

The Auditor-General
Audit Report No.38 2010–11
Performance Audit

Management of the Certificate of Compliance Process in FMA Act Agencies

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Canberra ACT
20 April 2011

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to *Senate Standing Order 166* relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Management of the Certificate of Compliance Process in FMA Act Agencies*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

AGD	Attorney-General's Department
Ahead of the Game Report	<i>Ahead of the Game – Blueprint for the Reform of Australian Government Administration</i>
ANAO	Australian National Audit Office
APS	Australian Public Service
APSC	Australian Public Service Commission
ATO	Australian Taxation Office
BFE	Budget and Financial Essentials
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CDPP	Office of the Commonwealth Director of Public Prosecutions
CEIs	Chief Executive Instructions
Certificate	Certificate of Compliance
CFO	Chief Finance Officer
CGC	Commonwealth Grants Commission
CGGs	Financial Management Guidance No. 23, <i>Commonwealth Grant Guidelines</i>
CPGs	Financial Management Guidance No. 1, <i>Commonwealth Procurement Guidelines</i>
Finance	Department of Finance and Deregulation
Finance Minister	Minister for Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
FMG	Financial Management Group, Department of Finance and Deregulation

Glossary

Financial framework	The financial framework underpins the appropriation, expenditure and use of money and resources within the Australian Government. The financial framework includes financial management legislation and policy, performance reporting guidance, outcome and programs policy guidance, and associated governance arrangements for government entities.
Financial management framework	The financial management framework is a subset of the financial framework and is comprised of: <ul style="list-style-type: none">• the <i>Financial Management and Accountability Act 1997</i> and the <i>Commonwealth Authorities and Companies Act 1997</i>;• the <i>Financial Management and Accountability Regulations 1997</i>;• the <i>Financial Management and Accountability (Finance Minister to Chief Executive) Delegation 2010</i>; and• other financial management policies of the Commonwealth.
Internal controls	The processes designed and implemented by those charged with governance and management to provide reasonable assurance about: the achievement of the entity's objectives; effectiveness and efficiency of operations; and compliance with laws and regulations.
Risk assessment	The systematic use of available information, based on the evaluation of likelihood and consequence, to determine risk.

Summary, Recommendation and Better Practice

Summary

Introduction

Australian Government financial management framework

1. During the late 1990s the Australian Government implemented a series of reforms to the financial and budgetary framework of the Commonwealth designed to improve the operational and financial management performance of public sector agencies. As part of this reform process, new legislation including the *Financial Management and Accountability Act 1997* (FMA Act) and the *Financial Management and Accountability Regulations 1997* (FMA Regulations) was enacted. The current financial management framework is made up of this legislation and complementary financial management policies in areas such as fraud control planning, procurement, grants administration, cost recovery and foreign exchange risk management.
2. The financial management framework is based on a devolved system of financial management, under which Australian Government agencies¹ are responsible for delivering government outcomes and programs, funded by Parliamentary appropriations. The framework includes a principal requirement that Chief Executives manage the affairs of their agency in a way that promotes the proper use of the Commonwealth resources for which they are responsible.²
3. The financial management framework has provided flexibility to agencies to establish financial management arrangements suitable to their individual circumstances that are consistent with legislation and government policy. In this context, over time there has been evidence of departures from the requirements of the financial management framework revealed by agencies' own processes and various audit reports.³

¹ That is, agencies subject to the FMA Act.

² *Financial Management and Accountability Act 1997*, Section 44. In this section, proper use of resources means efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth.

³ See, for example, ANAO Audit Report No.5 2004–05, *Financial Management of Special Appropriations*, ANAO Audit Report No.22 2004–05, *Investment of Public Funds*, ANAO Audit Report No.28 2005–06, *Management of Net Appropriation Agreements*, and ANAO Audit Report No.11 2010–11, *Direct Source Procurement*, available at: <http://www.anao.gov.au>.

Certificate of Compliance

4. In order to improve the focus by agencies on their compliance with the requirements of the financial management framework, the Australian Government introduced in 2006–07 the Certificate of Compliance (Certificate) process for FMA Act agencies.⁴

5. The Certificate process requires the Chief Executive of an FMA Act agency to certify, having regard to advice provided by the agency's internal control mechanisms, management and the audit committee, the agency's compliance during the previous financial year with:

- the FMA Act;
- the FMA Regulations;
- *the Financial Management and Accountability (Finance Minister to Chief Executives) Delegation 2010*, as amended from time to time;
- the Australian Government's foreign exchange risk management requirements;
- the legal and financial requirements for the management of Special Accounts;⁵ and
- selected financial management policies of the Commonwealth.

6. The Certificate also requires Chief Executives to state whether their agency is operating within the agreed resources for the current financial year, and has adopted appropriate management strategies for all currently known risks that may affect the financial sustainability of the agency.

7. Chief Executives are required to provide a completed Certificate to their portfolio minister by 15 October each year. Certificates are also copied to the Minister for Finance and Deregulation (Finance Minister).

8. In order for Chief Executives to certify compliance with the financial management framework it is not intended that all actions and transactions of

⁴ A separate process applies to entities subject to the *Commonwealth Authorities and Companies Act 1997*. For further information, see Finance Circular 2008/05: *Compliance Reporting – CAC Act Bodies*. Available at: <http://www.finance.gov.au/publications/finance-circulars/2008/05.html>.

⁵ A Special Account is an appropriation mechanism that notionally sets aside amounts within the Australian Government Consolidated Revenue Fund for expenditure for special purposes.

an agency be checked. However, it is expected that Chief Executives will ensure the agency has sufficient processes and controls in place to provide reasonable confidence that officials are complying. Where non-compliance is identified, details of all known instances of non-compliance with requirements must be provided through the Certificate irrespective of materiality, focusing on remedial measures that are being taken to improve agency compliance.⁶

9. As a self-assessment process, the Certificate has some inherent limitations with respect to the level of assurance it provides on compliance with the financial management framework. Nevertheless, and consistent with the devolved system of financial management, the Certificate is designed to place the responsibility on agencies to have sound systems and assurance mechanisms in place to give confidence that legislation and government policies are adhered to; and where departures from such requirements are identified, to encourage the agencies to improve their systems to avoid any such recurrences.

Role of the Department of Finance and Deregulation

10. The Department of Finance and Deregulation (Finance) is responsible for administration of the financial management framework and the Certificate process at a whole-of-government level. Finance undertakes four broad tasks in relation to the Certificate process: provision of written guidance and day-to-day support to agencies on Certificate requirements and the financial management framework; preparation of aggregate analysis of Certificates and reporting on outcomes to key stakeholders; provision of follow-up advice and training to agencies in support of agency remediation strategies; and development of amendments to the legislative framework and written guidance, as necessary, to address whole-of-government issues identified in the Certificate process.

Outcomes of the Certificate process to date

11. Four Certificate cycles have now been completed, for 2006–07, 2007–08, 2008–09 and 2009–10. Reported instances of non-compliance for each year are shown in Table S 1.

⁶ Department of Finance and Deregulation, Finance Circular No. 2009/06, *Certificate of Compliance – FMA Act Agencies*, 11 August 2009, pp. 2 and 9.

Table S 1**Certificate of Compliance results**

	2006–07	2007–08	2008–09	2009–10
Total number of non-compliance instances	11 852	32 648	14 961	17 017
Number of agencies with instances of non-compliance	76	83	85	86
Number of agencies with no non-compliance	16	21	19	17
Total number of agencies	92	104	104	103

Source: Data provided by the Department of Finance and Deregulation.

12. A large majority of reported instances of non-compliance since the introduction of the Certificate have related to agency officials not meeting several requirements established by the FMA Act and FMA Regulations when performing their duties. These requirements pertain to: the approval and authorisation of spending proposals, and application of government policy for procurement and grants administration (collectively referred to as the commitment of public money); statutory control over who may draw upon government appropriations and make payments (drawing rights);⁷ and, the prompt banking of public money and use of official bank accounts (banking and investment).

13. Aggregate results of the Certificate process have been published by Finance in the 2008–09 and 2009–10 *Certificate of Compliance Report to the Parliament*. The 2009–10 report contrasted the number of instances of non-compliance reported by agencies with the substantial number of financial activities agencies undertake each year. The reports to the Parliament have attributed:

⁷ 'Drawing rights are a statutory control over who may draw upon appropriations and make payments, and they allow for conditions and limits to be set by the Finance Minister (or the Finance Minister's delegates) in relation to those activities.' Department of Finance and Deregulation, *2008–09 Certificate of Compliance Report to the Parliament*, December 2009. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

- the increase in reported instances of non-compliance from 2006–07 to 2007–08 to improvements in agencies' internal systems for identifying non-compliance;
- the subsequent fall in non-compliance in 2008–09 to agencies addressing the issues identified in the first two rounds of reporting;⁸ and
- the 13.7 per cent increase in reported instances of non-compliance for 2009–10, in large part, to the introduction of new public reporting requirements for grants in 2009.

Audit approach

Audit objective and scope

14. The objective of the audit was to assess the effectiveness of annual Certificate of Compliance processes for FMA Act agencies. To form a conclusion against the audit objective, the audit considered: Finance's administration of the Certificate process at a whole-of-government level; selected agencies' annual Certificate processes; and, the design and impact of the Certificate.

15. The audit was a cross-portfolio review. It examined annual Certificate processes within four selected agencies: the Attorney-General's Department (AGD), the Australian Taxation Office (ATO), the Commonwealth Grants Commission (CGC) and the Office of the Commonwealth Director of Public Prosecutions (CDPP). The audit also reviewed Finance's management of the Certificate process, including support provided by the department to agencies in relation to the Certificate.

⁸ The ANAO also reported in Audit Report No. 17 2009-10, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2009*, 'ANAO enquiries identified that the CoC [Certificate of Compliance] process has resulted in staff having an increased awareness of legislative requirements. Entities advised the ANAO that this has resulted in staff giving higher priority to meeting legislative requirements, particularly in areas where breaches had occurred in 2007–08 ... Since its introduction in 2006–07, the Certificate of Compliance process has resulted in an increased awareness of legislative responsibilities and most, if not all, entities have well-established processes in place to identify legislative breaches and take corrective action where appropriate. The significant reduction in breaches in 2008–09 compared with 2007–08 reflects favourably on the effectiveness of these processes'.

16. The audit included a survey of Chief Finance Officers (CFOs) of FMA Act agencies with regard to the Certificate process. Additionally, interviews were held with four independent or external members of FMA Act agency audit committees⁹ to obtain their views on the process.

Overall conclusion

17. The Certificate of Compliance process for FMA Act agencies was introduced in 2006–07 to improve compliance with the Australian Government’s financial management framework and to ensure that ministers¹⁰ are kept informed of compliance issues within their portfolios.¹¹ Through the Certificate, agency Chief Executives certify to their portfolio minister the agency’s compliance with the components of the government’s financial management framework for the previous financial year.

18. For 2009–10, 86 out of 103 FMA Act agencies reported 17 017 instances of non-compliance through the Certificate. This represented a 13.7 per cent increase in instances of non-compliance on the previous year, which was largely driven by new grant reporting requirements. While remaining significant, the level of reported non-compliance is low when compared to the substantial number of government financial activities which occur each year. Since the inception of the Certificate, non-compliance has been concentrated in three key areas of the FMA Act and FMA Regulations: the commitment of public money; the use of drawing rights; and banking and investment by agencies.

19. Overall, the Certificate process for FMA Act agencies has been effective notwithstanding the inherent limitations of the self assessment process employed. The Certificate requirement that Chief Executives sign-off on compliance with the financial management framework and report identified instances of non-compliance has heightened the focus of agencies on compliance. The Certificate process has resulted in: establishment and/or further development of agency arrangements for assessing compliance;

⁹ That is, audit committee members who are not employees of the agency.

¹⁰ Or Presiding Officers in the case of Parliamentary departments.

¹¹ Department of Finance and Deregulation, *2008–2009 Certificate of Compliance Report to the Parliament*, December 2009, p. 2. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

improvement in officials' understanding of financial management requirements; and strengthening of agencies' financial management procedures in support of compliance.

20. As the central government department responsible for administration of the Certificate, Finance has provided sound high-level guidance for FMA Act agencies on the Certificate process. This has included articulation of reporting requirements and establishment of reasonable confidence as the basis of Chief Executive certification. Finance's Certificate guidance places the Certificate within the context of the governance arrangements, policies and procedures normally used by agencies to implement the financial management framework.

21. In general, the audited agencies' Certificate processes were appropriate in light of each agency's size, financial activities and financial management arrangements. Key aspects of these agencies' Certificate processes were self-assessments of compliance by responsible officials and/or business areas; internal audit activity covering compliance with the financial management framework; audit committee involvement; and targeted remediation activities to address identified non-compliance.

22. The main area for improvement identified by the audit concerned the need for more targeted quality assurance activity by agencies in regard to compliance with the financial management framework. Self-assessments by agency officials are unlikely of themselves to consistently provide a high level of assurance to an agency's Chief Executive, and audits undertaken by the ANAO show there can be misunderstanding of the requirements of the framework by agency officials.¹² Well-targeted quality assurance activity, focusing on higher risk, more significant, or high volume transactions in the agency's context, complements self-assessments, thereby helping to reinforce financial management compliance and provide greater confidence in Certificate results. Such quality assurance activities commonly involve risk-based reviews of some financial transactions, tests of key internal controls and review work of business areas such as the central procurement unit.

¹² For example, ANAO Audit Report No. 11 2010–11 *Direct Source Procurement* found considerable non-compliance with the requirements of the FMA Regulations, including the Commonwealth Procurement Guidelines (CPGs), which had not been identified by the audited agencies' Certificate processes. The report observed that one of the reasons for unidentified non-compliance was delegates' awareness of the relevant requirements, including the CPGs.

23. The ANAO received strong positive feedback from external members of audit committees, CFOs and the audited agencies in regard to the impact of the Certificate process. For example, 90 per cent of CFOs that responded to the ANAO survey agreed the Certificate process had helped improve their agency's compliance with the financial management framework; 80 per cent agreed the Certificate process had helped improve the understanding of agency staff of financial management responsibilities; and 83 per cent agreed the Certificate process had assisted in strengthening internal controls in their agency. At a whole-of-government level, as a result of issues identified through Certificate reporting, Finance has revised some financial management framework requirements and improved guidance material, which has contributed to reductions in non-compliance. These findings illustrate that the Certificate process has helped improve compliance with the financial management framework. In particular, the necessity for Chief Executives to be attentive to the range of requirements covered by the Certificate has flowed through to heightened focus on these requirements by agency staff, and improvements in internal controls.

24. Now that the Certificate process has matured, there is an opportunity for Finance and agencies to consolidate on the improvements made to date. As mentioned above, reported non-compliance is concentrated in a few key areas, particularly relating to the commitment of public money. Effective and collaborative effort is required from Finance and agencies to support the sound application of requirements in these areas by agency officials, such as through more targeted training and guidance. In this context, the Australian Government has recently commenced the *Commonwealth Financial Accountability Review*, which also presents an opportunity to consider means to address systemic non-compliance issues identified in Certificate reporting. At an agency level, where core Certificate processes and financial management arrangements are in place, agencies should also consider the opportunities for efficiencies in their processes having regard to the nature of the agency, its financial activities, the risks of non-compliance and its potential consequences.

Better practice

25. Better practice suggestions for agencies' Certificate processes, presented on pages 28–31, are based on audit findings at the four auditees, and feedback provided by external members of audit committees. The suggestions cover:

- understanding the requirements of the financial management framework, how they are implemented by the agency, and the associated compliance risks;
- using a risk-based approach to collecting the compliance information which will form the basis of Certificate results;
- quality assuring compliance information;
- integrating internal audit work and the Certificate process;
- supporting audit committee oversight;
- effective remediation and education practices; and
- periodically reviewing the effectiveness and efficiencies of the approach employed to avoid excessive resources being devoted to the assurance provided by the process.

Key findings

Administration of the Certificate of Compliance Process by Finance (Chapter 2)

26. Finance provides guidance and support to agencies on the Certificate process and application of the financial management framework through a number of different mechanisms, including written guidance and direct support to agencies in response to requests for advice. From the ANAO's CFO survey, a large majority of CFOs were positive or neutral on the adequacy of Finance's guidance and support.

27. Finance has provided suitable and generally timely high-level written guidance on the Certificate process through Finance Circulars, and less by way of intermediate-level written guidance on common issues encountered by agencies, and the methods they apply, in undertaking the Certificate process. The approach of Finance is consistent with the Australian Government's devolved system of financial management, which requires Chief Executives to establish financial management arrangements suitable to their individual circumstances that are consistent with legislation and government policy.

