# DEECA Portfolio Financial Management Compliance Framework:An Explanatory Guide





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## Purpose

The purpose of this explanatory guide is to introduce the Portfolio Financial Management Compliance Framework (PFMCF) to the Department of Energy, Environment and Climate Action (DEECA) portfolio agencies. This guide provides the background to the inception of the PFMCF, looks at its application, conditions of complying, and explains where it sits within the Victorian Government’s financial management framework.

## Background

The Standing Directions 2018 (Directions) were issued by the then Assistant Treasurer (now Minister for Finance) under section 8 of the *Financial Management Act 1994* (FMA). Further to the Directions are Instructions to the Directions which are also mandatory for agencies to comply with. Victorian public sector agencies that are a ‘reporting’ entity[[1]](#footnote-2) under the FMA are required to comply with the Directions (and Instructions).

The Directions establish standards for financial management accountability, governance, performance, sustainability, reporting and practice for agencies. Their aim is to achieve a high standard of public financial management, performance and sustainability in the Victorian public sector consistent with the FMA.

The Directions reference other frameworks such as the Asset Management Accountability Framework, Resource Management Framework, Ministerial Directions for Public Construction Procurement and Victorian Government Purchasing Board supply policies. In total, these requirements are comprehensive, can be complex and require a significant amount of work to achieve compliance. All reporting entities are required to comply with the Directions regardless of their size, complexity of operations and risk profiles. This ‘one-size-fits-all’ approach places a significant compliance burden on small agencies within the DEECA portfolio and may, in some cases, detract resources from core functions.

The development of the PFMCF stems from the need for DEECA to address long-standing issues raised by its smaller portfolio agencies regarding the burden (resource and monetary) in complying with the Directions (and Instructions). Taking this into account, and in consultation with DTF, DEECA developed an alternative financial management framework. This enables the small, low risk DEECA portfolio agencies that meet the eligibility criteria to apply for full exemption from complying with the Directions and to instead comply with the DEECA PFMCF.

## DEECA Portfolio Management Compliance Framework (PFMCF)

The DEECA PFMCF is an alternate, financial management framework that sets out governance arrangements aimed at eligible DEECA agencies that have been provided a full exemption from having to comply with the Directions. These agencies are typically low risk, low profile, have limited income (and expenses) and have low complexity operations. The PFMCF sets, as a minimum, the requirements for eligible agencies to maintain a high standard of public financial management, performance and sustainability in the Victorian public sector.

###### DEECA’s PFMCF

## The structure of DEECA PFMCF follows that of the Directions. Requirements in the Directions that are generally not applicable to small, low-risk agencies have been removed and the new framework has been tailored to better suit the risk and financial management profile of the smaller, eligible agencies. Unlike the Directions, the framework does not include separate mandatory Instructions or non-mandatory Guidance documents.

Where a department has developed an alternate financial management framework to enable full exemption from the Directions, the Department of Treasury and Finance (DTF) requires the alternative framework to cover the following requirements as a minimum:

* general financial management accountabilities and responsibilities for key staff (CEO/CFO) and Responsible Body members
* effective financial governance and oversight
* effective information gathering and record keeping
* appropriate systems, procedures and internal controls, such as those set out in [Instruction 3.4](http://www.dtf.vic.gov.au/files/0b43b325-68cc-4285-9055-a5a6010a5a01/Standing-Directions-Instructions-2016.docx#Instruction_3_4) (including procurement)
* appropriate risk management, informed[[2]](#footnote-3) by the [Victorian Government Risk Management Framework](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Victorian-risk-management-framework-and-insurance-management-policy) (VGRMF)
* where the agency manages assets, requirements to effectively manage the assets informed by the Victorian Government’s [Asset Management Accountability Framework](http://www.dtf.vic.gov.au/Investment-Planning-and-Evaluation/Understanding-investment-planning-and-review/What-is-asset-management)
* where the agency manages investments and/or liabilities, requirements to effectively manage these can be informed by Government risk management requirements under the Directions/Instructions
* planning and managing performance
* statutory reporting obligations (e.g., annual reports); and
* compliance reporting to the Portfolio department.

###### Applying other legislation, standards and policies

Where an Agency has been granted a full exemption from complying with the Directions, it is required to comply with DEECA’s PFMCF. The PFMCF replaces an Agency’s compliance obligations under the Directions and Instructions *only*. Application of the PFMCF **does not** preclude any Agency from any other obligations outside the scope of the Directions and Instructions. This can include industry regulations or other legislative requirements under the Victorian Government’s financial management framework.

The following diagram illustrates the relationship between the Standing Directions and the PFMCF within the Victorian Government financial management framework.



###### Terms and conditions of complying with DEECA’s PFMCF

Complying with DEECA’s PFMCF is conditional and subject to two annual attestation processes.

