments other than cash funds held in the CBS. An Agency can combine a Treasury policy and an Investment Policy within a single policy. Illustrative policies are included in this Guidance below.

The Treasury Policy document for an Agency should include information to detail all aspects relevant to achieving the primary objectives of the Treasury operation. Although the policy will vary across agencies in its specific detail, there is similarity in the general content to be included. The proposed content of the policy is described below. An example of a Treasury Policy is at Attachment A.

The structure of the Treasury Policy should include the following sections:

- **Introduction and overview** – covering: purpose and scope; reference to other documents relevant to the treasury management function; description of the position responsible for maintaining and approving the Treasury Policy, the process for review and amending the policy and the frequency of review of policy.
- **Treasury objectives and strategies** – providing a brief outline of the objectives of the Treasury operation, including strategies developed to achieve those objectives. The Responsible Body's risk tolerance can be reflected in the Treasury's objectives and strategies.
- **Roles and responsibilities** – covering information regarding the roles and responsibilities of the parties involved in the management, control and reporting of the organisation's financial risks. The parties will typically include the Responsible Body, Accountable Officer, Chief Finance Officer, Treasury Committee, and Treasury Manager.
- **Delegation of authority** – covering the delegation of authority, from the Responsible Body down through the Agency to the Treasury, and delegation in the Treasury. Delegations form a vital part of both the Agency's governance structure and the Treasury Policy. A listing of delegated authorities and discretionary limits (often held as an attachment to the policy), details what transactions are delegated to whom, who should authorise them and what limits apply. It can be comprehensive in capturing all types of transactions that are subject to delegation. Refer to Direction 3.3 for requirements.
- **Treasury risk recognition and management** – should include clear definition of risks, details of recognition, measurement, timing and objectives of risk management. Further information on risks can be found in a later section of the guidance on 'Treasury risks'. The following factors should be considered in developing strategies to manage risk: Agency projected cash flows over the short to medium-term; the life cycle of assets and the strategies for their replacement; the nature and structure of existing liabilities; the sensitivity of the Agency's cash flows to movements in economic variables, commodity prices and financial market variables (e.g. interest rates, inflation rates and exchange rates); and the risk tolerance of the Responsible Body.
- **Approved financial instruments** – specifies the financial instruments approved by the Treasurer of Victoria and potentially the limits on the approved instruments. For each category of approved financial instrument, it is recommended the policy document covers: maximum maturity for which instruments may be entered into; maximum amount per transaction; and that they should be with TCV/VFMC or as otherwise approved by the Treasurer.

- **Use of financial arrangements (derivatives)** – includes information on financial arrangements entered into. Attention should be given to: items which expose the Agency to risk and need to be hedged; approved instruments that are effective in reducing the exposures; and management reports to measure, monitor, and control derivative activity including mark-to-market information on all open positions by instrument category.
- **Internal control systems** – outlining: the role of internal audit, frequency of audits and to whom the results are conveyed; operational policies that reasonably ensure: Directions, Instructions and the Treasury Policy are not breached; computer systems are appropriate and error free; risks are being regularly identified, measured and evaluated; appropriate segregation of duties; management policies and directives are being adhered to; and reporting of breaches, including defining levels of significant breach, procedures to ensure that breaches are reported appropriately and internal controls amended if required. The policy should also record the requirement of compliance reporting when significant and systemic breaches of the policy occur, see Direction 5.1.
- **Reporting and monitoring process** – including the frequency and contents of management reports and the Responsible Body including the reporting of Treasury activities; and adherence to dealing limits.
- **Treasury risks** – providing further description on the various risks, as outlined below:

Interest rate risk – the risk to earnings or capital arising from movements in interest rates. Interest rate risk can arise from: differences between the timing of interest rate changes and the timing of cash flows; resetting of interest rates on Agency's loans or investments; and when interest costs fluctuate according to interest rate movements during the life of a loan.

Agencies that borrow should determine their funding and cash flow requirements and the type of borrowing, its term to maturity and interest rate risk management strategies. Interest rate risk may be mitigated by including a mix of fixed and floating rate debt with a range of maturities in the liability portfolio, and ensuring that new or replacement debt is added in a way that minimises any concentration of maturities or repricing dates.

The limits (shown below) may be a useful guide to Agencies with significant ongoing borrowings in the development of their policies.

Term to maturity	Target (%)	Limits (%)
0–1 year*	20	10–30
1–4 years	35	20–50
4–8 years	35	20–50
8 years and over	10	0–20

* Loans maturing within 12 months and term loans with floating rate resets should be included in the 0 to 1-year period.

Setting of interest rate risk limits may not be appropriate for all Agencies. For example, Agencies that undertake one-off project borrowings may opt to use a project based financing strategy, with a term broadly matching the life of the underlying asset and with a rate of interest fixed for the life of the loan.

Some Agencies may hold minimal short-term borrowing facilities for the purposes of liquidity management only and would therefore not need to adopt the portfolio approach described above.

TCV is available to provide advice and financial products in relation to interest rate risk management.

Liquidity risk – the risk that an Agency does not have sufficient funds available to meet cash outflow commitments or faces a liquidity crisis brought on by unforeseen events. Liquidity risk consists of two main elements: funds risk; and transaction risk.

Funds risk is the risk that the Agency will not be able to meet its obligations as they fall due. This is a cash flow risk and it is managed by ensuring that adequate funds of the correct currency are available in the right places at the right time. Regular forecasts of future cash flows should be prepared to monitor future funding requirements.

Transaction risk is the risk that losses will arise from being exposed to an illiquid market. This ties very closely to market risk. If market rates become more volatile, transaction risk increases for the Agency if it tries to sell or buy in the market.

Under the Government's centralised Treasury model, Agencies that borrow are responsible for managing the funds risk. TCV is responsible for managing the transaction risk and ensuring that funding lines are always available to borrowers. Agencies should focus on managing liquidity risk through careful cash flow forecasting and developing an appropriate maturity profile to manage refinancing. Agencies are ultimately responsible for the management of liquidity risk.

Foreign exchange risk – the risk to operating result and or capital due to a change in foreign exchange rates. For Agencies, foreign exchange risk mainly arises when a cash payment or receipt is denominated in a foreign currency; or an Australian dollar cash payment or receipt is determined by a foreign currency amount converted to Australian dollars at an exchange rate prevailing at some future date.

Exposure to changing foreign exchange rates often arises indirectly in the normal course of business. It may occur when purchasing products from a foreign supplier and a fall in the value of the Australian dollar may reduce the operating margin. In some instances, the foreign currency exposure may be embedded in the terms of a contract, such as an agreement to purchase goods from an offshore supplier. To assist Agencies to determine exposures, it is important to consider the likely amount and timing and the degree of certainty attached to both.

The Responsible Body should ensure policies and procedures in relation to foreign exchange risk have been developed which identify the foreign exchange exposure and recognise the requirement that these exposures be fully hedged when material. Policies should therefore specifically address how any exposure arising from trade transactions (payables/receivables) is to be managed.

The most significant currency exposures faced by Agencies are cash flow exposures. TCV offers a variety of specific market instruments to manage these exposures, including forward foreign exchange, currency swaps, currency futures and options, which lend themselves readily to transaction exposures.

When an Agency purchases goods and services using fixed price state purchase contracts, they are reducing their foreign currency and commodity price exposure. This is because the prices are fixed for a period, sometimes 3 or more years, and generally should not fluctuate. This includes items purchased under Health Purchasing Victoria contracts and whole of Victorian Government contracts.

There could be a higher exposure to foreign exchange or commodity price risk when an Agency negotiates pricing directly for goods and services with the supplier, for example when an Agency purchases directly from an overseas supplier in an overseas currency.

Commodity price risk – the risk to operating result or capital due to a change in the price of a commodity that is a key input or output. For example, an Agency may be required to purchase fuel. A commodity price risk may arise because the future price of fuel is uncertain. If fuel prices are rising the Agency will have to pay more for fuel and this might reduce the operating margins if the increased prices cannot be recovered.

A Commodity[56] is defined as a tradable item that can generally be further processed and sold; includes industrial (metals such as aluminium), agricultural (wool, wheat, sugar, etc.), and bulk (coal, iron ore) goods. Commodities are important to the Australian economy as they account for the majority of our exports.

The policy should address how any exposure arising from trade transactions (payables/receivables) is to be managed.

Agencies should be aware that many commodities have a foreign exchange component in their AUD pricing.

[56] From Australian dictionary of investment terms.

Credit risk – the risk that another party in a transaction will fail to meet its financial obligations. Credit risk may include:

- counterparty risk, which is the risk that the other party to a transaction will not meet its obligations as to timing or amount of settlement;
- country/political/sovereign risk associated with government directives and policies that may affect the contractual performance of either party to the transaction, and that are generally beyond the direct control of the counterparty; and
- settlement or delivery risk that may exist if there is a default in a single settlement or delivery, in which case all other exposures or positions with that counterparty will be closed out, thus establishing claims for transaction costs.

The Responsible Body should ensure policies and procedures outline the management of credit risk.

Treasury operational risk – the risk of losing money as a result of failures in systems, people or procedures. The focus of operational risk management in a Treasury Policy relates to the roles and responsibilities of staff employed in the Treasury function and the related systems. Financial loss can occur in the Treasury function due to mismanagement, error, fraud, omission, theft, unauthorised use of techniques and/or financial products, or inadequate information systems.

The Responsible Body should ensure that operational risks are managed by having an adequate control framework in place which limits authority, establishes supervision and separates sensitive duties. The management approach to operational risk should be to clearly define the roles and responsibilities of staff employed in the Treasury section. The management of operational risk in the Treasury function should be consistent with overall operational risk management and policies.

Investment risk – the risk to the operating result or capital from an adverse movement in the value of investment assets. A primary consideration for Agencies that invest is capital preservation. A specific investment policy is required for Agencies investing with VFMC or in long-term or other high-risk assets such as equities and managed funds.

Attachment A – Treasury Policy Example

This illustrative policy is based on a public sector agency involved in borrowing, cash investing (short-term) and hedging transactions utilising financial arrangements. For smaller agencies, users are encouraged to delete unnecessary wording and/or edit as appropriate to make it ‘fit for purpose’. In particular, some descriptive paragraphs with background information and/or guidance have been included to assist an agency to develop its own policy.

[Public Sector Agency ABC] Treasury Management Policy - May 2022

1. Introduction and overview

1.1 Purpose

To provide a framework for the management of the treasury operation of [ABC]; and ensure prudent and efficient financial risk management. This includes the relationship between [ABC], TCV, DTF, the [Portfolio] Department and private financial institutions including Authorised Deposit Taking Institutions (ADIs). This will be achieved through the management, monitoring and reporting on the key risks.

1.2 Scope

This policy will apply to all: borrowings; cash (and short-term) investments including funds held in the Central Banking System (CBS) and TCV, and transactional funds held in ADI accounts; and financial arrangements for managing interest rate, foreign exchange, commodity risks.

1.3 Other documents relevant

This document should be read in conjunction with the following legislation and policies as it applies to the operations of [ABC]:

- *Borrowing and Investment Powers Act 1987*;
- *Financial Management Act 1994*, and the Standing Directions under this Act, particularly:
  - Direction 1.2.2 which exempts public financial and non-financial corporations from the CBS under Direction 3.7.2.1.

  - Direction 3.7.2 on ‘Treasury management including Central Banking System’;
- the Government’s centralised treasury and investment policy; and
- Code of Conduct for Victorian Public Sector Employees.

This document should also be read in conjunction with other internal policy materials relevant to the operation of the treasury function of [ABC] which include the following: [ABC] Corporate Plan; Risk Management Policy; Treasury procedures manual; and [ABC] Code of Conduct.

1.4 Maintenance of the treasury policy

The [CFO] is responsible for maintaining and supervising compliance with this treasury policy. The policy and all amendments must be approved by the Board. The policy is reviewed annually.

It is a requirement under the Standing Direction 3.7.2.2 Instructions to provide DTF with a draft of the treasury policy for review.

2. Financial objectives and strategies

2.1 Financial objectives

The financial and treasury management objectives of [ABC] are as follows:

- to manage cash flows and liquidity needs on a daily and longer-term basis and meet cash flow commitments when they fall due;
- to maintain the minimum required cash balances in transactional bank accounts;
- to determine annual borrowing requirements for inclusion in the Government budget feeds based on corporate plans and forecast capital expenditures;
- to ensure financial risks and treasury management exposures are identified, planned and managed; and
- to allocate appropriate resources, implement internal controls and maintain oversight of the corporate treasury function.

2.2 Financial strategy

The financial strategies employed to achieve these treasury management strategies are as follows:

- to prepare regular cash forecasts to effectively monitor future funding requirements, meet all cash flow commitments when they fall due and minimise liquidity risk;
- where there are borrowings outstanding, to use any surplus funds to retire debt as a priority taking into consideration the book valuation of the loans and the ability to absorb book losses if applicable;
- to maintain any surplus cash balances (not applied to debt retirement) in the CBS;
- to keep floating rate debt to a minimum, unless there are offsetting exposures in revenue;
- to maintain a spread of debt maturities (Standing Direction 3.7.2 Guidance) to minimise interest rate/refinancing risks;
- to actively manage refinancing risk for any large fixed rate loans through obtaining appropriate financial arrangements such as the approval to transact a forward settlement loan through TCV;
- to liaise with DTF to obtain the necessary Treasurer’s borrowing approval and with TCV to ensure that access to credit lines is available to meet any unexpected funding requirements;
- to prohibit speculative position taking, and to only enter into financial arrangements for hedging/ risk management purposes;
- to undertake all borrowings and financial arrangements, including foreign exchange transactions through TCV to mitigate credit/ counterparty risk;
- to undertake an annual internal audit of the treasury management function;
- to operate at all times within the Board approved treasury policy; and
- maintain the highest standards of professional conduct and ethical dealing in the management of the treasury function.

3. Treasury risk recognition and management

Standing Direction 3.7.2.2 requires that bodies such as [ABC] establish and maintain policies to identify, assess, monitor, report on and mitigate its treasury risks. These policies must address, at a minimum, the risks outlined below.