28. In response to a recommendation in the *Review of Operation Sunlight: Overhauling Budget Transparency*, Finance has tabled in Parliament the 2008–09 and 2009–10 *Certificate of Compliance Report to the Parliament*. The reports to the Parliament have discussed overall trends in non-compliance; and, presented instances of non-compliance by six categories (or types of requirements) and

Australian Government portfolio grouping (for example, Treasury portfolio group). Following receipt of feedback on the first report to Parliament, the second report to Parliament provided context on the extent of financial transactions in agencies, and also included more non-compliance trend data. In addition to informing stakeholders on compliance requirements and trends, the report to Parliament helps provide ongoing focus on key risk areas.

29. Finance delivers a general training program covering the financial management framework (Budget and Financial Essentials (BFE)), and has also provided some targeted training and information sessions to directly address issues identified in the Certificate process. Several factors suggest scope for strengthened coordination and provision of financial management training across government. Specifically: the consolidation of instances of non-compliance reported through the Certificate in a few areas; the room for improvement in the coverage of, and agency attendance at, Finance-run financial management training;¹³ and the large number of agency-run training programs. Options in this regard include more targeted training programs addressing key risk areas, dissemination of sound agency-level training approaches or modules, and exploration of e-learning options.

30. Actions undertaken by Finance to continuously improve the financial management framework and associated guidance, as a result of issues identified through the Certificate, have been focused on refinements in particular areas of difficulty, and on reducing the level of non-compliance. External members of audit committees consulted as part of this audit gave strong endorsement to further consideration of how the financial management framework should be changed as a result of systemic issues identified by the Certificate process, and to achieve simplification. In this context, in December 2010 the Finance Minister announced that Finance is undertaking the *Commonwealth Financial Accountability Review*, with the objective of exploring options for modernising and improving the Commonwealth's financial framework.

¹³ Over half of the CFOs that responded to the ANAO survey have attended, or had staff attend, Finance's BFE training and other ad hoc financial management training. By implication, staff from many agencies' CFO areas had not attended.

Agencies' Certificate of Compliance processes (Chapter 3)

Agencies' Certificate processes

31. The approaches adopted by Chief Executives to provide reasonable assurance that officials are complying with the financial management framework, and to complete their agency's Certificate, should be fit-for-purpose, having regard to factors such as the size of the agency, its financial activities, financial management arrangements and compliance history.

32. Each of the audited agencies had undertaken some form of mapping of financial management framework requirements prior to or following introduction of the Certificate. The three larger agencies with more devolved financial management arrangements had also assessed: the responsibilities of different business areas in relation to the various compliance requirements; the internal controls in operation in support of compliance; and information needed from business areas to provide adequate assurance the area was compliant with the financial management framework.

33. Key mechanisms used by AGD, ATO and CDPP to assess compliance with the financial management framework, and complete their Certificate, were sign-offs by responsible officials from different business areas (including through completion of surveys/questionnaires); separate reporting of non-compliance statistics by business areas with specific framework responsibilities (ATO only); and sample testing of financial transactions (CDPP only). As a small agency with centralised financial management arrangements, CGC's Certificate was completed by the central finance team, based on their close involvement in relevant financial processes throughout the year. The primary methods used by each agency to assess compliance were appropriate in light of the agency's particular characteristics.

34. For three agencies (AGD, ATO and CDPP), internal audit had recently undertaken audits of specific aspects of the financial management framework; and considered the implications of its audit findings in terms of compliance with financial management framework requirements and Certificate reporting. These internal audit activities complemented self-assessments by agency officials. Reflecting the size of the agency, CGC did not have an internal audit function in place. The smaller agencies in the audit (CDPP and CGC) both noted that they placed a certain amount of reliance on the external audit of their financial statements (by the ANAO) to identify potential control weaknesses and non-compliance.

35. Consistent with Finance’s Certificate guidance, the audit committee at each of the agencies assessed and provided advice on the agency’s Certificate prior to Chief Executive sign-off. At AGD and ATO, regular updates on the Certificate were provided to the audit committee throughout the year. This assisted committee members to understand issues, influence activities, monitor remedial action and provide relevant and timely advice.

36. A key aspect of the Certificate process is assessing the underlying causes of non-compliance, with a view to taking appropriate remedial action. Providing feedback on an agency’s Certificate results to staff also underlines the agency’s experience and assists in reinforcing sound practices. The remedial actions of the audited agencies were generally appropriate. Actions taken included changes in agency policies and procedures, and targeted training for staff where particular knowledge gaps were identified.

Accuracy of Certificate results

37. ANAO testing to check the accuracy of the audited agencies’ Certificate results for 2008–09,¹⁴ identified a small number of instances of under reporting of non-compliance in all of the four audited agencies. The areas of under reported non-compliance in one or more agencies related to the approval of spending approvals by authorised officials, the use of drawing rights, the transfer of leave liabilities between agencies, misuse of credit cards and prompt banking of public money. Testing results highlighted benefit in agencies obtaining data on non-compliance from a variety of sources, and based on an assessment of risks, periodically testing key internal controls to determine if they are working as expected.

38. The ANAO also reviewed instances of non-compliance reported by the agencies for 2008–09 to ascertain whether they had been correctly reported as non-compliant.¹⁵ Testing found a small number of instances of over reporting of non-compliance in one agency and some incorrect classification and

¹⁴ The ANAO reviewed a sample of financial transactions and other relevant evidence, to ascertain compliance for specific financial management framework requirements. Where sampling of financial transactions was used to assess compliance, the ANAO reviewed 60 financial transactions for AGD and ATO, and 35 for CDPP and CGC.

¹⁵ The ANAO reviewed supporting documentation for a sample of (or all) reported instances of non-compliance. CGC did not report any non-compliance for 2008–09 financial year and so was not involved in this part of the audit. Where sampling was used, sample sizes were the same as those used for the testing of financial transactions.

recording of actual non-compliance by another. These results illustrated benefit in agencies quality assuring Certificate results, particularly where non-compliance is identified by business areas.

Design and impact of the Certificate of Compliance process (Chapter 4)

39. A key design feature of the Certificate process is the requirement that agency Chief Executives certify to their portfolio minister the agency's compliance with specified financial management framework legislation and policy. Consultation undertaken during the audit found this design feature of the Certificate process has been crucial to its overall impact. As mentioned above, Chief Executive sign-off on compliance with the range of requirements covered by the Certificate, has led to strengthened focus on these requirements by agency staff, and improvements in internal controls. Provision of the Certificate to relevant Ministers, and reporting of results by Australian Government portfolio grouping in the annual report to the Parliament, also reinforce the importance of compliance with the financial management framework.

40. Certificate reporting requirements have been set by government and cover compliance with a large number of legislative and policy requirements. Details of all identified instances of non-compliance with the legislative and policy requirements must be reported, regardless of materiality. The requirements covered by the Certificate are highly variable in nature. They range, for example, from fraud control planning, through approval of spending proposals, and application of government policy for procurement and grants administration, cost recovery and foreign exchange risk management. The potential consequences of non-compliance are also variable, depending on the specific requirement and circumstances in question. The Certificate has thus led to a focus on compliance and strengthening of controls for some requirements which, on a risk basis, may have received less attention. In this regard, external audit committee members advised that many instances of non-compliance are relatively minor in terms of their implications. In light of this feedback, there is an opportunity for Finance to obtain agency views on current requirements which may be modified or no longer need to be mandated, thus streamlining administration and the Certificate process at the same time.

41. In addition to certification of financial management compliance, the Certificate requires Chief Executives to state whether their agency is operating

within the agreed resources for the current financial year, and has adopted appropriate management strategies for all currently known risks that could affect the financial sustainability of the agency. Senior Executives interviewed as part of the audit indicated that the focus of the Certificate on financial sustainability was in response to ministers' concerns over agencies not managing their budgets effectively and frequently requesting additional funding. For 2009–10, 20 agencies reported financial sustainability issues through the Certificate. Matters raised included difficulties encountered in absorbing the costs of new budget initiatives for which departmental funding had not been provided, difficulties in achieving savings targets, and circumstances which led the agency to seek approval of expected operating losses by the Minister for Finance and Deregulation. From this reporting, the financial sustainability section of the Certificate has provided agency Chief Executives with an opportunity to engage their Minister and Finance on matters concerned with financial sustainability.

42. As previously mentioned, under Certificate guidance Chief Executives should ensure their agency has sufficient processes and controls in place to provide reasonable confidence that officials are complying with the legislative and policy requirements covered by the Certificate. Now that the Certificate process has matured and where systems and processes are in place, agencies should also consider the opportunities for efficiencies in their processes, having regard to the nature of the agency, its financial activities, the risks of non-compliance and its potential consequences.

43. Analysis of reported instances of non-compliance over time indicates that agencies first improved identification of non-compliance, and then worked with some success to address problem areas. There is also correlation between changes made by Finance to financial management framework requirements and guidelines, and reductions in non-compliance. Nevertheless, there remain a significant number of instances of non-compliance in some key areas, particularly where there are a large number of responsible officials (such as approval of spending proposals). This suggests that continued effort is required by Finance and agencies to support staff knowledge of relevant financial management framework requirements and how to meet them.

Summary of agencies' responses

44. The agencies' responses to the report recommendation are included in the body of the report, directly following the recommendation. Agencies' general comments on the audit report are contained in full in Appendix 3. A summary of the responses is provided below.

Department of Finance and Deregulation

45. Finance supports the recommendation that Finance strengthen coordination and provision of training on the financial management framework and Certificate of Compliance (Certificate) process, including by focusing Finance-run training on the key risk areas of the framework which account for most non-compliance. Training is an important part of Finance's strategy to improve understanding of, and compliance with, the financial management framework.

Attorney-General's Department

46. The Attorney-General's Department (AGD) agrees with the overall findings of the ANAO audit report on *Management of the Certificate of Compliance Process in FMA Act Agencies*, and will continue to undertake ongoing improvements to the internal Certificate of Compliance processes in response to these findings.

Australian Taxation Office

47. The Australian Taxation Office (ATO) recognises the important role of the Certificate of Compliance (COC) in improving compliance with the Australian Government's financial management framework. We pride ourselves in having comprehensive and detailed processes to detect, identify, and report financial framework breaches in our COC and are pleased that this is reflected in the audit report.

48. We consider the report to be a fair representation of our experience with the COC process and we support the Better Practice section of the report, which reflects ATO's existing processes and approach. From a broader Commonwealth perspective, the report also provides useful reflections about the extent to which agencies understand and manage their financial risks. Although the COC is only one of the tools by which an agency informs itself about financial risks and compliance with the Commonwealth financial

framework, we envisage that agencies who adopt the better practice model will see improvements in their financial management practices generally.

Office of the Commonwealth Director of Public Prosecutions

49. The CDPP welcomes the ANAO report, and agrees with the ANAO's recommendation in relation to the provision of training by the Department of Finance and Deregulation. Prior to this ANAO audit, the CDPP identified areas of reporting that could be subject to inconsistency across the Commonwealth, and agrees that better guidance and training would improve the quality of information reported to key stakeholders.

50. Following this audit, the CDPP has implemented a number of initiatives:

- re-evaluated internal controls;
- strengthened quality assurance reviews over testing results from State offices;
- strengthened Audit Committee oversight of the process; and
- implemented follow-up of remedial actions.

Commonwealth Grants Commission

51. The report and the suggestions for better practice in the management of the Certificate of Compliance process should encourage improvements to agencies' frameworks for the preparation of the Certificate.

Recommendation

Recommendation No. 1

Paragraph 2.41

The ANAO recommends that the Department of Finance and Deregulation strengthen coordination and provision of training on the financial management framework and Certificate of Compliance, including by focusing Finance-run training on the key risk areas of the financial management framework which account for most non-compliance.

Agencies' responses: *Agreed.*

Better Practice

The following better practice suggestions for agencies' Certificate process are directed towards the central area in the agency responsible for coordinating the process. Each agency should adopt Certificate processes that are fit-for-purpose given the agency's size, financial activities, financial management arrangements, compliance history, and the associated risks. Agencies should assess the extent that suggestions are relevant, appropriate and cost-effective in light of their circumstances.

Understand financial management framework requirements and how they are implemented

- Have a clear understanding of the various elements of the financial management framework, and the specific requirements which agencies are required to comply with under the framework.
- Review how the agency applies financial management framework requirements through mechanisms such as delegations, policies and procedures. Ensure policies and procedures are disseminated to, or accessible by, affected staff.
- Outline agency responsibilities and accountabilities for the various elements (or specific requirements) of the financial management framework, and relate these to business areas, office holders and/or staff designation levels.
- Use messages from the Chief Executive and other senior staff to reinforce the importance of compliance with the financial management framework.
- Keep abreast of changes to the financial management framework, communicate changes as necessary, and consider the implications for financial management and Certificate processes. This could include attendance at CFO Forums, monitoring Finance notices, and timely communication with key agency stakeholders on changes to requirements or Finance guidance. Seek Finance advice to clarify any uncertainties.

Assess internal controls supporting compliance with financial management framework requirements

- Periodically assess the integrity of internal controls supporting compliance with the financial management framework. For example, assess the appropriateness of delegated responsibilities and whether delegates have access to adequate guidance and support to understand and properly perform their role.

- Use risk assessment of internal controls to determine the likelihood and potential consequences of existing systems failing to prevent or detect financial management framework departures.

Determine approach to collecting Certificate information

- Consider the information that should be gathered as part of the Certificate process to provide reasonable assurance on compliance with the financial management framework. Where appropriate, draw on existing assurance and monitoring mechanisms to collect data (for example, management reporting or internal audits), thereby strengthening integration of the Certificate process with other business processes.
- Design the Certificate process to focus on areas where assessment of internal controls has found the risks of non-compliance, and/or the potential consequences, are relatively high. Pay particular attention to any problem areas identified previously.
- Choose an appropriate mix of approaches to gather Certificate data and try to avoid over reliance on one information source. Potential options include: self-assessment surveys completed by office holders, delegates or other staff with financial management responsibilities; provision of non-compliance data captured by business areas with specific financial management framework responsibilities; financial or other system based checks; sample testing of financial transactions; and targeted reviews of internal controls.
- When using self-assessment surveys, tailor questions according to the responsibilities of different business areas and/or officials. Use straightforward language in surveys and make guidance material readily available to staff when completing surveys.
- Relate the regularity of Certificate data collection to the agency's size, financial activities, financial management arrangements and the associated risks.
- Align the timing of completion of the Certificate with the agency's financial statements process to avoid inconsistencies and enable consideration of whether breaches of the financial framework, if any, impact the financial statements.

Quality assure compliance information

- Quality assurance processes should have their primary focus on transactions which traditionally have been higher risk, more significant, or high volume in the agency's context.

- Undertake selective quality assurance of information provided by business areas or officials to help ensure its accuracy prior to completing the annual Certificate.
- Provide feedback on the findings of quality assurance of compliance information to support continuous improvement and consistency in data collection approaches.

Use of internal audit

- Share Certificate results with internal audit and encourage targeted internal audit activity. Potential options include internal audit testing: the operation of key internal controls; compliance with specific requirements (for example, approval of spending proposals) for a sample of financial transactions; or specific business areas based on past performance.
- Support inclusion in relevant internal audit reports of the implications of audit findings for the Certificate. Report non-compliance identified through internal audits in the Certificate.

Audit committee oversight

- Provide regular updates to the audit committee on the Certificate process (covering its design, conduct, results and follow-up actions) to assist committee members understand issues, influence activities, monitor remedial action and provide timely and relevant advice.
- Encourage the audit committee to guide formulation of the internal audit work program to address key risks with respect to application of the financial management framework and the Certificate process.
- Draw on and respond to any audit committee advice on the implications of internal audit findings for internal controls and Certificate reporting, and on effective Certificate processes at other agencies.

Remediation and education

- Review trends in non-compliance over time at agency-wide and business area levels to inform remediation strategies. Understand and address the underlying causes of non-compliance, including any systemic issues.
- Use analysis of Certificate results to identify staff knowledge gaps or business areas experiencing particular difficulties, and focus staff training and development in these areas.
- Monitor the areas from which staff take part in training and awareness programs, and encourage participation where required. Consider mandating tailored training or awareness programs to support staff commencing to

exercise a spending delegation, drawing rights delegation or responsibility for cost centre management.

- Review the implementation of remediation strategies, potentially as part of an internal audit.

Review the effectiveness and efficiency of the Certificate process

- Periodically review the effectiveness and efficiencies of the approach employed by the agency for the Certificate to avoid excessive resources being devoted to the assurance provided by the process.
- Seek feedback from staff involved in the Certificate process, and continuously improve the process.
- Monitor whole-of-government compliance trends reported annually by Finance to identify possible issues. This should inform internal audit and process review activity.

Audit Findings

1. Introduction

This chapter provides the background to the audit, including on the Certificate of Compliance process. It also outlines the audit approach.

Background

1.1 During the late 1990s the Australian Government implemented a series of reforms to the financial and budgetary framework of the Commonwealth designed to improve the operational and financial management performance of public sector agencies. As part of this reform process, new legislation including the *Financial Management and Accountability Act 1997* (FMA Act) and the *Financial Management and Accountability Regulations 1997* (FMA Regulations) was enacted. The current financial management framework is made up of this legislation and complementary financial management policies in areas such as fraud control planning, procurement, grants administration, cost recovery and foreign exchange risk management.

