

Part 3.3: Financial Management



Financial accountability responsibilities

The Department's financial accountability responsibilities are set out in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and subordinate legislation, collectively known as finance law.

In support of the finance law, the Department's Accountable Authority Instructions are issued in accordance with section 20A of the PGPA Act. The Department has also issued Finance Business Rules that clearly set out the rules and processes required for the administration of the Department.

The finance law, supporting instructions and rules, provide a framework to ensure the efficient, effective, economical and ethical use of public resources. The Department's Finance and Resources Committee provides advice and makes recommendations to the Executive Committee on financial matters including operation and capital expenditures. Further, the Department's Audit and Risk Committee provides independent advice and assurance to the Accountable Authority (the Secretary). Further detail on the Department's governance committees is provided in *Part 3.1: Corporate Governance*.

The finance law also mandates the production of audited financial statements prepared in accordance with the Australian Accounting Standards. The complete set of financial statements for the Department is provided in *Part 4: Financial Statements*. The *Chief Operating Officer's Report* provides an overview of the Department's financial results for 2016-17.

Managing our assets

The Department holds financial and non-financial assets. Financial assets include cash and receivables, which are subject to internal controls and reconciliations.

Non-financial assets are held for operational purposes and include computing software and hardware, building fit-out, furniture and fittings. Decisions about whole-of-life asset management are undertaken in the context of the broader Department's strategic planning to ensure that investment in assets supports cost effective achievement of the Department's objectives.

Effective management of the Department's limited capital budgets is achieved by:

- including whole-of-life consideration in proposals for capital expenditures;
- whole-of-Department prioritisation of capital projects and major purchases by the Department's Finance and Resources Committee;
- undertaking regular stocktakes of physical assets; and
- annually reviewing assets for indications of impairment and changes in expected useful lives.

Procurement

Purchasing

The Department's approach to procurement activity is driven by the core principles of the Commonwealth's financial management framework. The framework encourages competition, value for money, transparency, and accountability as well as the efficient, effective, ethical and economical use of Commonwealth resources.

During 2016-17, the Department increased its focus on procurement communication, education and quality assurance processes to improve compliance.

The Department is currently undertaking a Procurement Transformation Project to further strengthen governance and quality assurance for legislative compliance, data integrity and reporting accuracy of procurement activities.

Initiatives to support small business

Small and Medium Enterprises (SME) make up the majority of all Australian businesses, contribute billions of dollars to the economy and provide employment for millions of Australians. The Department supports small business participation in the Commonwealth Government procurement market. SME participation statistics are available on the Department of Finance's website at: www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts/



63% of the Department's contracts are with SMEs, representing **22%** of total value

65% of the Therapeutic Goods Administration's contracts are with SMEs, representing **70%** of total value⁶⁵

The Department's measures to support SMEs include:

- implementation of the Indigenous Procurement Policy (IPP), of which detailed information is included below;
- Small Business Engagement Principles clearly communicated in simple language and in an accessible format as outlined in the Government's Industry Innovation & Competitiveness Agenda;
- use of the Commonwealth Contracting Suite (CCS) to minimise the burden on businesses contracting with the Commonwealth Government; and
- internal guidance and advice to support the IPP, Small Business Engagement Principles and the CCS.

The Department recognises the importance of ensuring that small businesses are paid on time. The results of the most recent Survey of Australian Government Payments to Small Business,⁶⁶ released in April 2017, showed that the Department paid 81.4 per cent of invoices on time. This result was significantly poorer than the Commonwealth average of 97.8 per cent. Significant structural changes adversely affected payment times and, in response, the Department introduced a new electronic Vendor Invoice Management system in November 2016 to enhance efficiencies in the payment of supplier invoices.

⁶⁵ Data was published in December 2016 and represents performance in the 2015-16 financial year.

⁶⁶ Available at: www.treasury.gov.au/publication/australian-government-pay-on-time-survey-performance-report/

Indigenous Procurement Policy

Indigenous businesses are vital to creating jobs and employing more Indigenous Australians. The Indigenous Procurement Policy aims to enable these Indigenous businesses to grow and create opportunities for Indigenous Australians.

The Department's target of 73 contracts with Indigenous businesses in 2016-17 was significantly exceeded with a total of 346 engagements worth a combined total value of \$11.5 million. A focus on communications, updated procurement processes and improved reporting mechanisms delivered this achievement. The Indigenous Procurement Policy Strategy was introduced in January 2017 and the updated *Innovate Reconciliation Action Plan*, which incorporates Indigenous business development targets, was launched in early July 2017.

The Department continues to promote awareness of opportunities to procure goods and services from Indigenous businesses and is a member of Supply Nation, which supports and empowers Indigenous enterprises to achieve success and build business.

Consultants

The Department engages consultants when specialist expertise or independent research, review or assessment are required to:

- investigate or diagnose a defined issue or problem;
- carry out defined reviews or evaluations; or
- provide independent advice, information or creative solutions to assist in the Department's decision-making.

The Department takes into account the skills and resources required for the task, the skills available internally and the cost-effectiveness of engaging external expertise. Decisions to engage consultants are made in accordance with the PGPA Act and related regulations including the Commonwealth Procurement Rules and other internal policies.

During 2016-17, 560 new consultant contracts were awarded, with a total expenditure of \$99.3 million. This represents a 33 per cent increase in the number of contracts from 2015-16 where 421 contracts were awarded. The value of contracts in 2016-17 increased by more than 70 per cent from 2015-16 where \$22.6 million was expended.

The increase in consultancy expenditure during 2016-17 can be attributed to work carried out for the Aged Care Digital Payments Program and evaluation of submissions to the Pharmaceutical Benefits Advisory Committee.

In addition, 179 ongoing consultancy contracts were active during 2016-17, involving total actual expenditure of \$32.9 million.

Further information on the value of contracts and consultancies valued over \$10,000 is available on the AusTender website at: www.tenders.gov.au

Exempt contracts and Australian National Audit Office access

Exempt contracts

In 2016-17, 116 contracts were exempt from reporting on AusTender on the basis that publishing contract details would disclose exempt matters under the *Freedom of Information Act 1982*. This represents a reduction from 2015-16 where 171 contracts were exempt from reporting.

Australian National Audit Office access clauses

In 2016-17, there were nil departmental contracts exempt from the standard contract clauses which grant the Auditor-General access to contractor premises.

Grants

The Department supports a range of Government policy decisions through provision of grant funding across 21 Programs and six Outcomes. The Department's grants administration practices are based on the mandatory requirements and principles of grants administration in the Commonwealth Grant Rules and Guidelines. The Commonwealth Grant Rules and Guidelines establish the overarching Commonwealth grants policy framework and articulate expectations of non-corporate Commonwealth entities in relation to grants administration.

Much of the Department's grants administration is delivered by the Department's Health State Network Division. For further information on key activities in 2016-17, refer *Chief Operating Officer's Report*.

The Department's grants administration is also undertaken in partnership with the Community Grants Hub within the Department of Social Services.

In line with the requirements of the Commonwealth Grants Rules and Guidelines, the Department has adopted a risk-based approach to grants administration. Key to the Department's risk-based approach is risk assessment and management at the design, select and manage stages of the grants administration lifecycle. This approach helps the Department achieve value for money, meet outcomes, reduce red tape for funded organisations and apply the principle of proportionality.

Information on grants awarded by the Department during the period 1 July 2016 to 30 June 2017 is available at: www.health.gov.au/internet/main/publishing.nsf/Content/pfps-grantsreporting