3.1 Interest rate risk

Interest rate risk is the risk that the organisation will suffer a financial or economic loss due to adverse movements in interest rates. Interest rate risk will arise where:

- there is a cash surplus or deficit that needs to be managed;
- borrowings or investments mature and are reborrowed or reinvested;
- an interest repricing occurs on a borrowing, financial arrangement or investment;
- there are new borrowings or investments; and
- there is an early repayment of debt or an investment.

[ABC] predominantly manages interest rate risk by:

- keeping floating rate debt to a minimum and adhering to the debt portfolio maturity profile contained in the financial strategy section (2.2) of this policy;
- corporate planning that monitors future capital expenditure requirements and how this will affect the portfolio structure; and
- contacting TCV to arrange for appropriate risk management products to be put in place before a large fixed interest rate loan is due to be refinanced. A forward settlement loan is in most circumstances the most cost-effective financial arrangement to manage the risks associated with a loan maturity that requires refinancing.

3.2 Liquidity risk

Liquidity risk is the risk that [ABC] cannot satisfy its day to day cash flow commitments when they fall due. Liquidity risk is managed by:

- regular cash forecasting;
- monitoring the life cycle and replacement time of fixed assets and the liability profile;
- maintaining access to TCV borrowing facilities by having in place a current Treasurer's borrowing approval; and
- ensuring accurate estimates are provided for the annual borrowing approval process.

Short-term liquidity management is ensured through effective daily cash management to ensure funds are available on demand.

Long-term liquidity management is managed through ensuring appropriate funding facilities are in place with TCV to meet all long-term funding requirements. The preparation of the annual financing plan will consider new debt and refinancing requirements. The plan forms the basis for the application to the Treasurer to seek the approval to borrow from TCV the required financial accommodation. Long-term liquidity management is also achieved through monitoring the maturity profile of borrowings and by maintaining a spread of debt maturities which minimises the refinancing risk associated with a concentration of maturities.

TCV is responsible for managing access to financial markets and providing the state and clients funds when required.

Investments are limited to deposits held in the Central Banking System and highly liquid cash investments provided by TCV to ensure funding flexibility.

3.3 Foreign exchange risk

Foreign exchange risk is the risk that [ABC] will suffer financial loss due to adverse movements in foreign exchange rates.

A material foreign currency exposure for [ABC] is an exposure in excess of [$]. [ABC] is exposed to foreign exchange risk when purchasing equipment from foreign suppliers. Where a material foreign currency risk arises, these must be fully hedged using an appropriate risk management product obtained from TCV.

[ABC] will follow Standing Direction Guidance 3.7.2.2 which details the hedging of a foreign exchange exposure (when known with certainty) with a forward foreign exchange contract.

3.4 Credit/Counterparty risk

Credit risk is the risk that a [ABC] will suffer financial loss due to the inability of a counterparty to meet its financial obligations in full and on time. Credit risk is reduced by diversifying exposures across a broad range of counterparties. [ABC] faces credit risk in the following areas:

- investments;
- performance guarantees;
- supplier contracts; and

- customer ability to meet contractual commitments.

Credit risk exposures to investment counterparties external to the state's treasury framework will be minimal given surplus funds are required to be held in the CBS or on deposit with TCV.

Credit risk is reduced by maintaining borrowings, financial arrangements and cash investments with TCV and depositing surplus funds in the CBS as well as a limited amount of transactional funds with an ADI.

TCV is the only approved counterparty for borrowings and financial arrangements. The credit risk exposure to TCV is considered minimal as TCV has a credit rating equivalent to the State of Victoria.

Investment products are provided by TCV and ADIs in accordance with the Standing Directions of the Assistant Treasurer. If TCV cannot provide the required financial product then approval is required from the Board, the relevant Minister and Assistant Treasurer to operate outside the centralised framework.

3.5 Commodity price risk

Commodity risk is a risk to operating result or capital due to a change in the price of a commodity that is a key input or output. Public sector agency [ABC] is [not] exposed to commodity price risk.

If a commodity risk were to arise, the objective will be to identify the commodity price risk and determine a hedge that will effectively manage the exposure.

3.6 Treasury operational risk

Treasury operational risk is the risk that [ABC] will suffer loss owing to the mismanagement of the treasury/borrowing/investment function. This may include the risks of financial loss due to error, fraud or unauthorised dealing or use of financial products.

This risk is monitored and controlled through the following risk management practices:

- oversight by management and the board of directors;
- regular performance of internal and external audit;
- the execution of treasury management operations and financial strategy through TCV;
- abiding by the treasury management procedures and policies outlined in this treasury policy;
- appropriate organisational structure and resourcing within the treasury function;
- clearly defining the roles, responsibilities and authority of treasury staff;
- adequate training and knowledge;
- adequate segregation of duties;
- adherence to the code of conduct;
- fully documented dealing and authorisation limits;
- adequate systems and internal controls;
- proper documentation of procedures and reporting;
- effective reporting of treasury operations and any breaches to management, the Board and DTF; and
- measures to protect the integrity of information systems including security, backup, and disaster recovery.

3.7 Investment risk

[ABC] is not normally exposed to investment interest rate risk as it uses surplus funds to fund its operations and repay debt. The repayment of medium to long-term debt will require the consideration of the debt's book and market values.

4. Roles and responsibilities

Responsibility for the management and control of treasury related financial risks faced by [ABC] rests with the Accountable Officer and involves the following parties:

- the Board;
- the Audit Committee;
- the Chief Financial Officer; and
- the Financial Manager or Accountant/Treasury Manager.

4.1 The Board

The Board must:

- approve this treasury policy and all amendments and ensure compliance with the policy;

- approve all borrowings, investments and risk management products;
- receive treasury reports from management, at least quarterly, covering borrowings, financial arrangements and cash investments. The Board may request more regular reporting if this would be prudent or otherwise desirable;
- approve all relevant delegations and dealer limits in operation within the Treasury function; and
- review and note any breach of the treasury policy and the plan to rectify the breach.

4.2 Audit Committee

The Audit Committee:

- is responsible for endorsing the overall financial risk management strategy of [ABC];
- is responsible for appointing an internal auditor and receiving regular internal audit reports concerning Treasury operations and providing the results to the Board on an annual basis; and
- may direct the internal auditor to investigate the treasury operation of [ABC] on a more regular basis if it has reason to believe there has been a significant breach of this treasury policy.

4.3 Chief Financial Officer (CFO)

The CFO:

- is responsible for overseeing and monitoring the management of the treasury function in accordance with this treasury policy and related legislation;
- must make available the approved policy to [Portfolio] Department and DTF upon request;
- must make recommendations to the Board concerning delegations and responsibilities within the treasury function;
- may recommend amendments to the treasury policy for Board approval;
- has authority to liaise with TCV concerning any borrowing or financial arrangements within the restrictions of any dealer limit of delegation prescribed by this treasury policy; and
- is responsible for reviewing and signing off on all treasury reports before they are presented to the Board.

4.4 Financial Manager or Accountant/Treasury Manager

The [Financial Manager or Accountant] will act as Treasury Manager and is delegated responsibility to liaise with TCV concerning the execution of the treasury strategies contained in the treasury policy. The Treasury Manager:

- is responsible for operating and administering the treasury function including relevant forecasting, correspondence, accounting and reporting functions;
- is responsible for identifying any emerging financial risks and developing appropriate financial risk management strategies for approval by the CFO and Board;
- may liaise with TCV in relation to borrowings within restrictions of any dealer limits or delegations provided in this document;
- is not authorised to liaise with TCV concerning entering into or performing financial arrangements;
- is responsible for providing quarterly treasury reports to the CFO and the Board;
- is responsible for assisting the CFO concerning any amendments to this treasury policy; and
- must report any breaches or exceptions to the Board approved policy and provide an action plan.

5. Delegations (may be attached to the policy in a tabular format)

- All borrowings, financial arrangements or investments of greater than [$] million must be authorised by the Board and transacted by the CFO.
- The CFO is approved to authorise financial arrangements on behalf of ABC. This delegation is granted up to the value of [$] million and must be transacted by the Treasury Manager.
- The CFO is approved to authorise cash investments with TCV on behalf of [ABC] in amounts greater than [$] million but less than [$] million. These investments must be transacted by the Treasury Manager.
- The CFO is approved to authorise financial accommodation from TCV on behalf of [ABC] in amounts greater than [$] million but less than [$] million. These borrowings must be transacted by the Treasury Manager.
- The Treasury Manager may place investments with TCV on behalf of [ABC] up to a limit of [$] million. These investments must be transacted by an accountant within the treasury function reporting directly to the Treasury Manager.

- The Treasury Manager may obtain financial accommodation on behalf of [ABC] from TCV in amounts less than [$] million. These borrowings must be transacted by an accountant within the treasury function reporting directly to the Treasury Manager.

6. Approved financial instruments

6.1 Approved TCV borrowing products

1. Short term loans including 11:00am loans;
2. Term floating rate loans;
3. Fixed rate loans; and
4. Forward settlement loans.

6.2 Approved investment products

Consistent with Standing Direction 3.7.2, the permitted investment products are:

1. CBS deposits; and
2. VFMC single sector solutions.

6.3 Approved TCV financial arrangement products

1. Forward settlement loans;
2. Spot foreign exchange rate contracts; and
3. Forward foreign exchange rate contracts.

7. Use of financial arrangements (derivatives)

To manage refinancing risk for large fixed rate loans as they approach maturity, TCV may be engaged to provide financial arrangements. In this case, TCV should be requested to provide appropriate financial arrangements (derivatives) to manage refinancing risk. A forward settlement loan is in most circumstances the most cost-effective financial arrangement to manage the risks associated with a loan maturity that requires refinancing.

Material foreign exchange exposure should be hedged. In most circumstances if the foreign exchange exposure is known with certainty regarding amount and timing, a forward foreign exchange contract will be the most cost-effective hedge.

Any financial arrangement entered into by [ABC]:

- must be designated as a hedge at the time of entering into the arrangement;
- the risk exposure must not already be effectively hedged by an off-setting risk;
- must contribute to the reduction of exposure to financial risk;
- must not be entered for the purposes of leveraging a transaction; and
- trading activities in the context of transacting to create new or additional exposures are not permitted.

Treasurer's approval must be sought prior to entering into financial arrangements.

Where financial arrangements are in use, management must report to the Board concerning measurement, monitoring and control of derivative activity including mark-to-market information on all open positions by instrument category.

(Specialist advice from technical accounting advisers may be required regarding the valuation and reporting of financial arrangements.)

8. Internal controls and systems

8.1 Internal Audit

Internal audit will be carried out by [Accounting Firm] in accordance with the Internal Audit, Standing Direction 3.2.2 and internal audit plan. Internal audit reports for the Treasury function will be conducted on at least an [annual] basis, and more regularly at the request of the Audit Committee. The internal audit report will be provided to the Audit Committee for their consideration. The Audit Committee reserves the right to perform additional audit activity at any time should it be required.

8.2 Operational Policies

Management and staff:

- must comply with the requirements of the Standing Directions including Instructions, and other materials, at all times;
- must comply with the terms of this treasury policy in the conduct of the treasury function of [ABC];
- must ensure that computer systems, including accounting software and communications systems, are capable of supporting the treasury management function at all times; and
- including the Responsible Officer and the CFO are responsible for ensuring systems are in place to identify, measure and evaluate potential financial risks as and when they eventuate. Management should frequently review the risk environment of the public sector agency and update the treasury policy as required.

The Board is responsible for ensuring that management policies and directions, including this treasury policy, are being adhered to by management and staff.

8.3 Breach Reporting

Management should ensure that the Board is made aware of any breach or potential breach of this policy and what actions have been taken /will be taken to rectify the breach.

DTF is also to be formally notified of any breaches and the proposed actions to rectify the breach.

Significant and or systemic breaches are reported in accordance with the Standing Directions of the Assistant Treasurer – Compliance and reporting direction.

9. Reporting to Board and management

Management must report to the Board on a regular basis concerning the treasury operations and financial risks of [ABC].

Treasury reports provided to the Board should detail the following information:

- borrowing levels and how these are tracking against annual borrowing limits approved by the Treasurer and planned capital expenditure detailed in the corporate plan and annual budget feeds;
- the status of financial risks faced by [ABC] and any material changes to these risks along with proposed mitigation strategies;
- any likely unplanned capital expenditure requirements and whether these will require increasing the Treasurer's approved borrowing limit for the financial year;
- cash forecasts concerning the timing of upcoming cash flows, a detailed consideration of the application of any surplus cash, and details concerning the required composition of cash balances in transactional, at call and term deposit products;
- the report should also cover adherence to dealer limits and delegations as set out in this treasury policy document;
- general details of treasury transactional activities;
- details of portfolio composition and position;
- strategic planning issues;
- a record of performance against measures;
- exceptions or breaches to Board approved policy;
- operational issues; and
- a report concerning the measurement, monitoring and control financial arrangements outstanding including mark-to-market information concerning all open positions.

Internal audit reports provided to the Audit Committee should include:

- a summary of financial risk management activity;
- an overview of portfolio composition and position;
- strategic action plans;
- performance overview of treasury function; and
- any exceptions or breaches to the Board approved treasury policy.

Guidance 3.7.2.4 – Investment Management Policy

Objective	Provides information to assist with the preparation of Investment Policies which comply with the requirements of the Standing Directions.
Effective date	12 August 2022
Relevant Directions	3.7.2 Treasury management, including Central Banking System
Last reviewed	12 August 2022

Investment Policy (statement)

An Investment policy statement sets out the framework for managing the Agency's long-term or other high-risk investments. This is only applicable to Agencies with ongoing surplus investments.

The statement should document the Agency's investment policy and the approach taken in managing its investments. Although the statement will vary across Agencies in its detail, there is similarity in the general content to be included.

An example of an Investment Policy Statement is available in Attachment B. The proposed content of the statement is described below.