1.2 The financial management framework is based on a devolved system of financial management, under which Australian Government agencies are responsible for delivering government outcomes and programs, funded by Parliamentary appropriations. The framework includes a principal requirement that Chief Executives manage the affairs of their agency in a way that promotes the proper use of the Commonwealth resources for which they are responsible.¹⁶

1.3 The financial management framework has provided flexibility to agencies to establish financial management arrangements suitable to their individual circumstances that are consistent with legislation and government policy. In this context, over time there has been evidence of departures from the requirements of the financial management framework revealed by agencies' own processes and various audit reports.

¹⁶ *Financial Management and Accountability Act 1997*, Section 44. In this section, proper use of resources means efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth.

Certificate of Compliance

1.4 In order to improve the focus by agencies on their compliance with the requirements of the financial management framework, the Australian Government introduced in 2006–07 the Certificate of Compliance (Certificate) process for FMA Act agencies.¹⁷

1.5 The purpose of the Certificate is to improve compliance with the Australian Government’s financial management framework and to ensure that Ministers (and Presiding Officers in the case of Parliamentary departments) are kept informed of compliance issues.¹⁸

1.6 The Certificate process requires the Chief Executive of an FMA Act agency to certify, having regard to advice provided by the agency’s internal control mechanisms, management and the audit committee, the agency’s compliance during the previous financial year with:

- the FMA Act;
- the FMA Regulations;
- *the Financial Management and Accountability (Finance Minister to Chief Executives) Delegation 2010*, as amended from time to time;
- the Australian Government’s foreign exchange risk management requirements;
- the legal and financial requirements for the management of Special Accounts;¹⁹ and
- selected financial management policies of the Commonwealth.

1.7 The Certificate also requires Chief Executives to state whether their agency is operating within the agreed resources for the current financial year, and has adopted appropriate management strategies for all currently known risks that may affect the financial sustainability of the agency.

¹⁷ A separate process applies to entities under the *Commonwealth Authorities and Companies Act 1997*. For further information, see Finance Circular 2008/05: *Compliance Reporting – CAC Act Bodies*. Available at: <http://www.finance.gov.au/publications/finance-circulars/2008/05.html>.

¹⁸ Department of Finance and Deregulation, *2008–2009 Certificate of Compliance Report to the Parliament*, December 2009. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

¹⁹ A Special Account is an appropriation mechanism that sets aside amounts within the Australian Government Consolidated Revenue Fund for expenditure for special purposes.

1.8 Chief Executives are required to provide a completed Certificate to their portfolio minister by 15 October each year. Certificates are also copied to the Minister for Finance and Deregulation (Finance Minister).

1.9 In order for Chief Executives to certify compliance with the financial management framework it is not intended that all actions and transactions of an agency be checked. However, it is expected that Chief Executives will ensure the agency has sufficient processes and controls in place to provide reasonable confidence that officials are complying. Where non-compliance is identified, details of all known instances of non-compliance with requirements must be provided through the Certificate, irrespective of materiality, focusing on remedial measures that are being taken to improve agency compliance.²⁰

Role of the Department of Finance and Deregulation

1.10 Finance is responsible for administration of the financial management framework and the Certificate process at a whole-of-government level. Finance undertakes four broad tasks in relation to the Certificate process:

- provision of written guidance and day-to-day support to agencies on Certificate requirements and the financial management framework;
- preparation of the aggregate analysis of Certificates and reporting on outcomes to key stakeholders;
- provision of follow-up-advice and training to agencies in support of agency remediation strategies; and
- development of amendments to the legislative framework and written guidance, to address whole-of-government issues identified in the Certificate process.

Outcomes of the Certificate process to date

1.11 Four Certificate cycles have now been completed, for 2006–07, 2007–08, 2008–09 and 2009–10. Reported instances of non-compliance for each year are shown in Table 1.1.

²⁰ Department of Finance and Deregulation, Finance Circular No. 2009/06, *Certificate of Compliance – FMA Act Agencies*, 11 August 2009, pp. 2 and 9.

Table 1.1

Certificate of Compliance results

	2006–07	2007–08	2008–09	2009–10
Total number of non-compliance instances	11 852	32 648	14 961	17 017
Number of agencies with instances of non-compliance	76	83	85	86
Number of agencies with no non-compliance	16	21	19	17
Total number of agencies	92	104	104	103

Source: Data provided by the Department of Finance and Deregulation.

1.12 A large majority of reported instances of non-compliance since the introduction of the Certificate have been concentrated in three key areas of the FMA Act and FMA Regulations: the commitment of public money; the use of drawing rights;²¹ and banking and investment by agencies.

Certificate of Compliance Report to the Parliament

1.13 The *Review of Operation Sunlight: Overhauling Budget Transparency*, completed by the former Senator Andrew Murray, recommended that Finance prepare an aggregate analysis of all Chief Executive annual Certificates and advise agencies, the Ministry and the Parliament on overall trends. In response to the recommendation, Finance has tabled in Parliament the 2008–09 and 2009–10 *Certificate of Compliance Report to the Parliament*. The reports explain the Certificate process, key financial management framework requirements, and, associated roles and responsibilities of agencies and Finance. The report to Parliament presents reported instances of non-compliance against six key categories of financial requirements and by agency portfolio group, and discuss trends in non-compliance.

²¹ 'Drawing rights are a statutory control over who may draw upon appropriations and make payments, and they allow for conditions and limits to be set by the Finance Minister (or the Finance Minister's delegates) in relation to those activities.' Department of Finance and Deregulation, *2008–09 Certificate of Compliance Report to the Parliament*, December 2009. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

Previous audits

1.14 Over the past decade there have been a number of ANAO performance audits that have identified issues in relation to agencies' application of the financial management framework:

- Audit Report No. 15 of 2004–05, *Financial Management of Special Appropriations*, concluded that there were significant shortcomings in the financial management of various Special Appropriations.
- Audit Report No. 22 of 2004–05, *Investment of Public Funds*, identified more than \$566 million in unauthorised investments. The report identified FMA Act agencies who had been non-compliant with Sections 39 (Investment of public money) and 48 (Accounts and records) of the FMA Act because they had not obtained the required authorisation before investing public monies and had not maintained adequate records of the authorisation or investment strategy.
- Audit Report No. 28 of 2005–06, *Management of Net Appropriation Agreements*, concluded there were widespread shortcomings in the administration of net appropriation arrangements.
- More recently, Audit Report No. 11 2010–11, *Direct Source Procurement*, identified a range of shortcomings in relation to agencies' application of the FMA Regulations and the *Commonwealth Procurement Guidelines*.

1.15 The ANAO publishes two reports annually addressing the outcomes of its financial statement audits of public sector entities. These audits have commented on the positive impact of the Certificate with respect to agency processes and staff awareness of financial and legislative compliance requirements.

Audit approach

1.16 The objective of the audit was to assess the effectiveness of annual Certificate of Compliance processes for FMA Act agencies.

1.17 Three high-level audit criteria were used to form a conclusion against the audit objective. The criteria considered:

- Finance's administration of the Certificate process at a whole-of-government level;
- selected agencies' annual Certificate processes; and

- the design and impact of the Certificate process.

1.18 The audit was a cross-portfolio review. It examined annual Certificate processes within four selected agencies: the Attorney-General's Department (AGD), the Australian Taxation Office (ATO), the Commonwealth Grants Commission (CGC) and the Office of the Commonwealth Director of Public Prosecutions (CDPP).²² Agencies were selected to provide a cross-section of FMA Act agencies by size and financial functions. The audit also reviewed the management and support of the Certificate process by Finance. Table 1.2 outlines the role, number of staff and total expenses and revenues for the agencies included in the audit, excluding Finance.

²² The audit focused on the Certificate process for the financial year ended 30 June 2009.

Table 1.2

Summary information on AGD, ATO, CGC and CDPP

Agency	Role and staffing	Total expenses and revenues 2009–10 ²³
AGD	AGD serves the people of Australia by upholding the rule of law and providing essential expert support to the Australian Government in maintaining and improving Australia's system of law and justice, its national security, criminal justice and emergency management policy and systems, natural disaster relief and administration of Commonwealth Territories. <i>Total staffing in 2009–10: 1554.</i>	Total expenses for 2009–10 were \$861 million.
		Total revenues for 2009–10 were \$308 million.
ATO	The role of the ATO is to effectively manage and shape administrative systems that fund public goods and services and safeguard retirement income for the wellbeing of Australians. The ATO is the Australian Government's principal revenue collection agency. It is a large payer of government funds, administers major aspects of Australia's superannuation system and is the custodian of the Australian Business Register. <i>Total staffing in 2009–10: 21 457.</i>	Total expenses for 2009–10 were \$18 817 million.
		Total revenues for 2009–10 were \$263 307 million.
CGC	The role of the CGC is to provide advice to the Commonwealth Government to enable informed Government decisions on fiscal equalisation between the States and Territories through advice and recommendations on the distribution of GST revenue. <i>Total staffing in 2009–10: 41.5.</i>	Total expenses for 2009–10 were \$6.7 million.
		Total revenues for 2009–10 were \$7.3 million.
CDPP	The role of the CDPP is to prosecute offences against Commonwealth law, and to confiscate the proceeds of Commonwealth crime. <i>Total staffing in 2009–10: 609.</i>	Total expenses for 2009–10 were \$102 million.
		Total revenues for 2009–10 were \$111 million.

Source: Agencies' 2009–10 annual reports.

1.19 Audit fieldwork at each of the audited agencies involved documentation reviews and interviews with relevant staff. The audit focused on the first three cycles of the Certificate within selected agencies, with detailed testing undertaken on the agencies' Certificate results for 2008–09.

²³ Total expenses and revenues includes both departmental and administered items (where applicable).

1.20 The audit included a survey of the Chief Finance Officers (CFOs) of FMA Act agencies on the Certificate process. Responses were received from 70 agencies (a 67 per cent response rate). Of the agencies that responded, 29 were classified as small agencies (up to 249 employees), 20 were classified as medium agencies (250 - 999 employees) and 21 were classified as large agencies (over 1000 employees). The questions asked in the survey are provided at Appendix 1.

1.21 Additionally, interviews were held with four experienced external members of FMA Act agency audit committees to obtain their views on the Certificate process, and related financial management framework matters.

1.22 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of approximately \$441 000.

Report structure

1.23 Further to this introductory Chapter, there are three other Chapters in the Audit Report:

- Chapter 2 examines the effectiveness of Finance’s administration of the Certificate process at a whole-of-government level;
- Chapter 3 examines the audited agencies’ approaches to undertaking the Certificate, and assesses the accuracy of their reported Certificate results for 2008–09; and
- Chapter 4 considers the design and impact of the Certificate process.

2. Administration of the Certificate of Compliance Process by Finance

This chapter examines the effectiveness of Finance's administration of the Certificate process for FMA Act agencies at a whole-of-government level. It includes an examination of guidance and support activities undertaken by Finance related to the Certificate.

Introduction

2.1 As the central agency of the Australian Government responsible for maintaining and improving the financial management framework, Finance has responsibility for administration of the Certificate process at a whole-of-government level; and provision of guidance and support to agencies on application of Certificate and financial management requirements.

2.2 The *2009–2010 Certificate of Compliance Report to Parliament* outlined four broad tasks undertaken by Finance related to administration of the Certificate:

- the provision of written guidance and day-to-day support to agencies on Certificate requirements and the financial management framework;
- aggregate analysis of Certificates and reporting on outcomes to key stakeholders;
- the provision of follow-up advice and training to agencies in support of agency remediation strategies; and
- the development of amendments to the legislative framework and written guidance, as necessary, to address whole-of-government issues identified in the Certificate process.²⁴

Written guidance and day-to-day support

2.3 Finance provides guidance and support to agencies on the Certificate and the financial management framework through a number of different mechanisms, including:

²⁴ Department of Finance and Deregulation, *2009–2010 Certificate of Compliance Report to the Parliament*, December 2010, pp. 17-19. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

- written guidance, such as Finance Circulars and the Financial Management Guidance Series;
- provision of advice to agencies in response to requests received via emails, letters or by phone;
- meetings with agency staff; and
- CFO Forums.

Finance's written guidance

2.4 For each round of Certificate reporting Finance has issued written guidance for agencies detailing reporting requirements:

- Finance Circular 2006/08: *Certificate of Compliance – FMA Act Agencies* issued on 9 October 2006 for the 2006–07 reporting period;
- Finance Circular 2008/04: *Certificate of Compliance – FMA Act Agencies* issued on 27 May 2008 for the 2007–08 and 2008–09 reporting periods; and
- Finance Circular 2009/06: *Certificate of Compliance – FMA Act Agencies* issued on 11 August 2009 for the 2009–10 reporting period.

2.5 The most recent Circular articulated government policy on the information that is required to be certified and reported through an agency's Certificate; and on who may sign an agency's Certificate,²⁵ when the Certificate should be submitted, and to whom. The Circular also outlined: how machinery of government changes should be treated by Chief Executives when preparing a Certificate; separate reporting requirements not covered by the Certificate; and potential alignment between the Certificate and an agency's financial statements.

2.6 The Circular included guidance to assist completion of the Certificate. The guidance provided high-level advice on: agency governance arrangements in support of financial management compliance (such as the role of the audit committee); accountability for compliance; reporting of instances of non-compliance; the basis of Chief Executive sign-off (including the concept of reasonable confidence); and on the specific requirements to be reported

²⁵ That is, the agency Chief Executive or Acting Chief Executive only.

against. Of particular note is that the Circular indicated that compliance is not based on materiality. That is, instances of non-compliance with no or immaterial financial consequences must still be reported.

2.7 Finance has provided appropriate high-level guidance for FMA Act agencies on the Certificate process. This has included articulation of reporting requirements and establishment of reasonable confidence as the basis of Chief Executive certification. Finance's Certificate guidance places the Certificate within the context of the governance arrangements, policies and procedures normally used by agencies to implement the financial management framework.

2.8 Finance has provided less by way of intermediate-level written guidance, such as providing examples of agencies' arrangements for undertaking the Certificate process, or answers to frequently asked agency questions (see further discussion below). The approach to written guidance adopted by Finance is consistent with the Australian Government's devolved system of financial management, which requires Chief Executives to establish financial management arrangements suitable to their individual circumstances that are consistent with legislation and government policy.

2.9 With limited levels of intermediate guidance, agencies have developed their own Certificate processes, often with limited insight on how other agencies are approaching the task, or of potential better practice approaches. Consistent with devolution, such implementation arrangements have resulted in agencies designing approaches to suit their individual circumstances. Nevertheless, external members of audit committees advised they have also caused inefficiencies, as many different agencies independently designed similar Certificate processes from the ground-up.

Finance's direct support

2.10 In administering the Certificate process Finance provides direct support to agencies in response to individual requests for advice. Agencies can seek direct advice from Finance's Financial Management Group (FMG) on the Certificate and the financial management framework through a dedicated email address, via letters, meetings and over the telephone.

2.11 Finance advised that a formal response to all requests for advice is provided to agencies, except in some instances where the query is received over the telephone, is considered minor and able to be easily resolved. The majority of queries are received through email. Finance noted that they receive

on average half a dozen email queries a day on the Certificate or elements of the financial management framework; and that FMG seeks to provide consistent advice to those agencies that ask questions.

Agency feedback on Finance’s guidance and support

2.12 The CFO survey undertaken as part of this audit requested that CFOs provide information as to the sources of Finance assistance their agency had used or attended. Table 2.1 provides a summary of the responses received from CFOs.

Table 2.1

Agencies seeking Finance assistance

Sources of Finance assistance	Small agencies (Total: 29)	Medium agencies (Total: 20)	Large agencies (Total: 21)	All agencies (Total: 70)
	No.	No.	No.	No.
Finance Circulars	28	20	21	69
Regular CFO Forums	13	18	20	51
Special CFO Forum on Certificate	15	14	18	47
Direct advice	14	15	18	47
Presentations and workshops	13	12	16	41

Source: ANAO CFO survey.