The first is an eligibility status check, usually done in April each year, from DTF’s Financial Frameworks team. This attestation asks if the Agency has:

1. Established and maintained alternative arrangements to ensure that no aspect of financial governance is compromised (i.e. implementation of DEECA’s PFMCF);
2. Not undergone any significant change to its risk profile and functions; and
3. Not identified any key audit finding that might suggest deficiencies in its financial management and internal control systems.

Continuation to comply with DEECA’s PFMCF is subject to the Agency response and DTF confirming future status.

Secondly, there is a DEECA annual attestation to the level of compliance achieved with the DEECA PFMCF. Each year, around September, the department asks agencies to make a compliance assessment and complete a Financial Management Compliance Report. The compliance assessment under the framework does not require a comprehensive compliance checklist (like the Directions do). It is instead **exception based** and requires agencies to advise the department if there are any significant compliance deficiencies and/or risks identified during the year.

###### Application to comply with DEECA’s PFMCF

If your agency fits the eligibility criteria and would like to comply with the DEECA PFMCF, then the first step is to seek a full exemption from the Directions from the Minister for Finance. Direction 1.5 *Exemptions* steps out the process of applying for an exemption and additional instructions have been provided below.

The PFMCF is mandatory for all Agencies that have been granted a full exemption from the Directions (and Instructions). That is, there is no other arrangement that can be entered into if a full exemption from complying with the Directions has been granted.

Requests for a full exemption to comply with the DEECA PFMCF are granted prospectively. Applications must be made no later than March each year. If granted, the application is effective for the following reporting period (year).

To seek a full exemption from the Directions, the following steps must be followed**:**

1. Contact DEECA’s Finance, Infrastructure and Procurement Services (FIPS) division, via pefinance@deeca.vic.gov.au informing them of the intention to apply for a full exemption from complying with the Directions and to instead comply with the DEECA PFMCF. The FIPS team can send all relevant information to you, including the DEECA PFMCF framework, to enable the Agency to make an informed decision if they wish to proceed.
2. If you assess your Agency as eligible, talk to your governance/relationship management team about the proposal and seek their support to commence the process.
3. Complete the relevant forms (provided in step 1) ensuring that:
	1. The Responsible Body (Board) of the Agency approves the application
	2. The request has been reviewed and endorsed by the DEECA relationship manager of the Agency
4. Submit the completed form to FIPS by 1st March in the year prior to the application of the exemption (i.e., by 1March 2025 for the 2025-26 compliance year).
5. The PBFM team within DEECA will liaise with the DTF Financial Frameworks team for in principle support and feedback (using the draft form provided by the Agency). PBFM will then advise the agency of the DTF response. Any DTF recommendations should be considered to ensure that there are no questions or issues that might arise later in the process and cause delays or may even result in a re-submission through the approval process within DEECA.
6. Once in principle approval has been received from DTF, the request is required to be recommended by DEECA’s Executive Director, Finance, Infrastructure and Procurement Services.
7. The request is required to be endorsed by DEECA's Secretary.
8. The request is required to be approved by the Portfolio Minister.
9. The Minister for Finance will then assess requests for exemptions and make their decision.

The Agency will be advised, in writing, of the Minister for Finance’ decision. Where a request is rejected, reasons will be provided. The approval from the Minister for Finance may be granted with, or without, conditions and can be provided for a specified period or on an ongoing basis. Exemption requests are not required to be re-submitted each year unless specified by the Secretary or Minister for Finance.

It is the Responsible Body’s responsibility to maintain compliance with the DEECA PFMCF where a full exemption from the Directions has been granted.

Agencies are required to notify the Secretary in writing, as soon as reasonably practical, if there were an alteration to their circumstances that would deem them no longer eligible for full exemption from the Directions and therefore ineligible to comply with the DEECA PFMCF. This will mean that the Agency will revert to complying with the Directions (and Instructions).

In the future, if the Agency’s circumstances were to change to make them eligible again, they will be required to re-apply for compliance with the PFMCF (status does not automatically ‘revert’). Additionally, the Secretary can at any time notify an Agency (in writing), that they can no longer comply with the PFMCF. This would mean that the status of full exemption from the Directions will be revoked, and the Agency will be required to comply with the Directions.

Agencies wishing to seek a partial exemption (whether it’s due to being a new set up, or for exemption from complying with a particular Direction) can follow instructions under Direction 1.5 and apply directly to DTF. Any exemption request should be done in consultation with the Agency’s DEECA relationship management team.

## Approval and review

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| Document owner | Finance, Infrastructure and Procurement Services |
| Contact | Manager Portfolio Budget Coordination, joel.townsend@deeca.vic.gov.au |
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1. To find out if your agency is a reporting entity that is subject to the Directions, the DTF website has an assessment guidance document that can be accessed by clicking [here](https://www.dtf.vic.gov.au/standing-directions-2018-under-financial-management-act-1994). [↑](#footnote-ref-2)
2. Informed, in this context, means referencing these frameworks and applying relevant sections (where deemed appropriate) when setting up financial management compliance policies and processes. Full compliance with these frameworks is not mandated by the PFMCF. [↑](#footnote-ref-3)