- **Introduction and overview** – covering purpose and scope; reference to policies or documents relevant to the investment management function (e.g. investment powers in legislation, risk management practices); and description of the position responsible for maintaining and approving the policy, the process for review and amending the policy and the frequency of review of policy.
- **Investment objectives and strategies** – outlining the investment objectives for returns and risk that form the basis of its investment strategy. Investment objectives should be set by the Responsible Body in consultation with VFMC and be consistent with the objectives of the Agency's corporate plan.
- **Roles and responsibilities** – of the parties involved in the management, control and reporting of the investment function. The parties may be some or all of the following: Responsible Body, Accountable Officer, Chief Finance Officer, Investment Committee, Investment Manager, and external consultants.
- **Delegation of authority** – including details of what transactions and functions are delegated, to whom, who should authorise various transactions or functions, and what financial or other limits should apply. Refer to Direction 3.3 for requirements.
- **Investment risks** – which include:

– liquidity risk: The risk that the Agency cannot satisfy its day to day cash flow commitments;

– inflation risk: The risk that investment values fail to match inflation in the long-run;

– interest rate risk: The risk that falling rates lower the earnings on cash or fixed interest securities. Conversely, interest rate risk can also impact financial assets in a period of sharp rising interest rates; and

– operational risk: the risk that a Public Body will suffer loss owing to the mismanagement of the investment function. These may include risks of financial loss due to error, fraud or unauthorised dealing or use of financial products.

Where an Agency invests through VFMC, VFMC will take measures to manage some investment risks on their behalf. These investment risks include:

- **market risk**: the risk that asset prices across many markets fall in response to expectations of declining general economic conditions or heightened risks, e.g. geopolitical;
- **credit risk**: the risk that a security issuer or other counterparty may fail to repay some or all of an investment;
- **selection risk**: the risk of poor portfolio performance due to poor asset selection; and
- **concentration risk**: the risk that there is insufficient diversification between investments, investment issuers, fund managers or other characteristics which may lead to an Agency being exposed to a single economic or market event.

For each investment risk, it is important to provide details of the risk, recognition, measurement, timing and objectives of risk management.

External investment advisors and fund managers. When the Agency has the authority or Treasurer's approval to invest outside VFMC, this section documents the policies regarding the engagement, performance management and retention of external investment advisors/managers. Clients can use the services of a specialist investment advisor to compliment the relationship with VFMC to assist agencies with their investment objectives and strategic asset allocation.

Internal control systems – the nature and extent of the control environment is driven by the type and value of the investments. The statement should prescribe an appropriate internal control environment that includes the following features:

- a clear definition of the role of Internal Audit, the frequency of audits and to whom the results are conveyed;
- adequate operational policies that reasonably ensure that: *Directions*, *Instructions* and the *Investment Policy Statement* are not breached and that DTF should be contacted verbally and in writing of any breaches; risks are being identified, measured and evaluated regularly; adequate segregation of duties to ensure that the risk of error or fraud in the investment management process is minimised, and there is an enhanced probability for the discovery of error or fraud; and management policies and Directions are being adhered to;
- robust investment processes and compliance structures are in place; and
- accounting and information systems are appropriate to task and error free.

Permitted investment list – the Responsible Body may wish to provide limits on approved investments. The aim of including such a list in the Statement is to ensure that employees or the investment manager is explicitly aware of the investment products and arrangements that may be undertaken, and those not permitted.

Reporting and monitoring process – it is common for the Responsible Body to receive a detailed investment report on a quarterly basis and summary investment data on a monthly basis. Agencies investing through VFMC will receive comprehensive reporting on a monthly, quarterly, and annual basis. More frequent investment reporting may be necessary when the investment environment or operational circumstances dictate that this would be prudent. Reporting requirements could include a comparison of investment performance against relevant benchmarks.

Other relevant information

Queries in relation to this material should be directed to:

Executive Director, Financial Assets and Liabilities
Department of Treasury and Finance
Level 5, 1 Treasury Place
MELBOURNE VIC 3002
Email: bernard.gastin@dtf.vic.gov.au
Tel: 03 7005 9229

Attachment B – Investment Policy Statement Example

In this illustrative example, the agency [ABC] has a long-term investment portfolio with VFMC via one or more of its funds and funds in the CBS (e.g. in a CBA, NAB or Westpac bank account).

Public Sector Agency [ABC] Investment Policy Statement - May 2022

1. Introduction and overview

1.1 Purpose

The purpose of this Investment Policy Statement is to provide a framework for the investment management function of [ABC]. This includes the relationship between [ABC], VFMC, TCV, DTF and approved private financial institutions and advisers specified in this document.

1.2 Scope

This Investment Policy Statement and the guidelines within it apply to all:

- investments held with VFMC, funds in the CBS and TCV; and
- any other investments approved by the relevant Minister and the Assistant Treasurer as suitable for use by [ABC].

1.3 Other relevant documents

This document should be read in conjunction with the following legislation as it applies to the operations of [insert Public Body name]:

- The Standing Directions of the Assistant Treasurer, especially Direction 3.7.2;
- *Borrowing and Investment Powers Act 1987* and Orders in Council re approved manner of investments;
- establishing legislation;
- *Treasury Corporation of Victoria Act 1992*;
- *Victorian Funds Management Corporation Act 1994*;
- The Government's Centralised Banking, Treasury and Investment Policy; and
- *Audit Act 1994*.

1.4 Maintenance of the Investment Policy Statement

The Accountable Officer (normally the Chief Finance Officer) is responsible for maintaining and supervising compliance with this Investment Policy Statement. The Policy and any amendments must be approved by the Board. Following Board approval of this Investment Policy Statement, it must be available to the [Portfolio Department X] and DTF for review upon request. The Policy will be reviewed by [ABC] at least annually and will be made available to VFMC if ABC is a client.

Note: The Instructions supporting the Standing Directions 2018 requires the Accountable Officer to consult with DTF as part of the Board approval process for new or material changes to an Investment policy.

2. Investment objectives

Investment objectives to include the purpose and investment time frame for the portfolio. If ABC is eligible to claim franking credits, this should be referenced, as well as any liquidity requirements and ABC's approach to managing a spending rule and the organisation's ongoing distribution reinvestment plan.

The investment objectives of [ABC] are as follows:

- **return**: To maintain a return objective of [e.g. CPI +3.0% p.a.] for surplus funds over a rolling [e.g. five-year] period; and
- **risk**: For example, to limit the likelihood of a negative return to no more than one year in every [e.g. four] years.

3. Investment strategy implementation

The investment strategy will be implemented by:

- investing via an agreed strategic asset allocation (SAA) with appropriate rebalancing ranges;
- implementing ABC's SAA with VFMC in its multi sector and/or single sector investment funds; and
- investing surplus short-term funds in a Central Banking System bank or with a designated bank to cover liquidity requirements.

4. Roles and responsibilities

Responsibility for the management and control of investment related financial risks faced by [insert Public Sector Agency name] rests with the Accountable Officer and involves the following parties:

- the Responsible Body (Board);
- The Audit Committee and/or Investment Committee;
- the Chief Finance Officer; and
- the Financial Manager or Accountant/Investment Manager.

4.1 The Board

The Board is responsible for overseeing the management of the investments. The specific roles and responsibilities of the Board with respect to investment management are outlined below, noting some responsibilities may be delegated to an appropriate sub-committee of the Board [e.g. Finance & Audit, Investment Committee]:

- ensure that [ABC] has an Investment Policy Statement which is being complied with;
- set the investment objectives for [ABC];
- approve the investment strategy, including the SAA and its investment execution plan;
- approve the use of any financial arrangements to manage investment related financial risks;

- approve any delegations of responsibility within the investment management function;
- receive and consider investment performance and compliance and responsible investment reports prepared by VFMC (or TCV), management and any external advisors at least quarterly; and
- approve the investment objectives, asset allocation, rebalancing ranges, distribution approach and Investment Policy Statement at least annually.

4.2 Audit Committee

The Audit Committee is responsible for the oversight of investments and recommending the following to the Agency's Board for approval:

- creation and maintenance of investment policy document, setting the risk appetite
- establishment of investment objectives (risk and return)
- establishment of the Strategic Asset Allocation (SAA) and ensuring rebalancing to within stated allocation ranges
- management of any investment distributions including decision to reinvest or to distribute, the establishment of any associated spending rule
- oversight of investment performance against the investment objective
- oversight of responsible investment and ESG principles within VFMC's responsible investment framework
- meeting with VFMC once per year to review the above.

4.3 Chief Finance Officer (CFO)

The CFO is responsible for overseeing the management of the investment function in accordance with this Investment Policy Statement and related legislation. Specific responsibilities of the CFO are to:

- monitor the activities of, and take responsibility for the operation of the investment management function;
- make recommendations to the Board concerning delegations and responsibilities within the investment function;
- recommend amendments to the Investment Policy Statement for Board approval;
- liaise with VFMC concerning the execution of the investment strategy within the limits and delegations prescribed by this Investment Policy Statement;
- action any compliance breach in line with Board approved policies; and
- review and sign off on regular investment performance and compliance reports before they are presented to the Board.

4.4 Financial Manager or Accountant/Investment Manager

The [Financial Manager or Accountant] will act as Investment Manager and is responsible for operating and administering the investment function including relevant forecasting, correspondence, compliance accounting and performance reporting duties. The Investment Manager:

- is responsible for implementing the financial risk management strategy of the investment function in coordination with the [CFO] and authorising transactions within Board approved dealer limits and delegations [e.g. including the asset allocation relative to the SAA, the distribution reinvestment and relevant spending rule actions]; and
- in coordination with VFMC, is responsible for providing investment performance and compliance reports to the CFO and the Board.

4.5 Delegations

These include:

- The Board must approve of any change in the investment objectives or strategy of [ABC].
- All investments of greater than $XX million must be authorised by the Board and transacted by the [CFO]. All portfolio investment services must be provided by VFMC as the Investment Manager.
- The [CFO] is approved to authorise investments with VFMC on behalf of [insert Public Body name] up to a limit of $xx million. These investments must be transacted by the Investment Manager.
- The Investment Manager may place investments with VFMC on behalf of [ABC] up to a limit of $xx million.

5. Investment risks

In seeking to achieve the investment objectives in this Investment Policy Statement the Board acknowledges that risks are being taken to achieve investment returns above the risk-free rate of return. Risks accepted to achieve the investment objective include the following:

5.1 Liquidity risk

Liquidity risk is the risk that [ABC] cannot satisfy its day to day cash flow commitments when they fall due. Liquidity risk is managed by investing a proportion of funds in highly liquid assets.

5.2 Counterparty credit risk

Credit risk is the risk that a [ABC] will suffer financial loss due to the inability of counterparty to meet its financial obligations in full and on time. Credit risk is reduced by diversifying exposures across a broad range of counterparties.

5.3 Environmental, Social and Governance (ESG) risks

ABC recognises that ESG considerations present both risks and potential opportunities. ESG considerations are factored into the selection, management and monitoring of internally and externally managed investments in accordance with VFMC's ESG Investment Policy. VFMC makes full use of ownership rights by actively exercising votes at company and fund meetings and by engaging with investee companies, fund managers and policymakers on material ESG issues.

5.4 Inflation risk

Inflation risk is the risk that investment performance fails to match long-term inflation. This risk is being managed by [for example, maintaining a strategic allocation toward long-term growth assets].

5.5 Interest rate risk

Interest rate risk is the risk that movements in interest rates has an adverse impact on the value of the investment portfolio or of the valuation of [ABC]. This risk is being managed by [for example, a diversified investment portfolio with exposure to a broad range of assets classes.].

5.6 Market risk

Market risk is the financial risk associated with factors impacting upon portfolio performance of the entire market or an asset class. This risk is managed by maintaining [for example, a diversified investment portfolio with exposure to a broad range of assets classes].

5.7 Foreign exchange risk

Foreign exchange risk is the risk that [ABC] will suffer financial loss due to adverse movements in foreign exchange rates. This risk is managed by maintaining [for example by hedging or a diversified exposure within the investment portfolio]

5.8 Operational risk

Operational risk is the risk that [ABC] will suffer loss owing to the mismanagement of the investment function. These may include risks of financial loss due to error, fraud or unauthorised dealing or use of financial products.

Operational risk is monitored and controlled through the following risk management practices:

- oversight by management and the Board of Directors;
- regular internal and external audits;
- the execution of investment strategy through VFMC;
- adherence to the investment management policies and procedures outlined in this Investment Policy Statement, including fully documented dealing and authorisation limits;
- a compliance monitoring and actioning procedures in line with a Board approved policy;
- appropriate organisational structure and resourcing within the investment function;
- effective performance and compliance reporting of investment activities and operations to management and the Board; and
- measures to protect the integrity of information systems including security, backup, and disaster recovery of treasury and information systems.

6. Permitted investment list

6.1 Approved financial products

[ABC] is permitted to invest in the following investment products subject to the limits and delegations provided by this Investment Policy Statement:

- VFMC Multi Asset Funds;
- VFMC Single Sector Investment Funds;
- CBS deposits;
- TCV deposit products as approved; and
- Transactional funds in a designated bank to cover liquidity requirements.

7. Internal controls and systems

7.1 Internal audit

Internal audit will be carried out by [Accounting Firm X]. The internal audit function will be reviewed by the Board and re-tendered on a triennial basis. Internal audit reports will be conducted on at least an annual basis, and more regularly at the request of the Board. The internal audit report will be provided to the Board for their consideration. The Board reserves the right to engage additional audit activity at any time should it be required.

7.2 Operational policies

Management and staff must comply with the requirements of the relevant Directions and Instructions outlined in Board policies and relevant legislation and policies.

Management and staff must comply with the terms of this Investment Policy Statement in the conduct of the investment function of [ABC].

The Accountable Officer is responsible for ensuring systems are in place to identify, measure and evaluate potential financial risks as and when they eventuate. The Accountable Officer should frequently review the risk environment of [ABC] and update the investment objectives, SAA and Investment Policy Statement as required.

The Board must ensure adequate segregation of duties to minimise the risk of error or fraud in the investment management process and enhance the probability of discovering error or fraud.

The Board is responsible for ensuring that management policies and directions, including this Investment Policy Statement, are being adhered to by management and staff.

7.3 Information systems

The Accountable Officer must ensure that computer systems, including accounting software and communications systems, can support the investment function at all times.

7.4 Breach reporting

The Accountable Officer must ensure a process is in place to report breaches to the Board of any requirements in this Investment Policy Statement, including procedures to ensure that breaches are appropriately addressed, and internal controls amended if required.