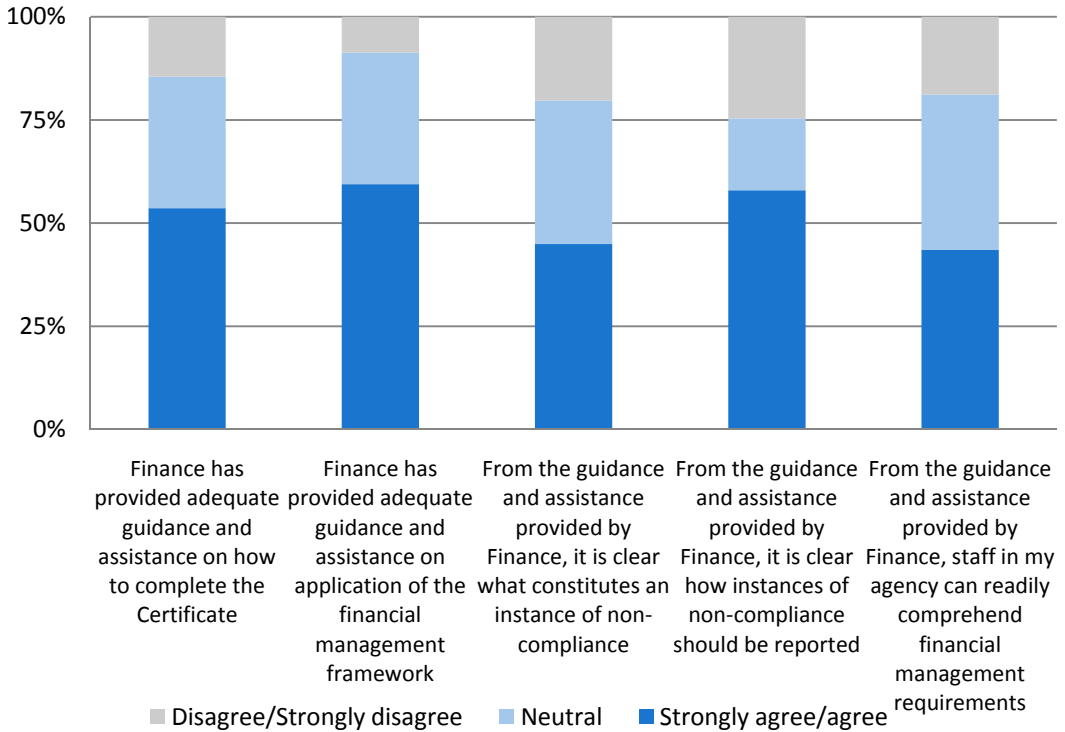
2.13 Each of the sources of assistance from Finance was used or attended by a substantial proportion of agencies that responded to the survey. Compared to larger agencies, CFOs of smaller agencies, and/or their staff, were less likely to attend Finance-run forums, presentations and workshops, and to obtain direct advice from Finance.

2.14 There were five questions in the CFO survey that related to the quality of guidance and assistance provided by Finance, with agencies required to indicate the extent to which they agreed or disagreed. The results are provided in Figure 2.1 below.²⁶

²⁶ Answers to these questions were similar for all agency sizes.

Figure 2.1

Agency feedback on Finance’s guidance and assistance



Source: ANAO CFO survey.

2.15 For the most part, feedback provided on Finance’s guidance and assistance was positive or neutral. The majority of agency CFOs agreed or strongly agreed as to the adequacy of guidance provided by Finance on the Certificate and the financial management framework. There was less agreement on how readily agency staff can comprehend financial management requirements, which reflects on the complexity of aspects of the financial management framework.

2.16 Finance adopts a deliberative approach to refining Certificate and financial management guidance, reflecting on changes to guidance, or new guidance, before its circulation through Finance Circulars or other publications. While this approach helps to prevent risks associated with immature advice, the mechanisms for change take time, with published guidance often lagging behind related issues.

2.17 Opportunities remain for Finance to refine the suite of guidance and assistance it provides on the Certificate and the financial management

framework. One area for exploration lies between the policy guidance provided through Finance Circulars, and individual responses to agency queries. For example, at the time of audit fieldwork, Finance had not systematically analysed whether there were consistent themes in the questions being asked by agencies that could be addressed at a whole-of-government level. Subsequently, in September 2010 Finance sent an email to CFOs which included answers to some frequently asked questions on the Certificate and specific non-compliance matters. Publication of answers to such frequently asked questions in a web-based forum would broaden their availability and ongoing accessibility.

Sharing information across agencies

2.18 The CFO survey results highlighted that for some agencies, particularly those of similar size, the process to administer the Certificate appeared to be quite similar. They also showed an appetite for the sharing of agency information on Certificate approaches.

2.19 These results, alongside feedback from external members of audit committees, suggest potential benefit in Finance identifying agencies that have a well-developed approach to the Certificate and/or useful documentation, and then facilitating the sharing of this information, where appropriate, across FMA Act agencies. This would support agencies seeking to continually develop and improve their Certificate process.

2.20 Chapter 3 of this report highlights the need for agencies to understand the breadth of requirements they are required to meet and report against under the Certificate. To this end, there is an opportunity for Finance to provide a summary of relevant legislative and policy requirements to agencies. This would help ensure that agencies do not mistakenly overlook financial management responsibilities, both in their Certificate reporting and in refining their internal controls.

Analysis of Certificates and reporting on outcomes

2.21 Finance reviews each agency's Certificate following their annual submission. As part of this process, based on agency descriptions of instances of non-compliance, Finance considers whether reported non-compliance has been classified correctly (generally against the correct section of the FMA Act or FMA Regulations) and whether the number of instances of non-compliance has been accurately tallied. Where Finance determines that a classification or recording error has occurred, the department liaises with the relevant agency

CFO and makes corrections to the Certificate. Once Finance is satisfied with the Certificates, it enters details of reported non-compliance into an internal database. This allows Finance to analyse and report overall non-compliance by category and by agency portfolio group.

2.22 Where corrections have been made to a Certificate, Finance does not require the agency Chief Executive to issue a revised Certificate. Consequently, it is important that the agency CFO consult with the agency Chief Executive and audit committee on any significant changes, to ensure all parties have a consistent understanding of the reported agency non-compliance.

Reporting outcomes to stakeholders

2.23 Finance provides advice to the Finance Minister on Certificate outcomes each year. Subsequently, the Finance Minister has written to portfolio Ministers on the results, suggesting they discuss results with their portfolio Chief Executives if they have not already done so.²⁷

2.24 At the conclusion of each Certificate reporting round, the Finance Secretary has written to all agency Chief Executives informing them of the overall results of the Certificate process. This letter has included the offer of ongoing assistance by Finance to help address issues identified in agency Certificates, and encouragement for Chief Executives to monitor follow-up strategies put in place to address non-compliance.²⁸

2.25 Finance has also convened a special forum for CFOs to discuss the aggregate outcomes of the Certificate process after each of the 2006–07, 2007–08, 2008–09 and 2009–10 reporting rounds. At these forums, Finance has presented an aggregate analysis of the results of the Certificate round and discussed trends in results over time.²⁹

²⁷ Department of Finance and Deregulation, *2009–2010 Certificate of Compliance Report to the Parliament*, December 2010, p. 18. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

²⁸ Department of Finance and Deregulation, *2008–2009 Certificate of Compliance Report to the Parliament*, December 2009. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

²⁹ Finance also briefs the Chairpersons of agency Audit Committees on the outcomes of the Certificate process. Department of Finance and Deregulation, *2009–2010 Certificate of Compliance Report to the Parliament*, December 2010, p. 18. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

Certificate of Compliance Report to the Parliament

2.26 The *Review of Operation Sunlight: Overhauling Budget Transparency* recommended that Finance prepare an aggregate analysis of all agencies' Certificates and advise agencies, the ministry and the Parliament on overall trends.³⁰

2.27 The then Australian Government agreed that there was benefit in Finance preparing an aggregate analysis, which would have the value of identifying the positive and negative aspects of agency compliance and overall trends. Additionally, the then Government agreed that the first report would be completed for the 2008–09 Certificate results and tabled in the Parliament.

2.28 Consistent with this commitment, aggregate results of the Certificate process have been published by Finance in the 2008–09 and 2009–10 *Certificate of Compliance Report to the Parliament*.

2.29 These reports have discussed overall trends in non-compliance; and presented instances of non-compliance by six categories (or types of non-compliance) and Australian Government portfolio grouping (for example, Treasury portfolio group). The six categories, which comprise elements of the financial management framework, are:

- the commitment of public money by agencies;
- the use of drawing rights by agencies;
- the proper use of financial resources;
- banking and investment by agencies;
- the maintenance of agency accounts and records; and
- miscellaneous requirements.

2.30 Following receipt of feedback from agencies on the first report to Parliament, Finance made some improvements to the second report. A brief section was introduced to provide some additional context on the volume of agency financial transactions, with some agency examples included. The intent was that reported non-compliance could then be considered in the context of the substantial number of agency financial activities that occur each year.

³⁰ Senator Andrew Murray, *Review of Operation Sunlight: Overhauling Budgetary Transparency*, June 2008, p. 84.

Further, the second report included more non-compliance trend data by category of non-compliance and agency portfolio group. In addition to informing stakeholders on compliance requirements and trends, the report to Parliament helps provide ongoing focus on key risk areas.

Follow-up advice and training

2.31 Finance has a formalised arrangement in place to meet each year with the CFOs of the eight agencies that have reported the highest number of non-compliance instances in their Certificate. Finance also meets on an exception basis with agencies that report other significant issues, such as credit card non-compliance. The two reports to the Parliament advised that these meetings provide CFOs with an opportunity to raise specific issues relevant to their agency, and to clarify their understanding of particular framework requirements where necessary. Finance further advised that in meeting with CFOs, the department sought to ensure that outcomes from the Certificate process received due attention by senior levels of management within agencies.

2.32 In choosing to meet with CFOs of the agencies that reported the highest level of non-compliance for the relevant financial year, more often than not Finance is likely to visit the largest agencies, which by their nature have the most financial activities and often record many instances of non-compliance. Now that the Certificate process has matured, a balanced methodology could be used to determine which agencies to engage in a more in-depth way through follow-up activity. A risk-based agency selection process would consider a range of factors such as:

- agency size;
- reputational risks;
- trends in non-compliance and potential systemic non-compliance;
- unusually high or low levels of reported non-compliance; and
- the outcomes of previous follow-up activity.

Training

2.33 Finance has implemented a general training program for the financial management framework. First run in 2005, the Budget and Financial Essentials (BFE) training program was developed to provide base knowledge of the Australian Government's financial management framework and budget

process, and enhance participants' awareness of their financial management and legislative responsibilities.³¹

2.34 The BFE training does not specifically cover the Certificate process, such as Certificate requirements and non-compliance hotspots, although in response to the 2008–09 Certificate, new training material on the commitment of public money was included in the program.

2.35 In August 2009, Finance prepared an evaluation report that reviewed the outcomes of the BFE program for the period March 2007 to June 2009.³² The report identified that 1471 participants from 112 entities (including 67 FMA Act agencies) attended the BFE program between March 2007 and June 2009. The report provided an overview of participant feedback on the course including whether it had assisted them in understanding their legislative and other obligations. Feedback from participants attending BFE training was generally positive, with over 70 per cent of participants stating the training was useful. Despite this, research undertaken by Finance suggested that a number of agencies, particularly those not based in Canberra, were unaware that BFE training existed and that cost and location were factors in agencies not attending the training.³³

2.36 Finance has also undertaken some targeted training to directly address issues identified in the Certificate process. In late 2007, in response to issues arising from the 2006–07 Certificate, Finance provided FMA Regulation 10 training through CFO areas. Finance also conducted information sessions on the management of Special Accounts during 2009–10 in response to compliance issues.

³¹ BFE Training covers the following topics: introducing the financial management framework and the budget; management, commitment and spending of public money under the FMA Act; a closer look at appropriations and the outcomes and programs framework; the external reporting framework and budget balance; introduction to the Australian Government's procurement and grants administration frameworks; and Australian Government charging policies.

³² Department of Finance and Deregulation, August 2009, *Budget and Financial Essentials – Finance's external training program 'The way forward'*.

³³ Finance has since delivered other financial management training to interstate agencies, which included a focus on major compliance issues reported by participating agencies through their 2008–09 Certificate: 'Between February and April 2010, Finance provided additional training to interstate agencies, which was aimed at providing participants with a general understanding of the Australian Government's financial framework and Budget process ... Training was provided to 37 agencies in Sydney, Melbourne, Hobart, Townsville, Adelaide and Perth, with a total of 314 attendees.' Department of Finance and Deregulation, *2009–2010 Certificate of Compliance Report to the Parliament*, December 2010, p. 19. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

2.37 Given the extent of consolidation of reported instances of non-compliance in a few areas, there would be benefit in Finance delivering additional targeted training to help address key risks. For example, in the 2007–08, 2008–09 and 2009–10 Certificates, the commitment of public money, use of drawing rights and banking and investment categories accounted for 87 per cent or more of total reported non-compliance for the financial year. Trends in non-compliance are presented in Chapter 4.

2.38 Table 2.2 below provides results from the CFO survey on attendance by CFOs or their staff at Finance’s financial management training programs. Results show that over half of the CFOs that responded to the survey have attended, or had staff attend, BFE training and other ad hoc financial management training. By implication, and consistent with findings in the BFE evaluation report, a significant proportion of agencies’ CFOs or their staff had not attended any Finance-run financial management training at the time the survey was conducted.

Table 2.2

Agencies where CFO area staff have attended Finance training

Training	Small agencies (Total: 29)	Medium agencies (Total: 20)	Large agencies (Total: 21)	All agencies (Total: 70)
	No.	No.	No.	No.
Budget and Financial Essentials (BFE)	16	11	12	39
Ad hoc training (for example FMA Regulation 10 or Special Accounts)	17	12	14	43
Other training	7	2	3	12

Source: ANAO CFO survey.

2.39 Agencies also develop and undertake their own financial management training programs. Eighty-nine per cent of CFOs that responded to the ANAO survey indicated their agency ran training on financial responsibilities, and/or, in some instances, their Certificate process. While the extent of reported agency-level financial management training is positive, there is also potentially significant duplication in the development of training programs across government. In this regard, feedback from the agencies audited and responses to the CFO survey highlighted that increased coordination of financial management training across government would be supported by agencies. Such an approach would be consistent with the general direction of *Ahead of the*

Game – Blueprint for the Reform of Australian Government Administration (Ahead of the Game Report) in relation to the Australian Public Service Commission (APSC) leading improvements in learning and development.³⁴

2.40 There would be merit in Finance (in consultation with the APSC) exploring options to strengthen the coordination and provision of financial management framework and Certificate training across government. Potential options include Finance:

- addressing key financial management risks through more targeted training;
- coordinating dissemination of better practice agency-level training approaches or modules;
- exploring e-learning options, as a means to improve accessibility to the main training programs for agencies and personnel located outside Canberra;³⁵ and
- focusing on training the key staff in agencies that administer the Certificate process, as a means of strengthening procedures, disseminating learning and improving application of the financial management framework.

Recommendation No.1

2.41 The ANAO recommends that the Department of Finance and Deregulation strengthen coordination and provision of training on the financial management framework and Certificate of Compliance, including by focusing Finance-run training on the key risk areas of the financial management framework which account for most non-compliance.

³⁴ See: Advisory Group on Reform of Australian Government Administration (the Advisory Group), March 2010, *Ahead of the Game – Blueprint for the Reform of Australian Government Administration*, p. 60. Available at: http://www.dpmc.gov.au/publications/aga_reform/aga_reform_blueprint/index.cfm.

³⁵ The BFE evaluation report made a number of recommendations seeking to improve the impact of the BFE training program, including investigation of e-learning options.

Agencies' responses

Finance

2.42 Finance supports the recommendation that Finance strengthen coordination and provision of training on the financial management framework and Certificate of Compliance (Certificate) process, including by focusing Finance-run training on the key risk areas of the framework which account for most non-compliance. Training is an important part of Finance's strategy to improve understanding of, and compliance with, the financial management framework.

AGD

2.43 The Attorney-General's Department agrees with recommendation 1 of the report.

ATO

2.44 Agreed.

CDPP

2.45 The CDPP agrees with the audit recommendation.

CGC

2.46 The Commonwealth Grants Commission (CGC) agrees with the recommendation of the ANAO audit into the Management of the Certificate of Compliance Process in FMA Act Agencies.

Amendments to the legislative framework and written guidance

2.47 Since the introduction of the Certificate, Finance has initiated amendments to legislation and improved written guidance to address financial management issues commonly identified through Certificate reporting. Some of the key changes have been:

- Finance initiated an amendment to the timeframe for the transfer of leave entitlements between agencies following reporting of a considerable number of instances of non-compliance for 2006–07;
- Finance sought to improve compliance with FMA Regulation 10 *Arrangements beyond available appropriation* by issuing a new Finance Circular in July 2007, which provided additional information on how to

identify when FMA Regulation 10 approval is required and how to obtain the approval;³⁶

- a relatively high incidence of non-compliance with Sections 26 and 27³⁷ of the FMA Act for 2007–08 in relation to drawing rights led Finance to issue revised guidance on drawing rights in the form of Finance Circular 2009/07: *Issuing and Exercising Drawing Rights*;³⁸
- in 2008–09, Finance released a new Finance Circular 2008/06: *Commitments to spend public money (FMA Regulations 7-13)* to provide additional assistance to agencies in understanding and complying with the requirements of the relevant FMA Regulations;³⁹ and
- following ongoing issues in relation to the commitment, approval and expenditure of public money reported in 2008–09 Certificates, based on Finance advice, amendments were made to FMA Regulations 7-13, including reordering the Regulations to provide a logical sequence and allowing Regulation 10 approval to occur after Regulation 9 approval.⁴⁰

2.48 Actions undertaken by Finance to continuously improve the financial management framework and associated guidance, as a result of issues identified through the Certificate, have been focused on refinements in particular areas of difficulty and on reducing the level of non-compliance. External members of audit committees consulted as part of this audit gave strong endorsement to further consideration of how the financial management framework should be changed as a result of systemic issues identified by the Certificate process, and to achieve simplification. In this context, in December 2010 the Finance Minister announced that Finance is undertaking the

³⁶ Finance Circular 2007/01: *FMA Regulation 10* replaced Finance Circular 2004/10 which had been issued in 2004. FMA Regulation 10 *Arrangements beyond available appropriation* requires the Finance Minister's written authorisation if any expenditure under a spending proposal is not authorised under an existing law or a proposed law before the Parliament.

³⁷ Section 26: *Drawing rights required for payment etc. of public money*; and Section 27: *Issue of drawing rights*.

³⁸ This guidance replaced Finance Circular 2006/09, which was issued in 2006.

³⁹ This circular was replaced on 29 June 2009 by Finance Circular 2009/05: *Commitments to spend public money (FMA Regulations 7-13)*, which included material relating to the new Commonwealth Grant Guidelines.

⁴⁰ FMA Regulation 9 *Approval of spending proposals* requires an approver of a spending proposal to be satisfied, after making reasonable inquiries, that giving effect to the spending proposal would be a proper use of Commonwealth resources.

Commonwealth Financial Accountability Review, with the objective of exploring options for modernising and improving the Commonwealth's financial framework.

Conclusion

2.49 Finance has provided a range of widely-used guidance and support to agencies on the Certificate process and application of the financial management framework through a number of different mechanisms, including written guidance and direct support to agencies in response to requests for advice. The department has also analysed Certificate results; reported aggregated non-compliance statistics and trends to stakeholders; and made a range of consequential amendments to legislation and guidance.

2.50 Finance should continue to improve financial management framework guidance, assistance and training delivered by the department, particularly in relation to the key risk areas of the financial management framework which account for most non-compliance. Additionally, the recently announced Commonwealth Financial Accountability Review presents an opportunity to consider other means to address systemic non-compliance issues identified in Certificate reporting.

3. Agencies' Certificate of Compliance Processes

This chapter examines the processes used by the audited agencies to complete their annual Certificate, and assesses the accuracy of the audited agencies' reported Certificate results for 2008–09.

Introduction

3.1 Chief Executives have overall responsibility for their agency's financial management, including compliance with applicable laws and government policies affecting the agency's financial activities.⁴¹

3.2 Chief Executives are required to complete their agency's annual Certificate based on the agency's internal control mechanisms, management and audit committee advice. Completion of the Certificate does not require that all actions and transactions be checked. However, Chief Executives are expected to ensure their agency has sufficient processes and controls in place to provide reasonable confidence officials are complying with the financial management framework.⁴²

3.3 Within this context, the ANAO examined:

- processes adopted by the audited agencies to complete their annual Certificate and provide reasonable assurance that agency officials are meeting financial management requirements;
- the accuracy of the audited agencies' reported Certificate results for 2008–09, based on testing of financial transactions and other evidence for each agency, and examination of supporting documentation for reported instances of non-compliance; and
- areas for improvement in the audited agencies' Certificate processes, in light of the accuracy of their reported Certificate results for 2008–09.

⁴¹ Department of Finance and Deregulation, *2008–2009 Certificate of Compliance Report to the Parliament*, December 2009. p. 13. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

⁴² Finance Circular No. 2009/06, *Certificate of Compliance – FMA Agencies*, Department of Finance and Deregulation, 11 August 2009.

Agencies' Certificate processes

3.4 The approaches adopted by Chief Executives to provide reasonable assurance that officials are complying with the financial management framework, and to complete their agency's Certificate, should be fit-for-purpose, having regard to the nature of the agency and its compliance history. The agencies selected for audit by the ANAO are diverse in terms of number of employees, office locations, and the nature and performance of financial functions. For example:

- AGD has over 1500 employees across 15 divisions. AGD has offices across five states and territories, with most employees located in Canberra. Divisions are responsible for their own procurement of goods and services.
- ATO has over 21 000 employees across 70 locations. The agency has 20 business lines which are responsible for their own procurement of goods and services. Additionally, ATO collects a large majority of Australian Government administered revenue.
- CDPP has over 600 staff, with a head office in Canberra, regional offices in all state capitals and sub-offices in Townsville, Cairns and Parramatta (sub-offices report through to regional offices). Each office is responsible for its own procurement of goods and services, with overarching functions, such as human resource management, handled by the head office.
- CGC has fewer than 50 staff, all located in Canberra. All finance functions are managed by the central finance area.

3.5 The following sub-sections examine key aspects of the audited agencies' annual Certificate processes. Each agency's processes were considered in light of the agency's particular characteristics.

Reviewing compliance requirements, agency responsibilities and internal controls

3.6 A first step in complying with the financial management framework is to understand its various requirements,⁴³ and to relate these requirements to agency roles, responsibilities and financial controls.

3.7 Each of the audited agencies had undertaken some form of mapping of financial management framework requirements prior to, or following introduction of the Certificate. The three larger agencies with more devolved financial management arrangements had also assessed: the responsibilities of different business areas in relation to the various compliance requirements; the internal controls in operation in support of compliance; and information needed from business areas to provide adequate assurance the area was compliant with the financial management framework.

3.8 The framework mapping exercises undertaken by the audited agencies were of variable forms and had differing results. The ATO had the most comprehensive approach of the four agencies. ATO had created a detailed Certificate spreadsheet that listed and categorised every compliance requirement, and identified the areas of the ATO required to comply. Internal controls in place in relation to requirements were then documented (this involved process-mapping numerous agency financial functions, for example, drawing rights, cost recovery and special accounts). For the initial year of the Certificate, the ATO completed risk assessments of these internal controls—in a small number of areas, unacceptable risks were identified and additional controls implemented as a result. These risk assessments have been reviewed each year to support ongoing compliance with the financial management framework, taking into account changes to ATO business processes, and changes to associated risk levels.

3.9 CGC had overlooked a small number of financial management framework requirements when mapping the framework. Further, two of the agencies, AGD and CDPP, had not adequately incorporated a small number of financial management framework requirements within their Certificate processes. In response to these audit findings the three agencies were

⁴³ That is, those requirements arising from the FMA Act, the FMA Regulations and financial management policies of the Commonwealth.

considering how best to incorporate the requirements into their financial compliance and certification processes.

3.10 Responsibility for understanding the requirements of the financial management framework and how they are applied by an agency necessarily rests with each agency. As discussed in Chapter 2 (paragraph 2.20), there would also be benefit in Finance producing and disseminating a summary of financial management framework legislative and policy requirements. This would assist agencies in ensuring that requirements are not overlooked. Such a summary could also be readily updated as requirements change over time.

Assessing compliance and completing the Certificate

3.11 Some of the key mechanisms used by the audited agencies to assess compliance with the financial management framework, as a basis for completing their Certificate, were:

- sign-offs on compliance by responsible officials/business areas (including through completion of surveys/questionnaires);
- separate reporting of non-compliance statistics by business areas with specific framework responsibilities (ATO only); and
- sample testing of financial transactions (CDPP only).

3.12 The approaches of the agencies to assessing compliance with the financial management framework are outlined in Table 3.1 below.

Table 3.1

Description of agencies' approaches to assessing compliance

Agency	Details of approach
AGD	AGD requires each of its divisions to complete a quarterly <i>Financial Management Compliance Certificate</i> as the basis for its Certificate. The quarterly compliance certificates comprise survey forms tailored for each division. The surveys ask pertinent questions in respect of compliance, and seek to identify any known instances of non-compliance with the financial management framework. Specific surveys are undertaken for credit card holders and staff with delegations. The relevant deputy secretary and division head sign-off on the annual Certificate.

Agency	Details of approach
ATO	<p>ATO distributes questionnaires to Senior Executive Service officers and other senior management for completion on a quarterly basis. The questionnaires ask if the ATO complied with various sections of financial management framework legislation and if the employee is aware of any non-compliance in the area.</p> <p>Separate to these questionnaires, the ATO requires specific business areas (Integrity Assurance, Health and People Management and the Refund Integrity Custodian) to provide statistics on identified instances of non-compliance on a quarterly basis. Program managers from business line areas are also required to report on low risk processes twice yearly, including the identification of any instances of non-compliance. Further, business lines report on financial assurance issues and other financial breakdowns when they are identified.</p>
CDPP	<p>CDPP requires completion of a set of sign-offs by responsible officials on compliance with financial management framework requirements. The sign-offs are tailored to officials' specific areas of responsibility. As part of this process, regional offices undertake biannual examination of 22 areas of compliance to provide assurance over areas of compliance that are not directly 'controlled' by Head Office. This examination includes sampling of financial transactions to check whether FMA Act Section 10 (prompt banking), Section 26 (drawing rights) and FMA Regulation 9 (approval to spend public money) have been met.⁴⁴</p>
CGC	<p>All of CGC's financial transactions are cleared by the central finance team. In completing the Certificate, CGC relies on the central finance team identifying any instances of non-compliance.</p>

Source: ANAO, based on fieldwork.

3.13 The audited agencies' arrangements for gathering information on non-compliance were appropriate in light of each agency's particular characteristics. In particular, the agencies with more devolved financial management arrangements used survey processes to gather relevant information from across the agency. As a small agency with centralised finance processes, such a survey process was not required at CGC.

3.14 The mechanisms used by the audited agencies to assess compliance for the Certificate were broadly consistent with CFO survey results on the approaches used across FMA Act agencies. Over half of the CFOs that responded to the ANAO survey indicated that their agency used surveys to collect Certificate data. Other methods of data collection included sample testing of transactions and financial management system cross-checks (for

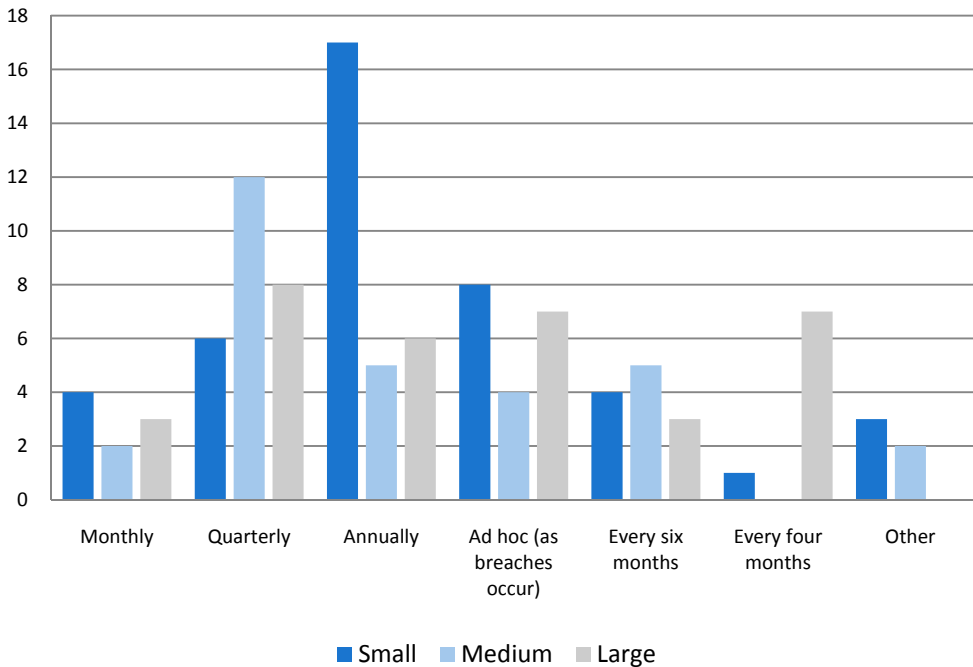
⁴⁴ The sample size is underpinned by a risk assessment relating to the number and severity of past breaches for the particular area of compliance. To avoid any bias, Head Office has, commencing in 2008–09, undertaken the risk assessment and selected the random sample for each regional office. Prior to the 2008–09 Certificate, regional offices would, based on their own risk assessment, determine the sample size and select their own sample.

example, comparison of purchase order and invoice dates as a first step in ascertaining compliance with FMA Regulation 9 *Approval of spending proposals*). Many agencies drew upon a variety of data sources in compiling Certificate results.

3.15 From the CFO survey, the most common timeframes for collecting Certificate information were annually and quarterly.⁴⁵ Figure 3.1 illustrates that the most common timeframe for gathering data was quarterly for medium and large agencies, while smaller agencies were more likely to collect data annually.

Figure 3.1

Frequency of Certificate data collection by agency size (number of agencies)



Source: ANAO CFO survey.

⁴⁵ Many agencies reported multiple timeframes for collecting Certificate data depending on the information in question— for example, through periodic surveys, ad hoc as non-compliance was identified or through annual internal audit review.

Quality assurance of Certificate results

3.16 Quality assuring information provided by business areas and/or officials in relation to non-compliance prior to its use in completing the annual Certificate helps to ensure the accuracy of results.

3.17 Three of the four audited agencies (AGD, ATO and CDPP) reported instances of non-compliance for 2008–09. When an instance of non-compliance was identified by a business line at the ATO, the central finance area obtained all relevant documentation and reviewed whether non-compliance had actually occurred. In AGD and CDPP, quality assurance by the finance area of reported instances of non-compliance was limited. The finance areas collating Certificate results would typically only contact the business area if there was a very obvious anomaly in the information provided.⁴⁶ The finance areas did not request business areas to provide supporting documentation to substantiate identified non-compliance, or seek additional information on the procedures and internal controls used by the business area to prevent and detect non-compliance. Both of these agencies revised their approaches for the 2009–10 Certificate to increase assurance over identified non-compliance.⁴⁷

3.18 As mentioned above, CDPP's regional offices undertake substantive testing for a sample of financial transactions every six months. Historically, the results of the testing have not been quality assured by CDPP's central finance area.

3.19 These results indicate scope for improvement in quality assurance of Certificate results by agencies. To this end, possible approaches include:

- risk-based review of supporting documentation where non-compliance has been identified by business areas or officials; and

⁴⁶ Following submission of their 2008–09 Certificate, CDPP undertook an informal review of their Certificate process to assess its efficiency and effectiveness, and whether reported results were accurate. The review found some instances of non-compliance reported in the Certificate were in fact only non-compliance with internal CEIs.

⁴⁷ In AGD, an internal audit of the Certificate process was completed in May 2007. The internal audit observed that quality assurance processes outlined in AGD's Certificate Guidance Manual had not been performed (although some preliminary assessment had been undertaken). This was to include the Financial Framework area reviewing the information contained in surveys returned by divisions and, on a sample basis, asking responsible officers to provide additional information on the processes and controls the division had in place to prevent or detect instances of non-compliance.

- seeking additional information on the procedures and internal controls used by business areas to prevent and detect non-compliance, particularly where little or no non-compliance has been identified.

The role of internal audit

3.20 Internal audit provides an independent and objective review and advisory service to:

- provide assurance to the Chief Executive and/or Board that the entity's financial and operational controls designed to manage the organisation's risks and achieve the entity's objectives are operating in an efficient, effective, economical and ethical manner; and
- assist management in improving the entity's business performance.⁴⁸

3.21 For three agencies (AGD, ATO and CDPP), internal audit played an important role in relation to assurance on compliance with the financial management framework and continuous improvement in financial practices. In particular, internal audit:

- had recently undertaken audits of specific aspects of the financial management framework;
- considered the implications of audit findings in terms of compliance with financial management framework requirements and Certificate reporting; and
- in AGD, undertook a high-level yearly review of the internal control framework for financial management.

3.22 Reflecting the size of the agency, CGC did not have an internal audit function in place. CGC has a combined Finance and Audit Committee (Executive Committee) which considers finance and ANAO audit issues but does not draw on internal audit work. The smaller agencies in the audit (CDPP and CGC) both noted that they placed a certain amount of reliance on the external audit of their financial statements (by the ANAO) to identify potential control weaknesses and non-compliance.

⁴⁸ ANAO Better Practice Guide, September 2007, *Public Sector Internal Audit, An Investment in Assurance and Business Improvements*. Available at: http://www.anao.gov.au/uploads/documents/Public_Sector_Internal_Audit.pdf.

3.23 As part of the CFO survey, CFOs advised on the involvement of internal audit in their Certificate process. Their responses are summarised in Table 3.2 below. The findings indicate that internal audit areas are contributing in a variety of ways to agencies' Certificate processes.

Table 3.2

Involvement of internal audit in the Certificate process

Type of activity	Small agencies (Total: 29)	Medium agencies (Total: 20)	Large agencies (Total: 21)
Internal audits targeted to help ensure compliance with requirements (67 per cent of CFOs who responded)	20	14	13
Certificate process has been reviewed by internal audit (51 per cent of CFOs who responded)	13	12	11
Findings from the Certificate have resulted in the review of a compliance issue (by internal audit or otherwise) (43 per cent of CFOs who responded)	11	8	11
Internal audit findings have identified non-compliance subsequently reported in the Certificate (60 per cent of CFOs who responded)	14	11	17

Source: ANAO CFO Survey.