Significant breaches must be reported in accordance with the Compliance and Reporting Direction.

8. Reporting to Board and management

The Accountable Officer must ensure that reports to the Board are provided on at least a quarterly basis detailing investment operations and performance of [ABC].

The Investment Manager [VFMC] will provide comprehensive investment reporting on a monthly, quarterly, and annual basis. More frequent reporting may be prudent in periods of high market volatility.

Quarterly investment reports from management to the Board should contain the following features:

- a regular reporting of portfolio values using the mark-to-market methodology;
- a breakdown of investment performance for each asset class or product including a comparison of performance against relevant benchmarks; and
- a note verifying compliance with the Investment Policy Statement, and all relevant legislation, subordinate legislation, Ministerial Directions and Instructions including the provision of a detailed explanation where any of the above requirements are breached.

Guidance 3.9 – Managing financial information

Objective	Brings together key information and resources for managing financial information.
Effective date	1 July 2016
Relevant Directions	3.4 Internal control system 3.7 Managing risk 3.9 Managing financial information
Last reviewed date	1 May 2019

Direction 3.9 provides that the Agency must apply relevant legislation, standards and policies in relation to its management of financial information, including financial information systems. This captures all forms of financial information and information systems, including documents, digital records and information technology systems.

Direction 3.9 does not impose a duty on an Agency to comply with relevant legislation, standards and policies. The terms of the relevant legislation, standards and policies themselves impose that duty. Direction 3.9 imposes a duty on the Accountable Officer of the Agency to ensure that the Agency does comply, i.e. that it has properly established systems and trained people who check and verify compliance.

There is a range of existing frameworks in place in relation to information management by the VPS. Where a framework applies to an Agency, it should be applied to all relevant information, financial and non-financial. However, the Directions emphasise that the proper management of financial information is particularly important.

Significant legislation, standards and policies include those for information management, recordkeeping, privacy and data protection, intellectual property, data sharing and information systems. Each is described in more detail below.

Agencies should note that Direction 3.9 only applies to the extent that particular legislation, standards or policies already apply to an Agency. For example, the *Privacy and Data Protection Act 2014* specifies the Agencies and bodies to which the Act applies. Only Agencies subject to the Act would apply it under Direction 3.9.

Information management

Information management is the way in which an organisation plans, identifies, creates, receives, collects, organises, governs, secures, uses, controls, disseminates, exchanges, maintains, preserves and disposes of its information. It is also the means through which the organisation ensures that the value of that information is identified and exploited.

The Whole of Victorian Government Information Management Principles[57] support the long-term vision for information management in the Victorian Government. They describe expected behaviours and best practice and provide high-level guidance on how information should be managed. They are supported by Standards and Guidelines.

Agencies subject to the Principles must ensure that they are applied in relation to financial information.

More information, and copies of the Principles, are available from https://www.enterprisesolutions.vic.gov.au/information-management/.

Recordkeeping

The *Public Records Act 1973* establishes a framework for the preservation, management and utilisation of public records. The Public Record Office Victoria (PROV) issues and manages more detailed standards for the efficient management of public records under section 12 of the Act. The standards apply to all records created by the Victorian Government and detail requirements for the creation, maintenance and use of these records.

[57] www.enterprisesolutions.vic.gov.au/information-management

Agencies subject to PROV's standards must ensure that they are applied in relation to financial records. Financial records may include minutes of meetings held by the CFO, documents prepared to discharge financial reporting obligations, accounting records, spreadsheets and emails. PROV's standards impact on access, capture, control, disposal, operations management, storage, and strategic management of financial records.

More information, and copies of the standards, are available from https://prov.vic.gov.au/recordkeeping-government/recordkeeping-standards-framework-policies.

Privacy and data protection

The *Privacy and Data Protection Act 2014* (PDPA) regulates three areas of activity:

- Part 3 – Information privacy;
- Part 4 – Protective data security; and
- Part 5 – Law enforcement data security.

The PDPA sets out obligations for the responsible collection and handling of personal information in the Victorian public sector, the establishment of a protective data security regime for the protection of Victorian public sector data, and obligations relating to law enforcement data security. Parts 3, 4 and 5 of the PDPA identify the respective Agencies or bodies to which each part of the Act applies.

The PDPA contains measures that address the protection of financial information, regardless of media or format (for example, soft or hard copy).

Part 3 of the PDPA sets out privacy measures for the protection of personal information held by Agencies or bodies. These privacy protections are embodied in ten Information Privacy Principles (IPPs) set out in the Act, which govern the collection, holding, management, use, disclosure or transfer of personal information by Victorian public sector organisations. Any projects or programs that involve personal information (including personal financial information) should have a Privacy Impact Assessment undertaken to evaluate compliance with the IPPs to identify potential privacy risks and mitigation strategies.

Under Part 4 of the PDPA, the Victorian Information Commissioner must develop the Victorian Protective Data Security Framework (VPDSF) for monitoring and assuring the security of public sector data. Public sector data includes all official information (including financial information) that is captured, collected, recorded or generated by an Agency or body. The VPDSF, released in 2016, establishes data protection obligations for Agencies or bodies, as well as contracted service providers with direct, or indirect, access to public sector data. The framework sets out mandatory data protection requirements and provides supporting guidance material with respect to Governance, and the protective security domains of information, personnel, information communications technology (ICT), and physical security.

Under the VPDSF, Agencies or bodies will be provided resources to assess the value of information (including financial information) against potential compromise to the confidentiality, integrity or availability of public sector data. The output of this assessment will identify the appropriate security measures to protect that information.

Part 5 of the PDPA establishes law enforcement data security standards for the security and integrity of law enforcement data systems and crime statistics data systems. This extends to the protection of financial information by Victoria Police and the Crime Statistics Agency.

Agencies subject to the PDPA must ensure that the Act, and relevant Standards and Principles, are applied in relation to financial information. The Act and Standards will particularly impact on the confidentiality, integrity and availability of financial information to protect data security.

More information is available from: ovic.vic.gov.au.

Intellectual property

The *Whole of Victorian Government Intellectual Property Policy* (IP Policy) is the State's framework for the ownership and management of its intellectual property (IP), and for its use of IP belonging to other parties.

Agencies subject to the IP Policy must ensure that it is applied in relation to financial IP. Financial IP will usually be confined to the copyright in financial works, such as spreadsheets, reports, advices and submissions. The IP Policy impacts on granting rights for re-use, managing IP, moral rights of creators, licensing IP and commercialisation of IP in financial information.

More information, and a copy of the IP Policy, is available from www.dtf.vic.gov.au.

Data sharing

The *DataVic Access Policy*[58] enables the sharing of government data to support research and education, promote innovation, support improvements in productivity and stimulate growth in the Victorian economy.

Agencies subject to the DataVic Access Policy must ensure that it is applied in relation to financial data. Many Agencies hold extensive financial data in various forms. The Policy encourages Agencies to publicly release appropriate data online in re-usable formats.

More information, and a copy of the DataVic Access Policy, is available from www.dtf.vic.gov.au.

Information systems

The Department of Premier and Cabinet's Enterprise Solutions Branch provides strategic guidance, including standards, policies and templates, in relation to VPS management of information systems. Enterprise Solutions defines standards for the procurement of new business systems, plus whole of government policies for ICT and business systems. It develops policies and standards for information management and technology. More information is available from www.enterprisesolutions.vic.gov.au.

Agencies should consider the guidance issued by Enterprise Solutions in relation to their financial information systems.

[58] www.data.vic.gov.au/policy-and-standards-

Guidance 4.1.1 – Planning and managing performance

Objective	Provides guidance to all Agencies to support effective planning and performance management practices.
Effective date	1 July 2016
Relevant Directions	2.3 Accountable Officer 4.1 Planning and managing performance 5.3 External reporting and information provision
Last reviewed date	1 May 2019

Introduction

Victorians expects the government to deliver services to the community in an efficient and effective manner. Planning and performance management is central to this.

However, the government is unable to deliver services directly to Victorians. Rather, departments and Agencies have been established to deliver services in line with government objectives and priorities.

This guidance will describe some of the key processes involved in planning and performance management for service delivery.

In addition to this guidance, Agencies can refer to the Resource Management Framework. This Framework provides further information on planning and performance management within departments. The Resource Management Framework is available at dtf.vic.gov.au.

Plan

Planning helps an agency to identify what it wants to achieve over a period and how it will access its performance at the end of the planning period. Planning is a key accountability mechanism.

Planning is about creating a vision, making choices to shape the future, and operating in a financially sustainable way.

Planning enables Government, Ministers and Agencies to prepare for future opportunities and challenges and drive improved service delivery. It helps identify what is required to deliver services and infrastructure to achieve desired results.

Planning involves:

- aligning an Agency's strategic direction with government policy objectives and priorities and/or Parliament's objectives set out in enabling legislation;
- assessing whether current activities and services efficiently, effectively, and economically contribute towards achieving Government objectives and priorities; and
- developing strategies to deal with opportunities and risks to improve results for Victorians.

For some Agencies, their establishing legislation will outline minimum planning requirements. For others, their establishing legislation is silent. In both cases, Agencies should implement planning activities which best suit their individual needs and circumstances.

Planning can be conducted for a short, medium or long-term time horizon. It can lead to the development of various plans ranging from short-term operational or business plans, medium-term corporate or strategic plans and various long-term plans.

Components of a comprehensive planning framework	
Long-term planning 5+ years	Process to identify the long-term environment facing the Agency, and formulate the Agency's high-level, long-term strategy for contributing to achieving Government's broad objectives and sustainable service delivery.
Medium-term planning 4 years	Process to formulate the Agency's strategies to deliver services over the medium term to achieve departmental objectives, guided by Government objectives and priorities.
Short-term planning 1 year	Process to formulate how the Agency intends to deliver required services to Victorians.

Appendix 1 provides some further information on medium-term planning and financial sustainability.

Allocate resources

The Responsible Body, Accountable Officer and the CFO have individual responsibilities to ensure public money is safeguarded and appropriately allocated to deliver the Agency's plans and strategies efficiently and effectively.

Effective internal budgeting processes that underpin effective resource allocation should assist the Agency achieve its goals and objectives when embedded into medium-term planning and aligned to the external budget.

Better practice organisations embed internal budget processes into organisational planning and management by:

- integrating the internal budget into organisational planning;
- aligning the internal budget with organisational roles and responsibilities;
- integrating operational and capital budgets;
- aligning internal and external budgets;
- harmonising budgeting and reporting; and
- engaging stakeholders in the internal budget.

Developing and implementing an internal budget requires effective:

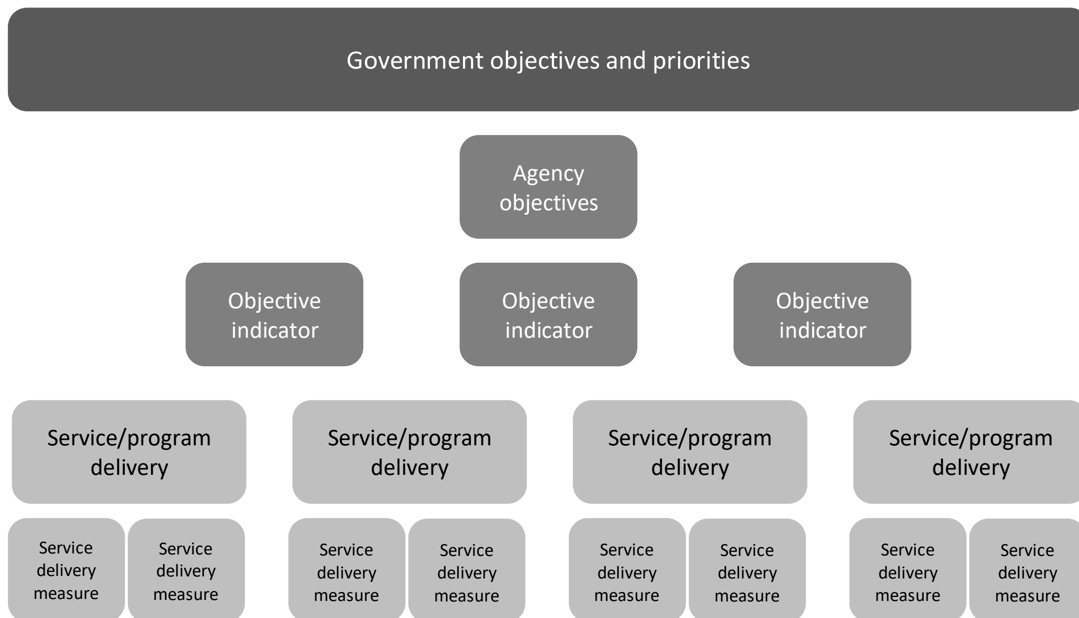
- planning and coordination, including clearly defined expectations and assumptions, a coordinated calendar of activity and well-documented and communicated policies and procedures;
- budget construction through implementing established and agreed budget methodologies and automating budget processes; and
- oversight, review and communication through active senior management involvement, rigorous quality assurance processes and structured communication.

Manage performance

Performance management is central to the effective and efficient delivery of quality services to Victorians. In planning for and managing performance, Agencies describe what they intend to achieve for the community and how the mix of services and/or programs to be delivered is intended to contribute to the achievement of these objectives. They will also describe how they will measure whether the Agency has met its intended objectives.

Performance can be measured at two levels:

- against overall government or Agency objectives (using indicators); and
- at the program or service delivery level (using performance measures).



Performance management requires measuring and monitoring actual results or performance achieved against plans. Evidence from performance measurement enables Government and management to focus on improving results and impact by supporting decision-making and managing risk. Performance data can be used to:

- financial and non-financial information;
- inform planning and ongoing development and implementation of policy;
- inform capability and service development;
- report consistently and concisely on achievements; and
- hold managers accountable for performance.

Performance monitoring should:

- be conducted for all levels and types of plans;
- identify performance trends, gaps and risks;
- enable the implementation of mitigation strategies and corrective actions, if required;
- cover both the financials and non-financials and the interrelationships between them to enable integrated performance information to be reported; and
- span across multiple years.

Financial and budget monitoring should cover the current year and the medium-term. This will enable monitoring of the budget for the current year as well as assessing financial sustainability over the medium-term and the impact on service delivery and results.