The role of the Audit Committee

3.24 Finance Circular No. 2009/06 on the Certificate notes that:

The audit committee is a key component of an agency's corporate governance ... An audit committee's advice on whether key controls are designed appropriately and were in operation over the certification period will provide important and additional confidence to Chief Executives when completing the Certificate.⁴⁹

3.25 The audit committee played a role in the Certificate process at all of the four audited agencies.

3.26 At AGD and ATO, regular updates on the Certificate process were provided to the audit committee throughout the year. This assisted committee members to understand issues, influence activities, monitor remedial action

⁴⁹ Department of Finance and Deregulation, Finance Circular No. 2009/06, *Certificate of Compliance – FMA Act Agencies*, Attachment 3, p. C-3. Available at: <http://www.finance.gov.au/publications/finance-circulars/index.html>.

and provide relevant and timely advice. The committees also analysed and provided advice on the final Certificate. Further, in considering the findings of internal audits, the audit committee at AGD and ATO assessed the implications for the internal control framework and the Certificate.

3.27 At CDPP, Certificate results were provided to the audit committee, which noted the Certificate methodology used and recommended sign-off. As previously mentioned, CGC has a combined Finance and Audit Committee (Executive Committee), which meets monthly. Following its compilation by the finance team, the Certificate was presented to the Committee for assessment prior to it being submitted to the relevant Ministers.

3.28 In response to the CFO survey, CFOs reported on the committees that contributed to their Certificate process, or regularly considered Certificate matters (for example, through a review of the Certificate process in the agency or review of results). Their responses are summarised in Table 3.3 below. In line with Finance’s Certificate guidance, all CFOs that responded to the survey indicated that their audit committee contributed to the Certificate process.

Table 3.3

Senior management committees that contribute to the Certificate process

Committee	Percentage of agencies
Executive Board/Committee	54%
Audit Committee	100%
Finance Committee	13%
Other	11%

Source: ANAO CFO Survey.

Note: Other includes senior management/division head meetings or the risk management committee.

Remedial action

3.29 Finance Circular 2009/06 requires that where agencies have identified instances of non-compliance, they specify the corrective action that has been, or will be taken, and when it will be taken.⁵⁰ This is a key aspect of the Certificate process, which is directed towards continuous improvement, and

⁵⁰ Department of Finance and Deregulation, Finance Circular 2009/06 *Certificate of Compliance FMA Act Agencies*. Available at: <http://www.finance.gov.au/publications/finance-circulars/index.html>.

providing Ministers with assurance that appropriate follow-up action has been taken.

3.30 The *2009–2010 Certificate of Compliance Report to the Parliament* noted that:

Similar to previous years, the 2009–10 Certificate results indicate that agencies have adopted, or will adopt, a wide variety of corrective strategies to address non-compliance. The main strategies reported by agencies are:

- communication and education – including reminders to staff, the provision of additional internal advice, training and counselling;
- system corrections – including the review of drawing rights, changes to purchase order arrangements, and the introduction of further approval and authorisation processes;
- the review of internal controls – including the review of delegations, internal audits and system reviews; and
- formal investigations, which may in some instances lead to sanctions or other action.⁵¹

3.31 The remedial actions implemented by AGD and the ATO in response to non-compliance were appropriate. Both agencies had updated policies and procedures to help ensure compliance with financial management framework requirements. They had also undertaken targeted training where particular knowledge gaps were identified.

3.32 At CDPP, the remedial action reported in the Certificate, in some cases, did not sufficiently address the specific instance of non-compliance. As CGC did not report any non-compliance in the first three years of the Certificate, the agency did not undertake any remedial actions.

3.33 These findings and feedback from external members of audit committees suggested scope for tightening of remedial actions and continuous improvement in some agencies. In this regard, effective approaches are supported by:

⁵¹ Department of Finance and Deregulation, *2009–2010 Certificate of Compliance Report to the Parliament*, December 2010, p. 16. Available at: <<http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>>.

- providing feedback on an agency's Certificate results to staff to underline the agency's experience and assist in reinforcing sound practices;
- investigation of the root causes of non-compliance, and targeted actions that seek to address these causes;
- dissemination of agency-wide advice, where appropriate, when non-compliance appears to be systemic; and
- active follow-up of remediation by the agency's audit committee.

Guidance and training provided by the audited agencies

3.34 Agency policies, guidance and training assist employees in understanding their responsibilities under the financial management framework, and when providing information as part of Certificate processes.

3.35 All of the audited agencies reviewed had established accessible Chief Executive Instructions (CEIs), and other finance policies and procedures which adequately covered the requirements of the financial management framework. CEIs in AGD and the ATO outlined the agency's Certificate procedures, while CDPP had a *Certificate of Compliance Manual* (updated and distributed every six months) which outlined the agency's Certificate procedures. CGC would benefit from documenting its Certificate process, particularly in the event that there is a changeover of key staff or they take leave.

3.36 Similarly, three of the four agencies conducted financial management training (see Table 3.4 below). As a result of the agency's size and centralised financial management arrangements, CGC did not undertake its own financial management training. CGC indicated they would use external training courses when necessary.

Table 3.4

Agencies' financial management training

Agency	Financial management training
AGD	AGD has a suite of training programs available on various aspects of the financial management framework, including the Certificate. AGD advised that the department has tried to improve understanding of and compliance with the financial management framework over the last year through general training on CEIs, a Spending Public Money course, contract management and procurement courses. Training is not mandatory for relevant staff.
ATO	Financial management training at the ATO is conducted on an ongoing basis and includes the Certificate process. Training mechanisms such as workshops, online learning and fact sheets are used to assist managers in complying with their financial management responsibilities. It is not mandatory that ATO managers undertake the training courses offered.
CDPP	CDPP conducts training on legislative requirements and the financial framework. CDPP undertook specific training on the Certificate when the process was first introduced. Training is not mandatory for CDPP staff.

Source: ANAO, based on fieldwork.

Accuracy of Certificate results

3.37 The ANAO undertook a review of financial compliance in the four audited agencies for 2008–09. This review provided the ANAO with insight as to the degree of accuracy of each agency's reported Certificate results for the period.

3.38 Six general categories of financial requirements were reviewed by the ANAO.⁵² The categories, which followed those used in the *Certificate of Compliance Report to Parliament*, were comprised of various requirements of the FMA Act, FMA Regulations and government financial management policies. The review covered:

- the commitment of public money by agencies, which comprised section 44 of the FMA Act and FMA Regulations 9-13 (note that the ANAO did not include the current FMA Regulation 7 [*Commonwealth Procurement Guidelines*] and 7A [*Commonwealth Grant Guidelines*] in the scope of the audit);

⁵² The requirements tested were based on the financial management framework in place for 2008–09 financial year.

- the use of drawing rights by agencies, which comprised sections 26 and 27 of the FMA Act;
- the proper use of financial resources by agencies, which comprised sections 14, 15 and 60 of the FMA Act and FMA Regulation 21;
- banking and investment by agencies, which comprised sections 8-11, 13, 34, 38-40 and 47 of the FMA Act and FMA Regulations 17-20;
- the maintenance of accounts and records by agencies, which comprised sections 44A and 48-51 of the FMA Act; and
- miscellaneous requirements, which comprised remaining requirements covered by the Certificate relating to government policy (including cost recovery and indemnities), the Finance Minister's delegations to Chief Executives, FMA Act sections 12, 16, 28, 33, 41-43, 45-46 and 52-53 and FMA Regulations 15, 16, 16A, 22C, 22D, 23, 30, 33 and 34.

3.39 Testing by the ANAO in each of the audited agencies was designed to assess whether there was evidence of under or over reporting of instances of non-compliance for 2008–09.

Testing for under reporting

3.40 To assess whether there was evidence that instances of non-compliance had been under reported in the agencies' 2008–09 Certificates, the ANAO reviewed a sample of financial transactions and other relevant evidence, for each of the six general categories listed above. Where sampling was used to assess compliance, the ANAO reviewed 60 transactions for AGD and ATO, and 35 for CDPP and CGC.

3.41 The results of testing for under reporting are provided in Table 3.5 below.

Table 3.5**Testing for under reporting**

Category	AGD	ATO	CDPP	CGC
Commitment of public money by agencies	x	x	x	x
Use of drawing rights by agencies	✓	✓	✓	x
Proper use of financial resources	x	✓	✓	✓
Banking and investment by agencies	x	✓	x	✓
Maintenance of agency accounts and records	✓	✓	✓	✓
Miscellaneous requirements	x	✓	x	✓

Source: ANAO fieldwork.

Legend: ✓ No instances of unreported non-compliance were found in this category in the agency.
 x Instances of unreported non-compliance were found in this category in the agency.

3.42 ANAO testing identified a small number of instances of non-compliance, which had not been reported in the 2008–09 Certificate, for each of the four audited agencies. The areas of under reported non-compliance in one or more agencies related to the approval of spending approvals by authorised officials, the use of drawing rights, the transfer of leave liabilities between agencies, misuse of credit cards and prompt banking of public money.

3.43 The small amount of under reporting of non-compliance identified through audit testing was symptomatic of the use of self-assessment by business areas and officials as a primary mechanism to identify non-compliance. The level of under reporting did not raise significant concerns about compliance monitoring arrangements: as a self-assessment process, the Certificate has some inherent limitations with respect to the level of assurance it provides on compliance with the financial management framework. Testing results highlighted the benefit in agencies obtaining data on non-compliance from a variety of sources, and based on an assessment of risks, periodically testing key internal controls to determine if they are working as expected.

3.44 ANAO Audit Report No. 11 2010–11 *Direct Source Procurement* also highlighted limitations in self-assessment as a means to identify non-compliance, and the important role focused advice and assistance from an expert area can play in support of compliance (see the boxed text below).

Findings from ANAO audit of Direct Source Procurement

ANAO Audit Report No. 11 of 2010–11 *Direct Source Procurement* reviewed, as part of that audit, each audited agency's Certificate for 2008–09. The audit compared reported non-compliance against procurements from the audit sample, where it was not evident the procurement was compliant with requirements of the FMA Regulations and the Commonwealth Procurement Guidelines (CPGs).⁵³ This analysis showed a higher level of non-compliance than that reported by the agencies.

The report stated:

As the Certificate of Compliance process relies largely on self-reporting, these differences may be attributed to a variety of reasons, including delegates' level of awareness of the relevant FMA requirements including the CPGs ... In some instances, it also reflected a lack of understanding of the procurement method being undertaken, and the need for Finance to clarify the CPGs and supporting guidance for how agencies should define and report procurement methods.

The Direct Source Procurement audit also found that while three of the audited agencies were able to demonstrate high levels of compliance (81 per cent, 90 per cent and 100 per cent) with FMA Regulation 9 *Approval of spending proposals* for their procurement decisions, one agency was only able to provide evidence supporting 57 per cent of its sample of Direct Source procurements. The audit found that documentation forming procurement approvals was of varying standards, and often did not clearly set out the basis for delegates' decisions.

The Direct Source Procurement audit highlighted that agencies can, over time, become conditioned to operating in a particular way, or may have taken an interpretation of requirements that does not meet government expectations. The audit found that where agencies had a central procurement unit that provided advice on whether higher valued procurements could be Direct Sourced, this supported compliance with the CPGs.

Testing for over reporting

3.45 The ANAO next assessed whether instances of non-compliance reported in the audited agencies' 2008–09 Certificates were actually non-compliant. The ANAO reviewed a sample of reported instances of non-compliance (including supporting documentation), or all reported instances (where the number of reported instances was less than the sample size), for each of the six general categories listed at paragraph 3.38. Sample

⁵³ FMA Regulation 7 *Commonwealth Procurement Guidelines* requires officials performing duties in relation to procurement to act in accordance with the CPGs.

sizes were the same as those used for the under reporting testing. As the CGC did not report any non-compliance in its Certificate for 2008–09 no testing was performed in this agency.

3.46 The results of testing for over reporting in each of the four agencies are provided in Table 3.6 below.⁵⁴

Table 3.6

Testing for over reporting

Category	AGD	ATO	CDPP	CGC
Commitment of public money by agencies	✓	✓	✘	-
Use of drawing rights by agencies	✓	✓	✓	-
Proper use of financial resources	✓	✓	✓	-
Banking and investment by agencies	✓	✓	✘	-
Maintenance of agency accounts and records	✓	✓	✓	-
Miscellaneous requirements	✓	✓	✓	-

Source: ANAO fieldwork.

Legend: ✓ No instances of over reporting were found in this category.
 ✘ Instances were noted where the agency had over reported non-compliance.

3.47 Testing found a small number of instances of over reporting in CDPP, where, based on documentary evidence, some reported instances of non-compliance were actually compliant. Additionally, for 2008–09, CDPP extrapolated the results of its sampling of financial transactions and consequently the number of reported instances of non-compliance did not equal instances actually identified. This resulted in further over reporting of instances of non-compliance by CDPP. The use of extrapolation is inconsistent with Finance’s Certificate guidance, which only requires specification of known instances of non-compliance. CDPP have since amended their Certificate process and no longer extrapolate sample testing results.

3.48 In AGD a small number of instances of non-compliance had been either recorded against the wrong requirement of the financial management framework or the correct numbers of instances were not recorded.

⁵⁴ In some cases, AGD and CDPP were unable to provide sufficient supporting documentation for the ANAO to be able to validate identified non-compliance.

3.49 These results illustrated the need for agencies to quality assure Certificate results, particularly where non-compliance is identified by business areas.

3.50 Further to the under and over reporting of non-compliance in the 2008–09 Certificate, the ANAO identified some inconsistencies in agencies' interpretation of financial management framework requirements. These are presented in Appendix 2.

Consideration of agencies' Certificate processes in light of testing results

3.51 The results of ANAO testing of financial and legislative compliance for the audited agencies (2008–09) were, for the most part, favourable. Nevertheless, sample sizes were small relative to financial transaction volumes, and some instances of unidentified and incorrectly reported non-compliance were found. While recognising that agencies will never be able to identify all instances of non-compliance, particularly given the use of self-assessment as a primary mechanism to identify non-compliance, there remained scope for improvement in the agencies' Certificate processes. Potential options included:

- strengthened quality assurance over survey results reported by business areas and officials (AGD, CDPP);
- use of some targeted substantive testing, focusing on higher risk, more significant, or high volume transactions in the agency's context (AGD, ATO, CGC);
- periodically testing the operation of key internal controls to determine if they are working as expected (particularly at CGC where identification of non-compliance was dependent on the central finance area and there is no internal audit function); and
- strengthened audit committee oversight of the Certificate process, including follow-up on any remedial actions (CDPP and CGC).⁵⁵

⁵⁵ In response to the draft audit report, AGD advised that changes had been implemented to improve the accuracy of its Certificate report, including targeted testing of financial transactions and quality assurance checks of reported non-compliance through review of supporting evidence for each individual reported instance. Similarly, CDPP advised they had re-evaluated internal controls, strengthened quality assurance over testing results, strengthened audit committee oversight and implemented follow-up of remedial actions.

3.52 Most agencies now have established systems and processes in place to support compliance with the financial management framework and annual certification. Assurance arrangements should be proportional to the criticality of specific requirements to agency operations, the risks of non-compliance and its potential consequences.

Conclusion

3.53 The agencies' Certificate processes were generally appropriate in light of each agency's size, financial activities and financial management arrangements. For the most part, the agencies adequately assessed and addressed non-compliance. Key aspects of the agencies' Certificate processes were self-assessments of compliance by responsible officials and/or business areas; internal audit activity covering compliance with the financial management framework; audit committee involvement; and targeted remediation activities to address identified non-compliance.

3.54 The main area for improvement identified by the audit concerned the need for more targeted quality assurance activity by agencies in regard to compliance with the financial management framework. Self-assessments by agency officials are unlikely of themselves to consistently provide a high level of assurance to an agency's Chief Executive, and audits undertaken by the ANAO show there can be misunderstanding of the requirements of the framework by agency officials. Well-targeted quality assurance activity, focusing on higher risk, more significant, or high volume transactions in the agency's context, complements self-assessments, thereby helping to reinforce financial management compliance and provide greater confidence in Certificate results. Such quality assurance activities commonly involve risk-based reviews of some financial transactions, tests of key internal controls and review work of business areas such as the central procurement unit.

4. Design and Impact of the Certificate of Compliance Process

This chapter discusses the design of the Certificate process, and assesses the impact of the Certificate across FMA Act agencies.

Introduction

4.1 The purpose of the Certificate is to improve compliance with the Australian Government's financial management framework and to ensure that Ministers are kept informed of compliance issues within their portfolios. To achieve this purpose, the Certificate process requires Chief Executives of FMA Act agencies to certify, having regard to advice provided by their agency's internal control mechanisms, management and the audit committee, the agency's compliance during the previous financial year with components of the government's financial management framework.

4.2 This Chapter considers:

- the design of the Certificate process in light of its intended purpose; and
- the impact of the Certificate process across FMA Act agencies.

Design of the Certificate process

4.3 The ANAO considered the following key aspects of the design of the Certificate process:

- the timing of the Certificate;
- the coverage of the Certificate in regard to compliance with the financial management framework;
- the focus of the Certificate on financial sustainability; and
- other key design features of the Certificate process, specifically, *Chief Executive certification* on the basis of *reasonable confidence*.

Timing of agency Certificate reporting

4.4 An agency's Certificate is required to be submitted to the responsible portfolio minister, and copied to the Finance Minister, by 15 October each year. Finance Circular 2009/06 advises:

Within this constraint, agencies should consider the appropriate timing to complete the Certificate, such as alignment of the Certificate with the due date for financial statements. Audit committees may, for example, wish to take the Certificate into account before providing advice to the Chief Executive regarding the financial statements to ensure any liabilities emerging from legislative or policy non-compliance will not materially affect the statements. They may also wish to consider whether the certification in relation to the financial sustainability of the agency has any implications for the 'going concern' basis of the financial statements.

4.5 No issues were raised during the course of the audit with respect to the 15 October deadline for submission of Certificates. Consistent with the Finance guidance, feedback was received from external members of audit committees that alignment of Certificate processes with the financial statements was sound practice, but should not be mandated, so as to provide agencies with sufficient flexibility in conducting Certificate processes. The ANAO has encouraged agencies to sign their Certificate prior to or at the same time they sign their financial statements. Such an approach reduces the risk of inconsistencies between certification of an agency's financial statements and its Certificate, and enables agencies to determine the extent to which breaches of the financial framework, if any, impact their financial statements.⁵⁶

Coverage of the Certificate

4.6 Certificate reporting requirements have been set by government and cover compliance with a large number of legislative and policy requirements. Details of all identified instances of non-compliance with the legislative and policy requirements must be reported, regardless of materiality. The requirements covered by the Certificate are highly variable in nature. They range for example, from fraud control planning, through approval of spending proposals, and application of government policy for procurement and grants administration, cost recovery and foreign exchange risk management. The potential consequences of non-compliance are also highly variable, depending on the specific requirement and circumstances in question. The Certificate has thus led to a focus on compliance and strengthening of controls for some requirements which, on a risk basis, may have received less attention. In this

⁵⁶ ANAO Audit Report No.51 2006–07 *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ending 30 June 2007*, p. 51.

regard, external audit committee members advised that many instances of non-compliance are relatively minor variances of process in terms of their implications. In light of this feedback, there is an opportunity for Finance to obtain agency views on current requirements which may be modified or no longer need to be mandated, thus streamlining administration and the Certificate process at the same time.

4.7 Now that the Certificate process has matured and where systems and processes are in place, agencies should consider the opportunities for efficiencies in their processes, having regard to the nature of the agency, its financial activities, the risks of non-compliance and its potential consequences. Periodic review of the effectiveness and efficiencies of an agency's Certificate approach helps to avoid excessive resources being devoted to the assurance provided by the process.

Financial sustainability

4.8 In addition to certification of financial management compliance, the Certificate requires Chief Executives to state whether their agency is operating within the agreed resources for the current financial year, and has adopted appropriate management strategies for all currently known risks that could affect the financial sustainability of the agency.⁵⁷ Senior Executives interviewed as part of the audit indicated that the focus of the Certificate on financial sustainability was in response to ministers' concerns over agencies not managing their budgets effectively and frequently requesting additional funding.

4.9 For 2009–10, 20 agencies reported financial sustainability issues through the Certificate. Matters raised included difficulties encountered in absorbing the costs of new budget initiatives for which departmental funding had not been provided, difficulties in achieving savings targets, and circumstances which led the agency to seek approval of expected operating losses by the Minister for Finance and Deregulation. From this reporting, the financial sustainability section of the Certificate has provided agency Chief Executives with an opportunity to engage their Minister and Finance on matters concerned with financial sustainability.

⁵⁷ Department of Finance and Deregulation, Finance Circular No. 2009/06, *Certificate of Compliance – FMA Agencies*, 11 August 2009, paragraph 10.

4.10 Certificates for the agencies that reported financial sustainability issues were forwarded within Finance by Financial Management Group to Agency Advice Units and the Budget Coordination Branch in Budget Group. Budget Group advised that the relevant financial sustainability extracts from the Certificates were noted from an information perspective, but were not actively used. Financial sustainability information from the Certificate process is one of several sources of information assessed by Budget Group in relation to the financial health of agencies.

4.11 Finance advised that the 2008–09 and 2009–10 *Certificate of Compliance Report to the Parliament* did not cover financial sustainability reporting as it was viewed as being confidential information. Reporting on financial sustainability issues was also not a recommendation of the *Review of Operation Sunlight, Overhauling Budget Transparency*. In terms of the ongoing development of the report to the Parliament, and given the extent of agencies reporting on sustainability issues, Finance should consider including a section on financial sustainability in upcoming reports.

Chief Executive sign-off on the basis of reasonable confidence

4.12 A key aspect of the Certificate process is the requirement that agency Chief Executives certify to their portfolio minister, the agency's compliance with specified financial management legislation and policy. Consultation undertaken during the audit found this design feature of the Certificate process has been crucial to its overall impact. The necessity for Chief Executives to be attentive to the range of requirements covered by the Certificate, has flowed through to heightened focus on these requirements by agency staff, and improvements in internal controls. Provision of the Certificate to relevant Ministers, and reporting of results by Australian Government portfolio grouping in the annual report to the Parliament, also reinforce the importance of compliance with the financial management framework.

4.13 Finance guidance on the Certificate emphasises that Chief Executives should certify compliance on the basis of reasonable confidence:

Chief Executives will ensure that the agency has sufficient processes and controls in place to provide reasonable confidence that officials are complying with the financial management framework.

In most cases it is likely that these processes and controls would be an extension of those that currently give confidence to the Chief Executive on matters such as the use of delegations and budgetary matters. In addition to

other advice, materials and processes that the Chief Executive may draw on in signing the Certificate (which might include a program of internal audits, internal assessment of controls, senior management oversight, and specialised assurance in relevant high risk areas), it is expected that audit committees will review and monitor these internal control mechanisms and advise the Chief Executive.⁵⁸

4.14 The Certificate guidance sensibly relates reasonable confidence to typical mechanisms used by Chief Executives to provide assurance on application of the financial management framework, and also indicates that 'to meet confidence requirements, many Chief Executives require officials to certify compliance with key elements of the framework.'⁵⁹ Through the adoption of reasonable confidence (and articulation of the concept), as the basis for certification, the Certificate process sets a practical standard for Chief Executive sign-off, which has helped generate improvements in financial management practices.

Impact of the Certificate process

4.15 In order to form an opinion about the impact of the Certificate across FMA Act agencies, the ANAO analysed reported instances of non-compliance over time, and sought feedback from external members of audit committees, CFOs and the audited agencies.

Analysis of Certificate results

4.16 The *2009–2010 Certificate of Compliance Report to the Parliament* showed aggregate instances of non-compliance for the first four years of Certificate reporting (Figure 4.1). The Report noted that:

At an aggregate level, agencies reported a relatively low number of instances of non-compliance in the first round of reporting (2006–07), followed by an increase in reported instances of non-compliance in round two (2007–08) as internal systems bedded down and matured. Instances of non-compliance fell

⁵⁸ Department of Finance and Deregulation, Finance Circular No. 2009/06, *Certificate of Compliance – FMA Agencies*, 11 August 2009, p. C-4.

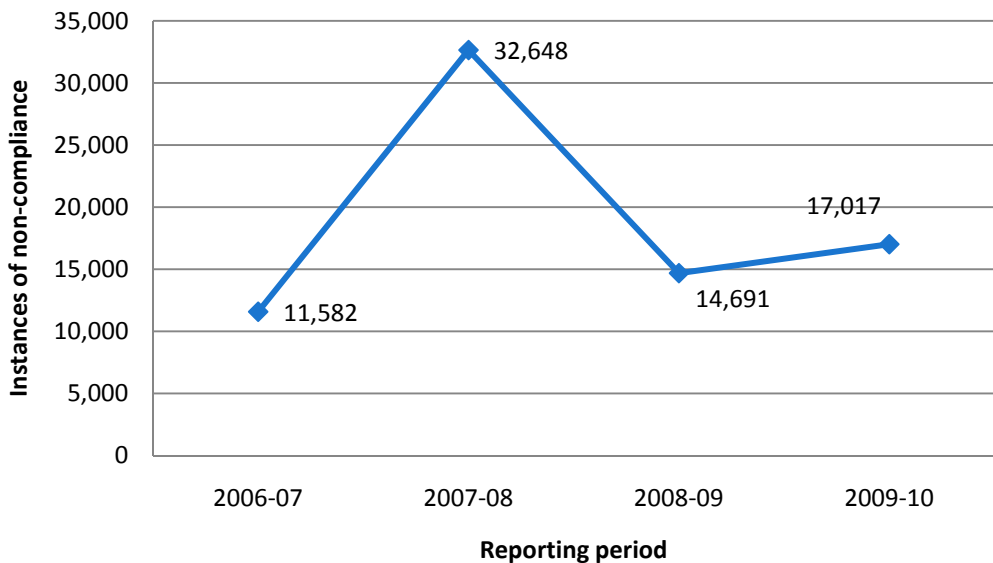
⁵⁹ Department of Finance and Deregulation, Finance Circular No. 2009/06, *Certificate of Compliance – FMA Agencies*, 11 August 2009, p. C-2. The Circular goes on to say, 'It is not the action of signing that creates the confidence. It is what underpins that sign-off, including endorsement of that framework and its acceptance by those who rely on it. Therefore instructions (such as Chief Executive's Instructions (CEIs)), operational guidance and information systems are essential. Audit committees should play a key role in overseeing these procedures and processes to support the certification.'

by over one half in 2008–09, to a level somewhat above the total reported in 2006–07, as agencies sought to address the issues identified in the first two rounds of reporting.

As flagged in the 2008–09 Report to the Parliament, the introduction of revised financial framework requirements can give rise to additional instances of non-compliance as agencies seek to implement the new requirements. This is reflected in the results for 2009–10, which show a relatively small increase in reported non-compliance, as agencies worked to implement changed public reporting requirements introduced in 2009 and published in the Commonwealth Grant Guidelines (CGGs).⁶⁰

Figure 4.1

Instances of non-compliance: trend over the four financial years



Source: Department of Finance and Deregulation, *2009–2010 Certificate of Compliance Report to the Parliament*.

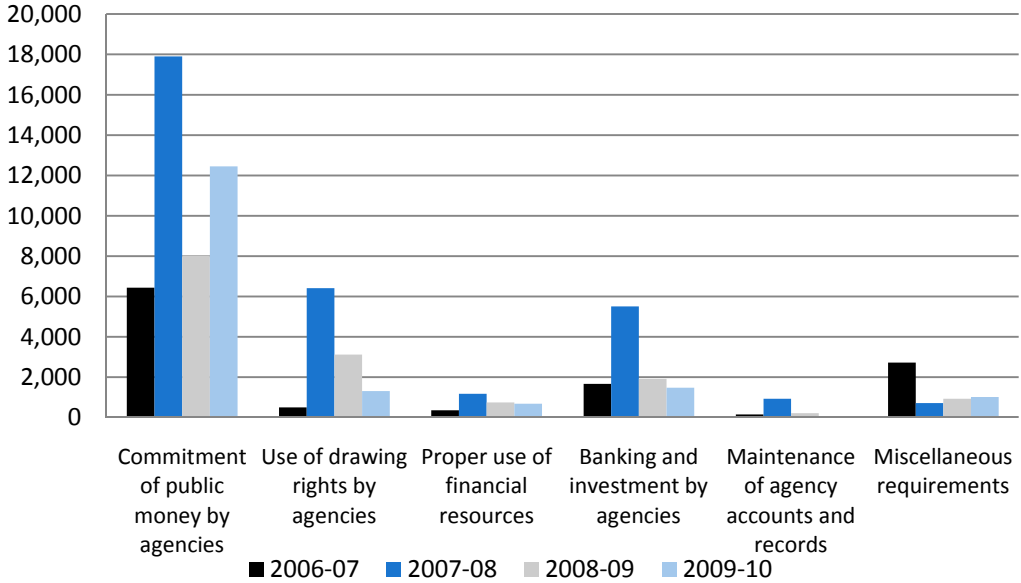
4.17 The *2009–2010 Certificate of Compliance Report to the Parliament* also presented trends in non-compliance for the six categories of compliance (Figure 4.2). As previously discussed, three categories combined have accounted for almost 90 per cent of total non-compliance in the past three

⁶⁰ Department of Finance and Deregulation, *2009–2010 Certificate of Compliance Report to the Parliament*, December 2010, pp. 4-5. Available at: <http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>.

years: the commitment of public money; the use of drawing rights; and banking and investment.

Figure 4.2

Instances of non-compliance by category from 2006–07 to 2009–10



Source: Department of Finance and Deregulation, *2009–2010 Certificate of Compliance Report to the Parliament*.

4.18 Overall, consistent with the perspective of Finance (see paragraph 4.16), analysis of reported instances of non-compliance over time indicates that the Certificate has had a positive impact on compliance with the financial management framework, with agencies first improving identification of non-compliance, and then working with some success to address problem areas. There is also correlation between changes made by Finance to financial management framework requirements and guidelines, and reductions in non-compliance. Nevertheless, there remain a significant number of instances of non-compliance in some key areas, particular where there are a large number of responsible officials (such as approval of spending proposals).⁶¹

⁶¹ As previously discussed, the increase in reported non-compliance under the ‘commitment of public money by agencies’ category for 2009–10 was largely due to the introduction of the revised CGGs, which came into effect on 1 July 2009. Specifically, a new requirement for grants to be reported on government websites within seven days of the execution of the funding agreement was introduced, and agencies have been working to adjust systems and processes to meet the new requirement.

This suggests that continued effort is required by Finance and agencies to support staff knowledge of relevant financial management framework requirements and how to meet them.

4.19 To illustrate these points, Table 4.1 below provides non-compliance data for selected financial management framework requirements that have been in place since the introduction of the Certificate, and for which reported non-compliance remains relatively high. In some cases (such as FMA Regulation 10 *Arrangements beyond available appropriation*, FMA Section 26 *Drawing rights required for payment etc. of public money* and FMA Section 10 *Public money must be promptly banked etc*), new Finance guidance, increased awareness of requirements and improved practices, have supported a reduction in reported non-compliance over time.

Table 4.1

Number of non-compliance instances by financial management framework requirement

Requirement	2006–07	2007–08	2008–09	2009–10
<i>Commitment of public money</i>				
FMA Regulation 9	1 522	1 331	2 964	1 809
FMA Regulation 10	1 890	2 350	854	805
FMA Regulation 12	246	1 684	691	468
<i>Use of drawing rights by agencies</i>				
FMA Act Section 26	477	6 337 ⁶²	3 004	1 292
<i>Banking and investment by agencies</i>				
FMA Act Section 10	678	2 598	410	572
FMA Act Section 11	207	566	704	611

Source: ANAO analysis of Certificate data provided by the Department of Finance and Deregulation.

Feedback on the impact of the Certificate

4.20 The ANAO received positive feedback on the impact of the Certificate process from external members of audit committees, in response to the CFO survey and from the audited agencies.

⁶² The increase in reported drawing rights non-compliance in the 2007–08 financial year was partly attributable to machinery of government changes and time taken to update delegations.

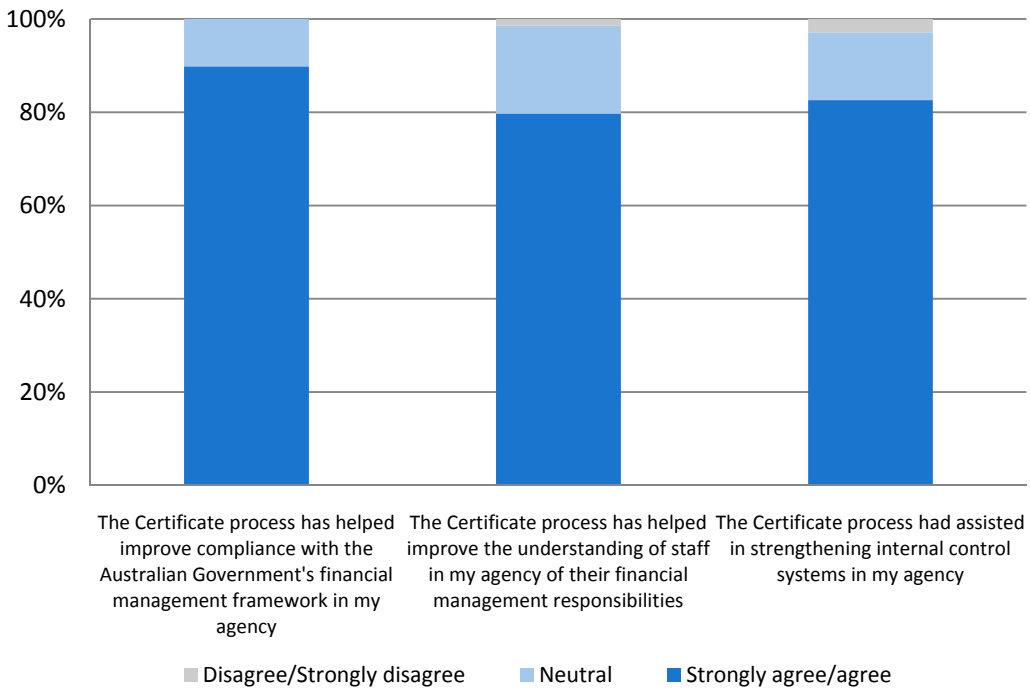
4.21 External members of audit committees consulted as part of the audit advised that the Certificate process had:

- led to increased awareness of financial management framework requirements;
- brought about significant process change, with agencies seeking to improve financial management practices and internal controls; and
- helped to improve compliance with financial management framework requirements.