Under Direction 2.3.2, Agencies are required to inform the Responsible Minister of significant risks. Agencies should consider informing the Responsible Minister when they become aware of:

- significant variations to strategies compared to plan;
- significant variations to the total estimated investment or timing of capital investments compared to plan;
- material variation in forecast full year profit or cash flow from operating activities compared to plan;
- significant variations to KPIs compared to plan; and
- any financial or non-financial (including reputational) developments which may materially impact the Agency or the Government.

Evaluate

Evaluations are an objective and systematic way of reporting on the contribution a program has made to the achievement of stated goals, outputs and desired objectives. Evaluations seek evidence of the actual performance of a policy or program, during or after its implementation.

An evaluation should generate information that is credible and useful for decision making and program improvement processes.

Evaluations should also recommend appropriate actions, including whether the programs remain the best policy response, or align with Government objectives and priorities. A culture of evaluation and continuous improvement assists in designing future programs.

Agencies should regularly review their expenditure on service delivery to ensure it remains efficient and effective. These reviews should systematically consider the continued relevance of the services delivered to achieve outcomes for Victorians, and the appropriateness of the price paid for these services. Consideration of alternative methods of service delivery should be considered as part of these reviews and provide information for long and medium-term planning.

Report

Performance information on past results also informs planning and budgeting activities. Performance reporting provides relevant information to stakeholders and decision-makers and supports government transparency and accountability.

There are two main streams of performance reporting:

- accountability reporting – measuring and reporting performance against targets/plans; and
- internal (organisation) performance management reporting – providing information to help management, stakeholders, and decision-makers better understand the business and respond tactically or strategically to mitigate risks.

Internal performance management reporting should assist with:

- early identification of potential problems through performance measures, trend analysis, forecasting, benchmarks;
- data-driven decision making (i.e. information and measures to assist management decision making);
- quality improvement programs based on clear identification of areas for improvement that align with business plans across the Agency; and
- allocation of responsibilities and accountabilities.

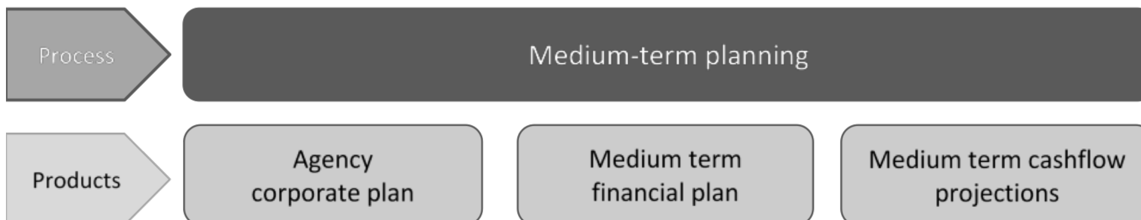
Refer to Direction 3.9 and Direction 5.3 for further information on information collection and management and reporting requirements of Agencies and Portfolio Departments.

Good performance reporting depends on reliable performance information for both external requirements and internal management and review.

Appendix 1 – Medium-term planning and financial sustainability

Medium-term planning typically covers a four-year horizon. It focuses on the strategies, activities and administrative responses to the vision and objectives to meet agreed service levels, asset delivery and corporate priorities, within available resources and at lowest cost, and in addition, a return on investment for public corporations. A planning horizon greater than four years may be appropriate for significant government programs and for capital planning. The Accountable Officer is responsible for ensuring the proper use and management of the public resources for which the Agency is responsible.

Strategic planning focuses on establishing and continuously reviewing the Agency's purpose, vision and business objectives to ensure these align with the Government's objectives and priorities and the objectives for which the Agency was established. It should drive the Agency's priorities for each budget cycle.



Corporate Plan

The Corporate Plan provides a clear statement of strategic priority of the Agency and forms the basis for managing and reporting performance. Some Agencies already prepare similar plans through their establishing legislation or under a policy requirement.[59] Others may prepare corporate plans to assist in clarifying business goals.

A brief description of the requirements for the Corporate Plan and associated planning activities follows.

(a) Purpose, vision, and desired Agency objectives

In setting the Agency's business direction, it first needs to describe its purpose, vision, objectives and strategies to deliver on these objectives.

Purpose (Mission) specifies the overall aim of the Agency.

Vision indicates what the Agency aspires to be.

Agency objectives describe the effects or impacts an Agency seeks to have on its clients and the community in contributing to Government's objectives and priorities and any legislated business objectives and directions. Objectives help the Agency focus on achievable goals and attain the best possible results from its capabilities. Objectives are typically achieved progressively over a number of years.

(b) Future challenges and opportunities from analysis of both external and internal environments

Analysing the external and internal factors that may affect the Agency objectives will inform planning choices.

External factors can include:

- forecasts of economic conditions;
- sector-specific inflationary pressures;
- longer-term changes to the drivers of demand;
- inconsistent/variable demand for services provided;
- demographic changes;

[59] Government Business Enterprises are subject to corporate planning requirements contained in the *Corporate planning and performance reporting requirements Government Business Enterprises, October 2009.*

- anticipated technological developments;
- actions by other governments; and
- the regulatory environment.

Internal factors can include:

- the Agency's culture and structure;
- capacity to deliver;
- resources, including the available technology and condition of assets;
- physical location of service delivery providers;
- performance data; and
- clients/community, service, asset and operation plans.

This type of information will allow an Agency to conduct risk and SWOT (strength, weakness, opportunities and threats) assessments.

(c) Strategies to meet service demands and objectives in the corporate plan period including strategies to deliver high quality/better services to Victorians at minimum cost. For Government Business Enterprises[60], these are to include measures to improve return on investment

The next phase of planning is formulating strategies and developing implementation plans to deliver high quality/better services at minimum cost and meet Agency objectives over the medium-term. Government Business Enterprises are to consider measures to improve return on investment. This should involve the whole business to ensure planning addresses key performance drivers, emerging risks, challenges and opportunities.

Some areas for consideration include:

- restructuring activities and products/deliverables;
- addressing demand and supply factors;
- technology and innovation (e.g. market-based solutions);
- minimising operating costs and achieving operational efficiency;
- workforce planning and improving capability;
- asset planning to manage and achieve optimal value from the Agency's asset base;
- engaging the market in maximising the value from procurement and external service providers; and
- addressing government policies, targets and commitments.

Resource planning (assets, finance, workforce) is an integral part of the corporate planning process through the inclusion of targets for planning purposes.

(d) Planned services and infrastructure delivery

Following the analysis and strategy formulation phases, an Agency should identify and/or confirm the strategies, priorities, services, infrastructure and activities to be delivered over the medium-term. These should cover all critical aspects of the business.

(e) Estimates of revenue and expenditure over the corporate plan period

Planning includes confirming the financial resources available to meet the Agency's planned services and infrastructure delivery, strategies and priorities, and business objectives usually over the next three to four years. The estimated financial statements are supported by the medium-term financial plans and strategic medium-term cash flow projections (see below for further guidance on these plans).

[60] Bodies that are subject to the *Corporate planning and performance reporting requirements Government Business Enterprises, October 2009* are: those GBEs that are accountable to the portfolio Minister and/or the Treasurer where the Treasurer has a legislated role to receive corporate planning or other financial documents.

(f) financial and non-financial key performance indicators/measures (KPIs) and associated targets covering, at a minimum, the Agency's operations, assets, the achievement of organisational objectives and the delivery of services

Planning involves identifying relevant KPIs and setting appropriate targets. This will assist in managing performance and for accountability reporting of actual performance against planned.

Setting targets

Agencies may use a combination of methods to set targets. Commonly used approaches in setting targets include:

- current performance;
- current performance plus/minus a percentage improvement change;
- averaged performance (national, state, or industry);
- best practice (benchmarking);
- technical targets (external targets established by professional associations); and
- management decisions (calculated decisions given resource and staffing parameters).

To ensure targets are not unrealistic or create perverse incentives:

- targets should be set through Agency planning processes;
- proposed targets should be trialled in parallel with existing targets; and
- targets should be presented in the context of the service being delivered and government funding models used.

Performance indicators and service delivery performance measures

Performance indicators demonstrate the impact services and projects have on clients and the community. They are indicators of efficiency and effectiveness and provide evidence in measuring progress towards achieving Agency objectives in the medium-term. When dealing with impacts, direct measures are often difficult and measures can often only 'indicate' the outcome. Therefore, an indicator may be supported by multiple data series.

Performance indicators are results focused. They should:

- have a logical and consistent relationship to the Agency objectives;
- provide links between the objectives and deliverables; and
- be set at a level to support performance analysis.

Service delivery performance measures enable the examination of Agency performance in delivering services and projects. They demonstrate the efficiency and effectiveness of delivery and should not encourage unwanted or wasteful behaviour. Measures should be stretching to reflect the Government's expectations for improved standards of public services, but be achievable within the Agency's available resources. Performance measures should have the capacity to measure the extent and standard of service and project delivery. They should seek to measure different attributes of service delivery such as:

- quantity;
- quality;
- timeliness; and
- cost.

Effective performance reporting requires consideration of the following factors when developing performance indicators and measures:

- comprehensive – there should be indicators to cover all critical aspects of the Agency objectives and measures to cover services and/or projects and/or activities;
- fit for purpose – indicators and measures should reflect what the Agency is trying to achieve;
- balanced –a balanced set of indicators and measures should be developed;
- attributable – indicators should be attributable to the Agency objectives, and measures to services, projects and activities delivered by the Agency;

- clear – the definition of the indicator and measure should be clear so that data collected is easy to understand and documentation of measurement processes should be maintained;
- measurable – indicators and measures should be able to be measured consistently and be responsive to change. There should be a clear and transparent standard of success and data should be available;
- comparable – indicators and measures should remain relevant over the medium-term, allowing comparisons over time and between target groups and across jurisdictions;
- interpretable – indicators and measures are able to be reported with appropriate context (e.g. trends, targets) to enable meaningful conclusions to be drawn;
- cost-effective – cost of data collection and processing does not outweigh the benefits the indicators and measures provide;
- credible – indicators and measures are supported by stakeholders and when appropriate, supported by research and/or established industry standards; and
- timely – performance data should be produced regularly enough to track progress and, quickly enough for the data to still be of value for decision-making.

Financial performance indicators in assessing financial sustainability

The Directions require the Responsible Body to oversee the Agency's financial sustainability performance and the Accountable Officer to promote financial sustainability and ensure the availability of performance indicators and targets.

Relevant financial information and key financial performance indicators help to provide insight into Agency financial sustainability. Although the medium-term corporate plan should contain financial information, this information, when appropriate, should be based on long-term planning (refer to section on financial sustainability expectations).

In developing suitable indicators and targets, Agencies should consider regulatory, governance, funding and operating arrangements. The same set of indicators will not be appropriate for assessing financial sustainability for all Agencies due to the varied nature of these arrangements across the VPS.

Indicators to assess financial sustainability may include a combination of:

- reported net profit;
- net cash flows from operations;
- capital structure and gearing ratios, which show the relative proportion of the assets of the business that are being financed by the owner and external financiers;
- liquidity (current ratio), which expresses, as a ratio, the value of cash and other assets that could reasonably be expected to be monetised during the current financial year relative to the value of liabilities that are due and payable during the current financial year;
- debt servicing capacity, interest coverage on earnings before interest and tax (EBIT), earnings before depreciation, interest and tax (EBITDA) (both on a cash and accrual basis) and total debt to EBITDA (on a cash and accrual basis); and
- profitability – return on assets, return on equity, and sales margin, which express earnings as a percentage of assets, equity and sales.

Monitoring reports should cover both the current year and medium to longer-term period. It is important to consider historical and projected trend data in decision-making and in reviewing financial performance. Medium to longer-term reporting is to address the impact of short-term decisions and/or activities (e.g. 'lumpy' nature of capital expenditure) on financial sustainability. All indicators need to be interpreted in context, such as:

- the commercial focus of entities;
- revenue sources;
- capital allocation and cash management models used and price determinations by regulators;
- asset valuations;
- dividend requirements; and
- industry and/or sector features such as volatility.

Financial sustainability expectations

Balancing the delivery of government objectives and priorities with finite financial resources is an important responsibility of the Accountable Officer and Responsible Body.

Financial sustainability is the ability of an Agency to deliver required services in the medium and longer term, and within its regulatory, governance, funding and operating environment and proposed strategies. To be financially sustainable, an Agency needs to have a sustainable capacity to meet its current and future financial obligations. Effective medium to longer term planning and budgeting (financial projections) is therefore a key consideration for the continued provision of services.

In summary, a financially sustainable Agency should be able to:

- deliver agreed services and service levels within available financial resources and at minimum cost;
- maintain operational viability;
- ensure fees and charges are set in accordance with the Victorian Government's *Pricing for Value Guide*;
- ensure assets are looked after and maintained;
- meet any relevant government policies, targets and commitments; and
- when relevant, deliver a return on investment for public corporations.

Financial sustainability evaluation involves the assessment of both corporate and financial performance. Corporate performance is about the efficiency and effectiveness of service delivery within financial capacity and cost minimisation. It is assessed by key performance indicators and measures, reviews and audits. Financial performance is the financial result of corporate performance and is measured by financial performance indicators.

Financial sustainability is the capacity to fund all operating expenditures from operating revenue. In addition, for most public corporations, it includes the capacity to meet capital replacement requirements. Hence, the management of capital and long-term assets and liabilities is an important component of financial sustainability, which includes:

- the maintenance of existing assets to ensure required service levels are achieved and their expected economic life is maximised unless there is a substantive reason not to; and

- timely submissions, consistent with the Agency's long-term plan and strategy, to the appropriate budget funding authority for new or replacement assets to sustain or expand services.

In certain circumstances, the expected economic life of assets cannot be maximised. For example, when the Agency is restructuring and/or its role and functions are changing. Further, for some Agencies with cultural activities or significant community service type obligations, government policy decisions may also limit their ability to fund capital replacement requirements from operating revenues.

Agencies need to consider a range of policy options to attain the optimum revenue and expenditure balance, such as adjusting fees and charges, containing costs, increasing productivity and reshaping product and/or service offerings.