4.22 The ANAO survey of CFOs also sought feedback on the impact of the Certificate, in terms of agency compliance with the financial management framework, staff understanding of their responsibilities under the framework, and strengthening of internal control systems. In these regards, a large majority of CFOs strongly agreed or agreed that the Certificate process had led to improvements (Figure 4.3).

Figure 4.3

Impact of the Certificate on agencies



Source: ANAO CFO survey.

4.23 In large part, the audited agencies provided similar perspectives on the impact of the Certificate process:

- AGD noted that the development of a framework for its Certificate had assisted the agency in identifying areas for improvements to internal processes, and also provided confirmation where existing financial controls were effective. Additionally, AGD indicated that there had been improved compliance with the financial management framework within the agency as staff had better understood their financial management responsibilities.
- ATO advised that legislative compliance and internal controls had improved at the ATO over the three years that the Certificate process had been conducted, in part due to the enhanced understanding of staff of their financial management responsibilities.
- CDPP noted that their Certificate process had matured over time. For areas where non-compliance was identified, internal control systems had been amended to ensure compliance. For example, the agency amended its approach to drawing rights as a result of issues identified.
- CGC considered their longstanding central oversight of financial processes and low transaction levels provided the necessary assurance that they were compliant with the requirements of the financial management framework. CGC advised that these internal controls and processes did not change due to the introduction of the Certificate. However, the recent identification of instances of non-compliance at CGC has led to administrative changes.

Conclusion

4.24 The design of the Certificate process is suitable given the purpose of the Certificate. In particular, Chief Executive sign-off on compliance heightens the focus on financial and legislative matters covered by the Certificate; and, adoption of 'reasonable confidence' as the standard for sign-off sets a realistic benchmark for Chief Executives to achieve. Within this framework, as Certificate and financial management arrangements mature, agencies should consider the opportunities for efficiencies in their processes.

4.25 Analysis of the reported instances of non-compliance over the four years of the Certificate process to date indicates that agencies first improved identification of non-compliance, and then worked with some success to

address problem areas. There is also correlation between changes made by Finance to financial management framework requirements and guidelines, and reductions in non-compliance.

4.26 A significant number of instances of non-compliance in key areas (such as approval of spending proposals) still remain. This suggests that continued effort is required by Finance and agencies to support staff knowledge of relevant financial management framework requirements and how to meet them.



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Auditor-General

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20 April 2011

Appendices

Appendix 1: CFO survey questionnaire

A. CFO and agency details

1. CFO name:
2. How many Certificate processes have you been through (at any agency):
3. Current agency name:

B. Agency Certificate process

4. How regularly does your agency collect Certificate data (please check all that apply):
 - Monthly
 - Quarterly
 - Annually
 - Ad hoc (as breaches occur)
 - Other (please state):
5. What method does your agency use to collect the data (please check all that apply):
 - Paper surveys
 - Email surveys
 - Excel spreadsheet
 - Sampling
 - Purpose built IT application
 - Financial system cross-checks
 - Other (please state):
6. Can you briefly describe the process used by your agency to collect Certificate data, including the responsibilities of staff at different levels (or with different delegations) throughout the process? If possible, please attach the Certificate policy/procedures your Executive has endorsed for the agency.
7. Please estimate the level of staff resources (FTE per year and APS classifications) your agency allocated to administering the 2008–09 Certificate process (that is, those staff that ran the process).

8. Has your agency estimated the annual direct cost of completing the Certificate process? If yes, what was the cost for the 2008–09 financial year (i.e. direct costs only, not including overheads)?
9. Do you have any further comments on the processes used by your agency to complete the Certificate.

C. Overall impact of Certificate

For questions 10 to 13, please indicate the extent to which you agree or disagree with the following statements:

10. The Certificate process has helped improve compliance with the Australian Government’s financial management framework in my agency.
 Strongly agree Agree Neutral Disagree Strongly disagree
11. The Certificate process has helped improve the understanding of staff in my agency of their financial management responsibilities.
 Strongly agree Agree Neutral Disagree Strongly disagree
12. The Certificate process has assisted in strengthening internal control systems in my agency.
 Strongly agree Agree Neutral Disagree Strongly disagree
13. The design of Certificate requirements is suitable given the intended aim of improving compliance with the Australian Government’s financial management framework.
 Strongly agree Agree Neutral Disagree Strongly disagree
14. Do you have any further comments on the overall impact of the Certificate on your agency?
15. Please describe any aspects of Certificate requirements that you think should be changed (for example, content of the Certificate, timing of the Certificate, method for reporting breaches)?

Department of Finance and Deregulation (Finance)

16. Which of the following sources of Finance assistance on the Certificate and financial management framework have you or your staff accessed (please check all that apply):

- Regular CFO forum
 Special CFO forum on the Certificate
 Finance circulars
 Direct advice (via emails, telephone)
 Presentations and workshops (for example, annual CPA Congress)

For questions 17 to 21, please indicate the extent to which you agree or disagree with the following statements:

17. Finance has provided adequate guidance and assistance on how to complete the Certificate.

- Strongly agree Agree Neutral Disagree Strongly disagree

18. Finance has provided adequate guidance and assistance on application of the financial management framework.

- Strongly agree Agree Neutral Disagree Strongly disagree

19. From the guidance and assistance provided by Finance, it is clear what constitutes an instance of non-compliance.

- Strongly agree Agree Neutral Disagree Strongly disagree

20. From the guidance and assistance provided by Finance, it is clear how instances of non-compliance should be reported.

- Strongly agree Agree Neutral Disagree Strongly disagree

21. From the guidance and assistance provided by Finance, staff in my agency can readily comprehend financial management requirements.

- Strongly agree Agree Neutral Disagree Strongly disagree

22. Do you have any further comments on Finance’s administration of the Certificate, and the support it provides?

D. Training

23. If you or staff at your agency have attended training provided by Finance on FMA legislation and regulations or Certificate requirements, please indicate what training was attended (please check all that apply):

- Budget and Financial Essentials
- Ad hoc training provided by Finance (for example, FMA Regulation 10 or Special Accounts)
- Other (please state):

24. What training does your agency provide to staff on their financial responsibilities and how regularly is this training run? Is any of this training compulsory?

25. Does your agency provide specific training to staff in line areas on completing the Certificate process?

- Yes
- No

26. Do you have any further comments on financial management or Certificate training provided by Finance or at an agency level?

E. Communication with other agencies

The purpose of this section is to gain an understanding of inter-agency communications on the Certificate.

27. Have you discussed the Certificate process with other agencies within your portfolio?

- Yes
- No

28. Have you discussed the Certificate process with other agencies outside your portfolio (other than Finance)?

- Yes
- No

29. If yes (to question 28), was this (please check all that apply):

- At a CFO Forum
- As part of a working group/formal meeting
- Informally

30. If yes (to question 28), did you discuss (please check all that apply):

- The internal process for collecting information
- The process for completing the Certificate
- The interpretation of FMA legislation and regulations
- Guidance received from Finance
- Other (please state):

F. Executive, Audit Committee and Internal Audit

31. Do any of the following committees contribute to the Certificate process in your agency, or regularly consider Certificate matters (for example, through review of the Certificate process administered in the agency or through review of Certificate results)? Please check all that apply.

- Executive Board/Committee
- Audit Committee
- Finance Committee
- Other (please state):

32. Have any of the following events occurred since introduction of the Certificate? Please check all that apply.

- Internal audits have been targeted to help ensure compliance with Certificate requirements
- The Certificate process has been reviewed by Internal Audit
- Findings from the Certificate have resulted in the review of a compliance issue (by Internal Audit or otherwise)
- Internal Audit findings have identified instances of non-compliance that have subsequently been reported in the Certificate

G. Certificate of Compliance report tabled in Parliament

33. Have you read the Certificate of Compliance report that was tabled in Parliament on 29 January 2010 (<http://www.finance.gov.au/publications/certificate-of-compliance-report/index.html>)? Do you have any comments on the report?

H. Further comments

34. Do you have any further comments on the Certificate?

Appendix 2: Differences in interpretation of financial management framework requirements

1. Testing across the four agencies identified a small number of issues where, as a result of agencies interpreting FMA legislation differently, there had been an impact on the number of instances of non-compliance reported in the Certificate, if reported at all.

Recording approval of a spending proposal

2. FMA Regulation 12 *Recording approval of a spending proposal* requires that where approval of a spending proposal has not been given in writing, the approver must record the terms of the approval in writing as soon as practicable after giving the approval. 'As soon as practicable' is not defined in the FMA Regulations.
3. Audit testing identified that for low-value purchases, internal processes within AGD and ATO allowed approvers to *document* their purchase approval upon the invoice for payment being received, rather than around the time they first approved the purchase. In AGD this was for expenditure up to the value of \$10 000 and in ATO for some expenditure up to the value of \$30 000. AGD advised the ANAO that on an annual basis they had approximately 45 000 transactions with a dollar value of less than \$10 000 and the ATO advised that they also had a substantial number of transactions below their \$30 000 threshold. Both agencies indicated their processes for documenting low-value purchase approvals provided operational efficiencies.
4. Following receipt of preliminary audit findings, AGD and ATO sought advice from Finance on how to interpret 'as soon as practicable' with a view to appropriate application of FMA Regulation 12. Finance advised that it was up to each agency to determine, based on risk management principles and the individual circumstances of the transaction entered into, a reasonable timeframe and whether the requirements of FMA Regulation 12 were being met.

Misapplication or improper use of public property

5. FMA Section 41 *Misapplication or improper use of public property* requires that an official or Minister must not misapply public property or improperly dispose of, or improperly use, public property.
6. The ATO had interpreted FMA Act Section 41 *Misapplication or improper use of public property* in a very broad manner including inappropriate

use of the Internet, email, image storage and/or distribution. This resulted in the ATO initially reporting a considerable number of instances of non-compliance with FMA Act Section 41 in their 2008–09 Certificate. Subsequent discussions between Finance and the ATO led to a decision to only report instances of non-compliance where improper use of public property resulted in a formal sanction of an employee.

Drawing rights

7. FMA Section 26 *Drawing rights required for payment etc. of public money* requires that an official or Minister must not make a payment of public money, request an amount be debited against an appropriation or debit an amount against an appropriation, except as authorised by a valid drawing right.
8. All three agencies that reported non-compliance in 2008–09 (AGD, ATO and CDPP) reported instances of non-compliance with FMA Act Section 26. A number of agencies have reported instances of non-compliance with FMA Section 26 due to having insufficient delegations in place when using an outsourced payroll provider and/or salary packaging provider where the outsourced provider becomes an allocated official operating on behalf of the agency.
9. As part of CGC’s annual financial reporting processes it was identified that there had been non-compliance with Section 26 of the FMA Act related to the outsourced payroll provider that is used by CGC, which had not been reported by CGC through the 2008–09 Certificate. CGC had not given the outsourced payroll provider delegation to spend public money, or delegation to draw down funds from the Consolidated Revenue Fund (the CGC official departmental bank account).
10. As previously mentioned, in response to issues being encountered by agencies in relation to drawing rights, Finance issued Finance Circular 2009/07 *Issuing and Exercising Drawing Rights*,⁶³ to assist agencies in understanding and complying with the legislative requirements.

⁶³ Department of Finance and Deregulation, *Finance Circular No. 2009/07 Issuing and Exercising Drawing Rights*. Available at: <<http://www.finance.gov.au/publications/finance-circulars/2009/docs/FC-2009-07-with-attachments.pdf>>.

Appendix 3: Agencies' responses

Department of Finance and Deregulation

Finance supports the recommendation that Finance strengthen coordination and provision of training on the financial management framework and Certificate of Compliance (Certificate) process, including by focusing Finance-run training on the key risk areas of the framework which account for most non-compliance. Training is an important part of Finance's strategy to improve understanding of, and compliance with, the financial management framework.

The report notes that Finance currently provides a suite of advice and training to agencies ranging in focus from base-level introductory training to technical and agency specific advice and training.

Base-level introductory training is available to agencies through the Budget and Financial Essentials (BFE) program. The curriculum for this training is monitored and updated throughout the year, especially in response to policy or legislative change or significant compliance issues identified as a result of the Certificate process.

Since February 2010, this program has been supplemented by the direct provision of training from Finance to agencies, with an emphasis on key non-compliance issues. During February-April 2010, Finance provided financial framework and Budget process training to 314 officers from 37 agencies across six states. 85 percent of participants stated that the training was relevant and useful.

Building on this, Finance has scheduled a second round of training, focused on key non-compliance issues, for agencies in the second and third quarters of 2011. This training has been informed through a survey of agencies to assess the level of financial management framework training currently provided. It is expected that similar base-level training will be provided, together with customised content addressing key risk areas identified in the 2009–10 Certificate process and the recent changes to the FMA Regulations.

Finance supports the suggestions throughout the report, that further guidance on Certificate requirements would be beneficial. This feedback will be considered in the context of updating the Finance Circular on the Certificate process.

Attorney-General's Department

The Attorney-General's Department (AGD) agrees with the overall findings of the ANAO audit report on *Management of the Certificate of Compliance Process in FMA Act Agencies*.

Since the 2008-09 audit period, AGD has made significant improvements to the internal Certificate of Compliance processes, including developing individual surveys to officials with specific financial responsibilities and requesting supporting evidence and commentary from each area within the Department to substantiate their compliance certification.

Further, in response to the findings of the audit, AGD has already implemented changes to its processes to improve the accuracy of its Certificate of Compliance report, including targeted testing of financial transactions and quality assurance checks of reported non-compliance through review of supporting evidence for each individual reported instance. The Department has also recently revised its internal policies governing the Certificate of Compliance process to provide more guidance and structure on the completion of the internal Certificate of Compliance processes.

Australian Taxation Office

The Australian Taxation Office (ATO) recognises the important role of the Certificate of Compliance (COC) in improving compliance with the Australian Government's financial management framework. We pride ourselves in having comprehensive and detailed processes to detect, identify, and report financial framework breaches in our COC and are pleased that this is reflected in the audit report.

We note that while the report identified areas all FMA agencies should consider for further improvement, the report does not make any specific recommendations directed at the ATO.

We consider the report to be a fair representation of our experience with the COC process and our experience with other agencies, whom we assist through information about our approach. The report will provide an opportunity for all agencies to learn from our experience, and the experience of the other agencies involved in the audit. We support the Better Practice section of the report, which reflects ATO's existing processes and approach.

From a broader Commonwealth perspective, the report also provides useful reflections about the extent to which agencies understand and manage their

financial risks. Although the COC is only one of the tools by which an agency informs itself about financial risks and compliance with the Commonwealth financial framework, we envisage that agencies who adopt the better practice model will see improvements in their financial management practices generally.

Office of the Commonwealth Director of Public Prosecutions

The CDPP welcomes the ANAO report, and agrees with the ANAO's recommendation in relation to the provision of training by the Department of Finance and Deregulation. Prior to this ANAO audit, the CDPP identified areas of reporting that could be subject to inconsistency across the Commonwealth, and agrees that better guidance and training would improve the quality of information reported to key stakeholders.

Following this audit, the CDPP has implemented a number of initiatives:

- re-evaluated internal controls;
- strengthened quality assurance reviews over testing results from State offices;
- strengthened Audit Committee oversight of the process; and
- implemented follow-up of remedial actions.

Commonwealth Grants Commission

The Commonwealth Grants Commission (CGC) agrees with the recommendation of the ANAO audit into the Management of the Certificate of Compliance Process in FMA Act Agencies.

The report and the suggestions for better practice in the management of the Certificate of Compliance process should encourage improvements to agencies' frameworks for the preparation of the Certificate.

CGC notes that generally, the report acknowledges some of the requisite differences between the approaches of differently sized agencies. Given the "one-size-fits all" approach of the Certificate of Compliance process, the understanding of the auditors of this aspect has produced not only a comprehensive report, but one which should be generally useful to small agencies such as CGC.

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