All Agencies have the ability to minimise cost. Some suggested strategies such as using market-based solutions are included in the 'Corporate Plan' section of this guidance.

In addition, DTF conducts Cost control and efficiency reviews designed to deliver practical options for improving value for money in the delivery of services, which can further assist Agencies in this area.

Different government sectors

Agencies across the different sectors of Government have differing accountability and funding models, depending on their institutional classification and overall objectives. There are three institutional sectors of Government recognised in relation to financial reporting by Agencies under Australian Accounting Standards: public non-financial corporations (PNFC), public financial corporations (PFC), and general government sector agencies.[61]

[61] Australian System of Government Finance Statistics: Concepts, Sources and Methods. Australian Bureau of Statistics Cat 5514.0. See glossary for definitions.

Given the different functions, objectives and funding arrangements of Agencies in each of the abovementioned sectors, different governance arrangements and accountability models apply. The Government has an arm's length relationship with public corporations, has expectations for them to operate on a commercial basis, and appoints boards of governance (independent from management) to oversee these Agencies. The Government has a relatively close relationship with general government sector Agencies due to its provision of funding, departmental-portfolio support, and their contribution to the State's fiscal objectives.

General government sector agencies

General government sector agencies (refer to glossary for definition) are listed in the Controlled Entities Note in the State's Annual Financial Report.

A financially sustainable general government sector Agency is able to:

- **in the short-term, finance its operating expenditure obligations; and**
- **for the medium to longer term, maintain the existing capital base to a level that ensures their economic life is maximised unless there is substantive or policy reason not to.**

For the replacement of capital and the expansion of the capital base, the Accountable Officer provides support to the Portfolio Department to undertake portfolio budgeting and planning based on the capital allocation model, including advice to the Responsible Minister and the Portfolio Department about portfolio specific risks, particularly when they will likely lead to future funding requests.

General government sector Agencies derive the majority of their funding from the Consolidated Fund. The Government approves general government sector asset investment decisions. Funding for these decisions is typically provided through depreciation equivalent revenue (a balance sheet receivable to a Portfolio Department), or through appropriations as a capital contribution to increase its net asset base. Only in exceptional circumstances, for example finance lease arrangements, are general government sector Agencies expected to carry long term borrowings on their balance sheets. In such instances, Agencies are expected to cover ongoing loan repayments and financing costs as part of their budget funding.

Financial sustainability does not necessarily require a general government sector Agency to set and maintain revenues at a level to cover its non-cash annual depreciation charge (and thereby accumulate capacity to replace non-financial assets), particularly given the high value of many public service delivery assets. A general government sector Agency is expected to manage and maintain its existing assets to deliver the agreed service levels and to maximise their economic life.

The departmental funding model governs the setting and management of Portfolio Departments' global appropriations and the circumstances under which Portfolio Departments can potentially receive additional funding. Under the departmental funding model, the Government determines the outputs to be delivered by a Department and portfolio general government sector Agencies and the price for each of the outputs for a given level of quantity, quality and timeliness. Portfolio Departments are responsible for ensuring the delivery of these agreed outputs within the Government's desired parameters and managing all associated costs.

In the context of the departmental funding model and supporting the Portfolio Department to undertake portfolio planning and budgeting, expectations of the Accountable Officer of general government sector Agencies include:

- input to corporate and long-term portfolio plans;
- submissions to the relevant Cabinet Committee for budget funding, and for reporting on the use of budget funding; and
- advice to the Responsible Minister and the Portfolio Department about portfolio specific risks, particularly when they are likely to lead to future funding requests.

The Responsible Minister, or the Government more broadly, may make a decision to not fund an Agency to the level requested, and at this time, the Accountable Officer of the general government sector Agency should advise the Minister as to the consequences of this decision.

Public corporations (i.e. public non-financial and public financial corporations)

A financially sustainable public corporation is able to:

- **in the short-term, finance its operating and financing expenditure obligations; and**
- **for the medium to longer term:**
  - **maintain the existing capital base to a level that ensures their economic life is maximised unless there is substantive or policy reason not to; and**
  - **replace the existing capital base, when this is the agreed governance and capital arrangements with Government.**

To expand the existing capital base, the Accountable Officer advises Government through its corporate and strategic planning process of the proposed expansion, financing options and a request for government investment.

Public corporations are typically funded through own-sourced revenue, and the boards of these Agencies are responsible for overseeing the Agency's delivery of services within the available funds. For a PNFC, long term financial sustainability is the capacity to fund all operating expenditures and capital replacement requirements from operating revenues. In the short term, financial sustainability focuses on the capacity to fund operating expenditures and to achieve an appropriate return on investment.

In the absence of contrary government policy decisions such as regulated pricing or mechanisms that limit an Agency's ability to raise sufficient revenue, long term financial sustainability includes the *maintenance and replacement* of the existing capital base.

Regarding the *expansion* of the existing capital base, the Responsible Body should advise Government through its corporate and strategic plans how this expansion will be financed, along with a request for additional government investment (including equity injection). The Government, as owner of the business, should decide if further investment in the business should be pursued in line with government objectives and priorities. In many cases, additional borrowings are sufficient to allow for an expanded capital base.

Rolling medium-term financial plans

The medium-term financial plan sets out the Agency's approach to managing its finances to meet the agreed business objectives and priorities. The plan is an internal document developed as part of the Agency's medium-term planning process and aligns with the Corporate Plan. In developing the plan, Agencies should consider governance, regulatory and funding arrangements.

The main objectives of the medium-term financial plan are to:

- explain the financial context in which the Agency is to work over the medium-term;
- identify the financial resources needed to deliver the Agency's medium to longer term business objectives and priorities;
- provide a medium-term forecast of resources and expenditure; and
- achieve a stable and sustainable financial position capable of withstanding financial pressures and avoiding deficit spending.

The plan attempts to match future predicted resources and expenditure to meet the Agency's business objectives and priorities, identifies potential gaps, outlines the financing requirements including borrowing limits and whether borrowings are new or refinanced and other financial goals (e.g. capital repayments, dividends), and provides the financial framework for the next three to four years.

Depending on the nature of the Agency's business and/or change in function or service delivery, the Agency may need to develop longer-term financial plans (e.g. if it has long-lived assets or its service delivery model is changing).

The plan is a tool through which an Agency can monitor, manage and resolve issues affecting its financial sustainability. Monitoring the plan requires matching reality against assumptions, evaluating the impact of changes to risk status, and making necessary amendments as more information becomes available or circumstances change.

For Portfolio Departments and Agencies funded by the State Budget, the plan should reflect the budget and forward estimates articulated in the Budget (i.e. the same assumptions regarding wages, inflation).

The governance, regulatory and funding arrangements will dictate the levers available to each Agency in managing its finances. This then determines the scope of the plan. For example, some Agencies may have greater scope to raise revenue than others. The following are suggested areas for inclusion in the plan:

- **Funding Strategy** – this sets out where funding will come from, when it comes from a specific source, and its use.
- **Capital Strategy** – this sets out the strategic direction for the Agency's capital management and investment plans, and is integral to the medium-long term planning and budget setting process. It sets the principles for prioritising capital investment. Capital expenditure is defined as the purchase or enhancement of assets when the benefits last longer than the year of expenditure. The capital budget should support the overall objectives of the Agency and Government.
- **Treasury Management and Investment Management Strategy** – this covers the financing and investment strategy for the forthcoming financial years (refer to Direction 3.7.2).
- **Risk Management Strategy** – this identifies the key risks relating to the financial plan to support the delivery of organisational priorities and objectives (refer to Direction 3.7).

Rolling strategic medium-term cash flow projections

Cash flow projections indicate the likely future movement of cash in and out of an Agency and provide information on upcoming cash surpluses or shortages. For general government sector Agencies, these projections should align with the cash flows in the State Budget.

Strategic cash flow projections are used to plan for significant cash flows and any contingencies. For example, new capital acquisitions or to identify the need to secure additional investment. Cash flow projections need to align and complement the medium-term financial plan.

Strategic cash flow projections are different to short term tactical forecasts. Short term tactical forecasts are usually prepared monthly to provide detailed estimates of the cash flows expected or weekly operational forecasts to meet cash flow requirements.

Depending on the nature of the Agency's business and/or change in function or service delivery, the Agency may need to develop longer-term cash flow projections (e.g. if it has long-lived assets or its service delivery model is changing).

Guidance 4.2.1 – Acquisition of assets, goods and services

Objective	Provides guidance for contract management and performance (in accordance with Instruction 4.2.1) and information on whole of state polices and guidance for procuring goods and services and infrastructure investments.
Effective date	1 July 2016
Relevant Direction	4.2.1 Acquisition of assets, goods and services
Last reviewed date	1 May 2019

Contract management and performance (in accordance with Instruction 4.2.1)

Managing contracts effectively is an important aspect of good governance. It provides assurance to the responsible Agency that the contractor is delivering the agreed services at the required standard, and there is efficient and effective use of public resources.

As more services and projects are delivered outside the public sector robust contract management is becoming increasingly important. Establishing a sound governance framework for effectively managing projects and contracts may include a review of risk management plans and consideration of risk sharing. In many cases ensuring appropriate contract design and management will require appointing an effective contract manager. One of the critical roles the contract manager will play is establishing effective performance management monitoring and evaluation and managing effective commercial relationships to ensure appropriate performance and value for money is obtained from the contract.

Performance management is an important part of contract design and specification. Without it, not all parties subject to the contract or agreement will have the same expectations. As such, appropriate effort needs to be devoted to this important task. The contract development phase is critical to achieving the outcomes sought by the Agency and sets the basis for the effective management of the contract.

Performance expectations typically articulated in the contract or service level agreements may include:

- key personnel within an Agency and the provider who will be responsible for delivery;
- what will be delivered using quality, quantity and timeliness criteria;
- key performance indicators and related targets and standards (including quality standards) or goals used to measure delivery. These should be linked to the purpose or objective of the infrastructure or service requirements and be clear, relevant, achievable and readily measurable;
- the type and frequency of performance monitoring and verification arrangements which will be implemented. These arrangements are designed to provide Agencies with comfort that performance is in accordance with the contract and payment should proceed;
- the frequency and method of payment when performance measures or targets are met. For example, upon delivery or at agreed intervals;
- the penalties or other consequences to be applied for any performance shortfall. For example, part of the payment may be withheld until the required performance or delivery standard is met;
- the process for resolving disputes when there is a disagreement about performance;
- arrangements for monitoring performance and access to documentation, whether by the Agency, its delegate or the Auditor-General;
- parameters around the ownership and, sharing of data and records, and protocols for communication and dispute resolution;
- arrangements for ongoing communication, including dispute resolution protocols; and
- the timing of evaluation and reporting expectations.

This list is not exhaustive and there may be some specific performance expectations an Agency will seek to articulate.

An Agency's Responsible Body is ultimately responsible for the delivery of all infrastructure and services within its control. Therefore, the responsibility of the Accountable Officer needs to ensure the Agency has appropriate performance management arrangements, particularly for those services or infrastructure being delivered by providers external to the Agency. This is particularly important when the Accountable Officer or delegate is not involved in the day-to-day management or delivery of the service or infrastructure.

Monitoring

Regular ongoing monitoring and assessment of contract performance throughout the life of the contract is important, as it:

- enables the early identification and resolution of any issues before they become a significant problem;
- encourages performance measures and targets and helps ensure relevant timelines are met;
- identifies any variation to specification that may be required to address identified issues; and
- puts the onus on the provider to ensure that delivery occurs to specification.

The Accountable Officer is accountable for monitoring contract performance and delivery. The Responsible Body (supported by the Audit Committee through independent assurance and advice) is responsible for overseeing performance of the Agency, in particular contracts which it has specifically made decisions on.

Individuals involved in the specification phase of the contract or those responsible for the service or asset post-delivery may be best placed to be involved in monitoring the provider. However, from time to time, the Accountable Officer may require someone independent of the contract to monitor performance. Internal audit or a specialist advisor may be engaged to provide advice to the Accountable Officer and/or Responsible Body. In order to effectively monitor and assess contract performance, a number of things are required:

- monitoring arrangements the provider will be subject to should be agreed to, documented and actioned;
- ongoing access to relevant, reliable and timely data/information from the provider relating to performance is necessary and should extend to other relevant parties in Government who may perform a monitoring or review role, such as Portfolio Departments;
- for longer-term service delivery contracts, regular independent reviews of performance data prepared by the contractor will provide the Agency with a level of assurance on the accuracy and reliability of data for performance management and payment; and
- communication protocols should be agreed and documented, including dispute resolution arrangements.

Record retention and information access or sharing arrangements enable an Agency to monitor and verify performance. Such arrangements may need to continue for a period of time after the contract has concluded to allow for independent verification of required delivery standards.

Communication is a key component of any monitoring arrangement. Open communication between an Agency's management and the provider is important to ensure that all parties are aware of any issues before they impact on the service or infrastructure.

Reporting of contractor performance assessment and any shortcomings is provided to the Audit Committee (on behalf of the Responsible Body) to review performance on a regular basis.

Evaluate and report

At the conclusion of the contract engagement, an evaluation should be conducted. This is to review and evaluate the success of the contract against stated goals, and government objectives and priorities, and to recommend appropriate actions. To a large extent, the evaluation should use the success measures established during the business or service need phase and the performance measures outlined in the contract.

Evaluations are useful to all parties involved in the contract as they can identify successes and lessons learnt. An honest assessment of the contract should provide information that can be used in future contracts or to make recommendations to resolve any outstanding issues with the contract.

Similar to monitoring arrangements, evaluations can be conducted internally by the Agency or by an external provider such as a specialist advisor. In addition, the Portfolio Department may choose to separately evaluate the contract to identify systemic issues or as part of their ongoing assurance program. Such evaluations would be separate to an internal evaluation undertaken by the Agency. It is important that appropriate access and record retention arrangements are established to ensure such evaluations can be undertaken.

As it may take time for an evaluation to be conducted or for the full benefits of the contract to be realised, the contract should adequately provide for record retention and information access or sharing arrangements for a period of time after the conclusion of the contract. Access to such information should be provided to the Responsible Body/Accountable Officer or their delegate, internal audit, or the Portfolio Department.

The findings from the evaluation should be documented, considered, actioned and formally endorsed by the Accountable Officer and provided to the Audit Committee (Responsible Body). Further, the evaluation results should be referenced and used by the Accountable Officer in future contracts. It is also useful to provide summarised findings to other Agencies or the Portfolio Department which may be undertaking similar contracts, to enable them to leverage off any lessons learnt.

Infrastructure investment

Investment lifecycle and High Value/High Risk guidelines [Department of Treasury and Finance]

The guidelines provide guidance on processes, documents and other requirements to support robust development and delivery of all investment proposals. At each stage of the investment lifecycle, this guidance helps Agencies to shape, monitor, control and evaluate an investment. The following stages of the Investment Lifecycle are relevant to the contracting of services:

- **Stage 1: The Conceptualise stage** confirms the need, defines likely benefits and explores strategic interventions.
- **Stage 2: The Prove stage** confirms that the recommended project solution offers value-for-money and can achieve the benefits sought, and indicates the likely costs and risks to the State. The key deliverable for this stage is a business case.
- **Stage 3: The Procure stage** processes should align with the procurement strategy developed in the business case. Tendering is a phase of the procurement process in which Agencies seek and select offers from suitable suppliers. The key deliverable for this stage is the awarding of the contract.
- **Stage 4: The Implement stage** focuses on managing project delivery. The Agency needs to be monitoring not only the schedules and budgets but whether the solution is and remains robust, the effectiveness of contract management arrangements and whether there is a basis for evaluating ongoing performance.
- **Stage 5: The Realise stage** measures the success of the investment.

High Value/High Risk (HV/HR) projects [Department of Treasury and Finance]

For general government Agencies, infrastructure and ICT projects identified as being high value and/or high risk will be subject to more rigorous scrutiny and approval processes.

The process applies to all infrastructure and ICT investments that:

- have a total estimated investment (TEI) greater than $100 million (regardless of funding source);
- are identified as high risk using an approved risk assessment tool; or
- are determined by the Government as warranting the rigour of increased oversight.

The Government may also nominate projects to be part of this process.

Gateway reviews [Department of Treasury and Finance]

For general government Agencies, Gateway reviews are mandatory for infrastructure and ICT projects identified as being high value and/or high risk.

The Gateway review process examines projects and programs at key decision points throughout their lifecycle regarding progress and likelihood of delivery success.

- **Gate 1: Concept and feasibility** – investigates the strategic direction and concept development.
- **Gate 2: Business case** – confirms the business is robust, i.e. it meets the business need, is affordable, achievable and is likely to obtain value for money.
- **Gate 3: Readiness for market** – confirms the business case once the project is fully defined, confirms the objectives and desired outputs remain aligned and ensures the procurement approach is robust, appropriate and approved.
- **Gate 4: Tender decision** – confirms the business case including benefits plan once the bid information is confirmed and checks the required statutory and procedural requirements were followed and that the recommended contract decision is likely to deliver the specified outcomes on time, within budget and provide value for money.
- **Gate 5: Readiness for service** – tests the projects readiness to provide the required service by confirming the current phase of the contract is complete and documented, the contract management arrangements are in place and current, and the business case remains valid.
- **Gate 6: Benefits realisation** – examines whether the benefits as defined in the business case are being delivered, typically occurs 6-18 months after project completion.

Investment Management Standard [Department of Treasury and Finance]

The Investment Management Standard (IMS) is a collection of simple ideas and practices to help organisations direct resources to deliver the best outcomes. Investment Management can be used to undertake the following seven practices:

- shape a new investment;
- prioritise investment proposals;
- develop new policy;
- monitor and measure the delivery of benefits;
- evaluate a program of investment;
- refocus an organisation to improve its effectiveness; and
- monitor an organisation's outcomes.

Procurement

Victorian Government Purchasing Board (VGPB) policies

The VGPB policies are mandatory for all Departments and specified Agencies (FMA section 54L) in procuring goods and services for the Agency's own use. It is recommended that other Agencies apply similar procurement policies.

There are five policies covering the end-to-end procurement activities, together with supporting guides, tools and templates:

- Governance policy[62] specifies the requirements for your procurement governance framework, assessment to manage procurement activity and complaints management.
- Complexity and capability assessment policy[63] specifies the requirements to conduct an assessment of the complexity of the procurement and the capability required to carry out the procurement successfully.
- Market analysis and review policy[64] specifies requirements for market analysis, aggregated purchasing and disposal of assets.

[62] www.procurement.vic.gov.au/Buyers/Policies-Guides-and-Tools/Governance-Policy
[63] www.procurement.vic.gov.au/Buyers/Policies-Guides-and-Tools/Complexity-and-Capability-Assessment-Policy
[64] www.procurement.vic.gov.au/Buyers/Policies-Guides-and-Tools/Market-Analysis-and-Review-Policy

- Market approach policy[65] specifies the requirements for market approach, critical incidents, and evaluation, negotiation and selection.
- Contract management and contract disclosure policy[66] specifies requirements for managing and disclosing contracts.

  State Purchase Contracts[67] (SPC) are standing offer agreements for Victorian government common use goods and services. They are established when value for money in procurement can best be achieved through aggregating demand. SPCs are established for use by Departments and are mandatory, however these contracts can be used by other public bodies.

Public Private Partnerships Policy [Department of Treasury and Finance]

The *Partnerships Victoria* policy provides the framework for a whole-of-government approach to the provision of public infrastructure and related ancillary services through long term public-private partnership contracts.

The *Partnerships Victoria* Framework requires compliance with both the National Public Private Partnerships Policy and Guidelines and the *Partnerships Victoria* requirements and annexures.

Alliance Contracting Policy [Department of Treasury and Finance]

Alliancing is a method of procuring, and sometimes managing, major capital assets. Under an alliance contract, a state Agency contractually works collaboratively with private sector parties to deliver the project.

The Victorian Government policy and guidance material are aimed at Departments and Agencies undertaking alliancing contracts and other collaborative contracting models such as Early Contractor Involvement (ECI). The National Alliance Contracting Guidelines: Policy Principles[68] sets out the Victorian Government's minimum requirements for alliance contracting and other collaborative contracting models.

Normally, alliancing is used to deliver the larger, more complex and higher-risk infrastructure projects (with capital costs exceeding $50 million) and where the owner has particular capability to contribute its skills and expertise to deliver the project.

Public Construction Policy (Ministerial Directions) and guide [Department of Treasury and Finance]

The policy prescribes procurement, tendering and contracting procedures and practices for public construction in Victoria (*Project Development and Construction Management Act 1994* and Ministerial Directions and Instructions). The Ministerial Directions and Instructions and Guidance materials are available at: https://www.dtf.vic.gov.au/infrastructure-investment/public-construction-policy-and-resources.

Victorian Industry Participation Policy [Department of Jobs, Precincts and Regions]

The policy requires government Departments and Agencies to consider competitive local suppliers, including SMEs, when awarding contracts valued at:

- $1 million or more in regional Victoria, or
- $3 million or more in metropolitan Melbourne or for state-wide activities.

Procurements that have a total project value of $50 million or more are considered Strategic Projects under the policy and will have minimum local content requirements set to help drive additional economic activity and jobs.

The Department of Economic Development, Jobs, Transport and Resources website provides helpful information.

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[65] www.procurement.vic.gov.au/Buyers/Policies-Guides-and-Tools/Market-Approach-Policy
[66] www.procurement.vic.gov.au/Buyers/Policies-Guides-and-Tools/Contract-Management-and-Contract-Disclosure-Policy
[67] buyingfor.vic.gov.au/browse-government-contracts
[68] infrastructure.gov.au/infrastructure/ngpd/files/NACG_Policy_Principles.pdf

Social Procurement Framework [Department of Treasury and Finance]

The Social Procurement Framework (SPF) – and accompanying guidance materials – applies to the procurement of all goods, services and construction undertaken by, or on behalf of, departments and agencies subject to the Standing Directions issued pursuant to the *Financial Management Act 1994* (Vic) (the Act) from 1 September 2018. Other Victorian public bodies are encouraged to adopt the framework.

The mandatory requirements established by the SPF apply to both departments and agencies and to government buyers[69]. The SPF provides the authorising environment and sets a clear expectation to make social procurement business-as-usual.

The SPF is designed to embed social procurement throughout the procurement process and implement a consistent and streamlined approach to achieving social and sustainable outcomes through procurement. The framework establishes:

- social and sustainable procurement objectives, and corresponding outcomes, which are discussed in detail in the *Victoria's Social Procurement Framework*;
- mandatory agency planning requirements for implementing the SPF, which are discussed in the *Buyer Guidance – Guide to planning requirements*;
- mandatory individual procurement activity requirements in the *Buyer Guidance – Guide to individual procurement activity requirements*, which apply based on the following four value thresholds:
  - Below threshold: regional under $1 million/metro or state-wide under $3 million;
  - Lower band: regional $1 to $20 million/metro or state-wide $3 million to $20 million
  - Middle band: $20 to $50 million; and
  - Upper band: Over $50 million; and
- mandatory measurement and reporting requirements, which are expounded in the SPF measurement and reporting guidance materials.

The SPF and the accompanying guidance materials are available at: https://buyingfor.vic.gov.au/social-procurement-framework.

ICT Procurement Policy and Standards (Department of Premier and Cabinet)

Enterprise Solutions produces standards, policies and governance frameworks for whole of Victorian government shared services and information and communications technology.

Traditional Contracting of infrastructure [Department of Treasury and Finance]

The National framework for traditional contracting of infrastructure documents best practice to promote productivity improvements in the planning and contracting phase of major projects.

In the context of the framework, traditional contracting refers to those contracts that to varying degrees allocate construction and design risk to the suppliers (but are not alliances or PPPs).

The two primary categories of traditional contracting are:

- construct only (CO): the design has been undertaken by the client, and the supplier is responsible for constructing the works to the client's design; and
- design and construct (D&C): generally a limited design has been undertaken by the client who then invites potential suppliers to tender on the basis of completing the client's design and constructing to that design.

[69] Government buyers is defined as individual(s) responsible for planning, sourcing and/or approving the goods, services or construction being procured by, or on behalf of, a department or agency. Note that the definition of government buyers includes end users, project control boards and financial delegates.

Market-led Proposals Guideline [Department of Treasury and Finance]

The Market-led Proposals Guideline documents a transparent and consistent process where private parties can directly approach Government seeking support and approval to provide a project or service.

The Guideline does not apply to the routine procurement of goods and services as covered under Part 7A of the FMA (i.e. goods and services covered by VGPB policies). Further information can be found on DTF's website – Market-led proposals.

Other guidance

The following provides further information on each of the policies and guidance. Guidance material is generally accessible via the following websites:

- Department of Treasury and Finance[70]
- Enterprise Solutions[71]
- Victorian Auditor-General's Office[72]
- Australian National Audit Office[73]
- Department of Jobs, Precincts and Regions[74]
- Victorian Government Purchasing Board[75]
- Buying for Victoria[76]

Investing smarter in public sector ICT: Turning principles into practice[77] [Victorian Auditor-General's Office]

The guidance is designed to assist public sector chief executive officers and senior responsible officers to question and assess whether their investments are delivering their intended benefits, resulting in better business and financial value for government and the public.

[70] www.dtf.vic.gov.au
[71] www.enterprisesolutions.vic.gov.au
[72] www.audit.vic.gov.au
[73] www.anao.gov.au
[74] djpr.vic.gov.au
[75] www.procurement.vic.gov.au
[76] buyingfor.vic.gov.au
[77] www.audit.vic.gov.au/sites/default/files/20080730-ICT-BPG.pdf

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

Objective	Provides guidance on financial management control considerations in administering discretionary grants, sponsorships and donations.
Effective date	1 July 2016
Relevant Direction	4.2 Using and managing public resources 4.2.2 Discretionary financial benefits – grants, sponsorships and donations
Last reviewed	1 May 2019

Discretionary financial benefits – grants, sponsorships and donations

Discretionary financial benefits include discretionary grants, sponsorships and donations. These forms of discretionary financial benefits are given to a person or body (including community groups, statutory bodies or commercial enterprises) to achieve results sought by government policy. Such discretionary financial benefits do not include financial benefits as consideration for goods or services provided under a commercial agreement (e.g. contracts), or transfer of funds to a government entity for funding non-contestable output delivery.

Discretionary financial benefits typically have the following characteristics:

- a transfer to a recipient which may be in return for compliance with certain terms and conditions;
- a transfer which may not directly give approximately equal value in return to the Government (that is, there is a non-exchange transaction or subsidisation so there may not be exact dollar for dollar value); and
- a recipient may have been selected on merit against a set of program-specific criteria.

Discretionary grants

A discretionary grant is money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy. The portfolio minister or paying Agency has discretion in determining whether or not an applicant receives funding and may or may not impose conditions in return for the grant. Funds transferred to a government entity for non-contestable output delivery is not considered a discretionary grant.

Investment principles for discretionary grants

The following investment principles[78] have been endorsed by the Victorian Government to guide the development of discretionary grants programs:

- grants should only be used when they secure a government policy outcome;
- discretionary grants should not be used without first considering alternative policy mechanisms or existing grant programs;
- grants should not be used with the principal objective of transferring revenue to local government;
- care should be taken to ensure grants do not lead to State Government overreach into Local Government's areas of responsibility, nor create an ongoing need for funding;
- grants programs should be designed to minimise administration costs;
- when small grants are used, they should be administered by the organisation that is able to do so most efficiently;
- accountability requirements imposed on grant recipients should be proportionate to risk;
- grants can be disbursed by competitive, negotiated or allocated mechanisms; and
- Better Grants by Design[79] should be used to provide further guidance when designing and developing new grant programs.

Better Grants by Design may also assist in considering, making and managing other discretionary financial benefits to achieve program objectives.

[78] https://www.dtf.vic.gov.au/standing-directions-2018-under-financial-management-act-1994
[79] www.intranet.vic.gov.au/connect/better-grants-design

Sponsorships

Sponsorship is the purchase or receipt of rights or benefits, including naming rights, delivered through association with an organisation's products, services or activities. The rights or benefits typically relate to the sponsor's reputation management or communication objectives.

Sponsorship includes partnership arrangements, except when the arrangement is governed by the Partnerships Victoria Requirements [80] or otherwise involves the development or management of infrastructure.

Departments are required to develop their own Agency-specific sponsorship procedures based on, and consistent with, the principles identified in the Victorian Government Sponsorship Policy[81].

Donations

Donations or bequests are gifts given, typically for charitable purposes and/or to benefit a cause. They impose no obligations on the recipient and offer little or no rights or benefits to the provider. Most Agencies will rarely give or receive a donation.

Under Direction 4.2.2(b), donations must be subject to effective and efficient administrative controls. More broadly, donations must be subject to proper financial management, such as Direction 3.2, requiring an effective internal control system to ensure efficient operations and safeguard resources. Due to the nature of donations, giving or receiving a donation would normally require a strong rationale and a high level of approval within an Agency. Agencies that more regularly deal with donations, such as some arts agencies, should have more detailed policies and procedures in place.

Gifts, benefits and hospitality

Gifts, benefits and hospitality are not forms of discretionary financial benefits. The Gifts, Benefits and Hospitality Policy Framework[82] sets out the State's framework for gifts, benefits and hospitality given or received by Agencies and their staff.

[80] www.dtf.vic.gov.au/partnerships-victoria
[81] www.vic.gov.au/sponsorship
[82] vpsc.vic.gov.au/about-vpsc/vpsc-gifts-benefits-hospitality-policy-declaration-register

Guidance 5.1 – Financial management compliance

Objective	Provides guidance on the financial management compliance framework requirements and the review and reporting of compliance including transitional arrangements
Effective date	1 July 2016
Relevant Direction	5.1 Financial management compliance
Last reviewed date	1 May 2019

Financial management compliance framework

Australian standard on compliance

Agencies are encouraged to adopt Australian Standard ISO 19600:2015 *Compliance Management Systems – Guidelines* (the Standard) in establishing a financial management compliance framework.

The objective of the Standard is to provide guidance for establishing, developing, implementing, evaluating, maintaining and improving an effective and responsive compliance management system within an Agency.

The Standard does not specify requirements, and is intended to be adaptable. Its use may differ depending on the size and level of maturity of an Agency's compliance managements system and on the context, nature and complexity of the Agency's activities, including its compliance policy and objectives.

ISO 19600:2015 references seven key themes:

- context of the organisation;
- leadership;
- planning;
- support;
- operation;
- performance evaluation; and
- improvement.

Detailed review of all obligations

Many Agencies have historically involved their Internal Audit function in reviewing financial management compliance. Direction 5.1.3 makes this a mandatory requirement.

A detailed review of individual obligations is required, at minimum, once every three or four years. A detailed review involves an in-depth analysis and testing of sample documents, transactions and the gathering of evidence and substantiation to support conclusions on compliance levels.

The internal auditor is to prepare and maintain a strategic internal audit plan and an annual audit work program based on the risks and controls of the Agency (refer to Guidance 3.2.2 *Internal Audit* on information about the strategic internal audit plan). This provides for an independent objective assessment of compliance.

From 2016-17, as part of the strategic internal audit plan, Internal Audit is to develop a detailed financial management requirement review schedule based on a high-level assessment of compliance gaps and risks. The detailed review schedule is to be reviewed and refined during each subsequent year based on a reassessment of any compliance gaps and/or risks.

A risk-based approach[83] to prioritising and planning the detailed review of compliance should occur when preparing and refreshing the strategic internal audit plan and annual audit work program (refer to Direction 3.2.2 *Internal Audit*). The resulting plan and program should outline the type and frequency of detailed reviews and any targeted assessments. High compliance risk areas for the Agency should be given higher priority for audits including greater frequency. For example, areas assessed as high compliance risk require more frequent reviews than areas of lower compliance risk, which should be reviewed at least once every three to four years. By adopting risk-based audits[84] covering multiple obligations from a single audit event can further remove duplicating effort.

Reports from detailed reviews should be provided to the Audit Committee for review and monitoring of agreed rectification and remedial actions. For further information on the role, refer to Direction 3.2.1 *Audit Committee*. The findings of detailed reviews should be used to inform the annual assessment of compliance (further information provided below).

Agencies are to submit a summary of their internal audit detailed financial management requirement review plan to their Portfolio Department and Audit Committee.

Annual assessment and attestation of compliance

Under the 2003 Directions, Agencies prepared an internal attestation of compliance within Government. A key change is that all Agencies will be required to make a public attestation in their annual report on compliance with the financial management obligations. This new requirement will be introduced over a two-year period to ensure Agencies have systems in place to support public attestation in 2018 for the 2017-18 financial year.

What is a Compliance Deficiency?

The Directions and Instructions include two concepts in relation to a failure to fully comply with a requirement in the FMA, Directions or Instructions:

Concept	Definition	Requirements
Compliance Deficiency	An attribute, condition, action or omission that is not fully compliant with a requirement in the FMA, Directions and/or Instructions (Direction 1.6).	• Must be addressed (Direction 5.1.5). • Must be reported to Portfolio Department in compliance report (Instruction 5.1, clause 1.2). • Key areas of Compliance Deficiency must be reported by Portfolio Department to DTF in portfolio compliance summary (Instruction 5.1, clause 1.4).
Material Compliance Deficiency	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 (Direction 1.6).	All requirements in relation to compliance deficiencies set out above apply, and additionally: • Must be notified to Responsible Minister and Portfolio Department. Independent Offices must discuss with DTF (Direction 5.1.6). • Must be included in financial management compliance attestation in Annual Report (Direction 5.1.4).

In preparing their Annual Report attestation, an Agency must identify which of its Compliance Deficiencies are 'Material Compliance Deficiencies'. The definition, set out in the table above, involves an objective 'reasonable person' test. The question is whether a reasonable person would consider the deficiency to be material to the State or Agency's reputation, financial position or financial management. For example, a very small number of missing taxi receipts in the course of a year is unlikely to constitute a Material Compliance Deficiency. But the absence or failure of a system or control, or a systemic failure in relation to a certain system, is likely to be material.

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[83] For an example of a risk-based approach to compliance auditing, refer global.theiia.org/standards-guidance/topics/Documents/201501GuidetoRBIA.pdf

[84] For an example of a risk-based approach to compliance auditing, refer global.theiia.org/standards-guidance/topics/Documents/201501GuidetoRBIA.pdf

Materiality assessment concepts

Materiality must be considered in assessing the requirements of the Directions as applicable to a particular Agency. Materiality will need to reflect the risk profile, size and complexity of the Agency.

In assessing materiality in a broader financial management context, Agencies can refer to the Australian Accounting Standards Board (AASB) definition of '**Materiality**'. It provides that information is material if 'its omission, misstatement or non-disclosure has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the management or governing body of the entity'.

The following considerations have been developed utilising key factors from Accounting and Auditing publications that may assist in assessing materiality in relation to Compliance Deficiencies.

Materiality is a matter of professional judgment influenced by the characteristics of the entity/agency and the perceptions as to who are, or are likely to be, the users of the financial management information, and their information needs. Materiality judgments can only be properly made by those who have access to the relevant facts.

Therefore, an Agency must assess the materiality of a Compliance Deficiency itself, taking into account all relevant factors, including the:

- detriment or risk of detriment to stakeholders/clients;
- scale of the issue;
- overall impact on the Agency, its stakeholders, clients and third parties; and
- extent of any risk of loss of confidence in the Agency or the wider reputation of Government.

It is important to remember that a Compliance Deficiency can be material either taken on its own, or as part of a pattern of compliance failures.

An assurance practitioner may consider the following factors in evaluating whether an Agency's Compliance Deficiency against relevant requirements, is material:

- the size, complexity and nature of the Agency's activities;
- the nature of the deficiency – omission or absence of a key requirement or a significant one off or systemic failure in governance or control systems etc.;
- evidence of a robust compliance framework in place to detect, rectify and report Compliance Deficiencies;
- commonly accepted practice within government Agencies;
- the regulatory, legislative or contractual requirements applicable to the Agency;
- the impact or potential impact on the decisions of the intended users/clients and stakeholders of the Agency; and
- the specific terms of the compliance engagement.

Audit committee role

Materiality is an aspect of the annual attestation/compliance assessment and reporting process that the Agency Audit Committee should consider in its:

- review of the annual assessment of financial management compliance (Direction 5.1.2 (b));
- review of the public attestation statement (Direction 5.1.4 (c)); and
- review and approval of the compliance report provided to the Portfolio Department (Instruction 5.1, Clause 1.3).

Annual assessment and attestation processes and timelines

The annual assessment of compliance with the Directions takes into consideration information from various sources. These could include:

- current and previous detailed reviews of obligations conducted and actions taken since to rectify any failure or deficiency, when appropriate;
- any targeted assessments which may be conducted as a result of:
  - changes to requirements or operating environment considered high risk to complement previous detailed reviews (for example, a change to GST legislation on appropriations or an organisation change of the finance function), and
  - Material Compliance Deficiencies identified during the year;
- outcomes from monitoring and analysing planned and unexpected changes to the business and operating environments and the impact on compliance with obligations since last annual assessment;
- any compliance deficiencies reported during the year;
- information from regular reviews of risk during the year (refer to Direction 3.7.1, dealing with risk management); and
- issues, queries and feedback from the Audit Committee throughout the year.

It is expected that Agencies will take a practical, risk-based approach[85] to achieving and demonstrating compliance. Agencies are expected to do this based on the nature, size and complexity of their business. This enables each Agency to tailor its systems, procedures and practices to its individual circumstances. This is particularly relevant to those Directions that require Agencies to achieve broad principles of good financial management. An example is Direction 2.2(a), which requires the Responsible Body to ensure that the Agency furthers government objectives and priorities. Reasonable evidence for compliance with such a requirement could include a brief summary of significant Government priorities that the Agency has pursued in the relevant year. It would usually be unnecessary to undertake a detailed analysis of all actions taken under such requirements.

The annual assessment is then provided to the Audit Committee whose responsibility is to review and monitor agency compliance. Information on compliance levels will support analysis to be contained in the assessment report and submitted to the Accountable Officer of Portfolio Departments by **15 September** for agencies for with an annual reporting period ending 30 June (**15 March** for agencies with an annual reporting period ending 31 December). If an agency has an annual reporting balance date other than 30 June or 31 December, compliance assessment and reporting obligations must occur within **75 days** of the balance date, under Instruction 5.1, clause 1.1 (c).

In preparing their assessment, Agencies should document a summary of the:

- the levels of compliance achieved;
- Compliance Deficiencies;
- action to be taken to remedy compliance deficiencies and timeframes;
- an assessment of the most significant compliance risks for the Agency; and
- proposed plan/schedule of internal audit detailed financial management requirement reviews over the next three to four years.

The Committee then recommends to the Responsible Body the proposed compliance levels and mitigation strategies. Further information on the role of the Audit Committee is provided in Direction 3.2.1.

The ongoing compliance assessment and attestation timeframe is set out in Instruction 5.1. However, care needs to be taken to apply relevant transitional arrangements set out in the Directions and Instructions (particularly Direction 1.4.5).The Victorian Management Insurance Authority[86] (VMIA) has developed a number of overarching principles and a range of guidance material in support of risk attestation processes for Agencies. Some of these key principles also apply to compliance attestation and include:

- attestation is intended to provide 'assurance' or demonstrate 'performance' – it should not be merely a box-ticking exercise;
- keep the attestation framework and process as pragmatic and relevant as possible; and

[85] For an example of a risk-based approach to compliance auditing, refer global.theiia.org/standards-guidance/topics/Documents/201501GuidetoRBIA.pdf
[86] www.vmia.vic.gov.au/insure/insurance-attestation/resources

- the Agency's risk maturity, size, complexity and risk appetite needs to be considered, because 'attestation is relative to maturity.'

Portfolio Department compliance role

As is currently the case, Portfolio Departments have a significant role in supporting the portfolio Ministers in their oversight of the portfolio as a whole, and of Agencies individually (see Directions 2.3.4 and 2.4.4, and Instruction 2.3.4 for more details on this role). This role is consistent with the Responsibility of Department Heads (Accountable Officer) in section 13A of the *Public Administration Act 2004*, introduced in 2014.

As a key part of this role, Portfolio Departments are to monitor the compliance of their Portfolio Agencies and provide advice on the level of assurance with financial management requirements (including the FMA, Directions and Instructions) to their Ministers and DTF including the identification of key portfolio Compliance Deficiency risk issues and remedial actions proposed (see Instruction 5.1, clause 1.4). This may also involve a departmental review of portfolio Agencies' internal audit detailed financial management requirement review plans/schedules to ensure appropriate coverage and to identify areas of potential compliance risk, particularly during the transition period.

A Portfolio Department is to review annual Agency compliance assessment reports and to work with Agencies to improve compliance performance and manage Compliance Deficiency risks. This process will help inform the portfolio summary compliance report to Minsters and DTF.

Annual portfolio summary reports are to be provided to DTF **by 31 October** following the year reviewed. As per Instruction 5.1, the contents should include at a minimum:

- the levels of compliance achieved across the portfolio (including within the Portfolio Department as an Agency, and all Portfolio Agencies);
- key areas of Compliance Deficiency across the portfolio, including planned and completed remedial actions and timeframes of the Agencies and Portfolio Department; and
- an assessment of the significant compliance risks facing the portfolio, including key strategies of the Agencies and the Portfolio Department to mitigate these risks.

Portfolio Departments should also review the annual attestation statement in Agencies' annual reports to ascertain whether they are an accurate assessment of their level of compliance.

Department of Treasury and Finance whole of State role

DTF's ongoing activities in respect of oversight arrangements may include the following:

- face to face meetings with Portfolio Departments;
- reviewing of whole of state compliance and identify strategies to improve levels of compliance;
- a periodic effectiveness review, either on site or desktop based;
- analysing portfolio compliance summary reports and other data to identify improvements;
- reporting to the Assistant Treasurer on whole of state progress on achieving compliance with the new Directions by **15 December** each year;
- publishing a summary whole of state compliance report on the DTF website subsequent to the Assistant Treasurer's review and approval; and
- proposing changes to the Directions, Instructions and Guidance to the Assistant Treasurer, when required, from improved practices identified, mitigating risks or improving Agency understanding of requirements.

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