

**DEPARTMENT OF DEFENCE POSITION PAPER ON THE IMPLEMENTATION OF  
'FINANCE CIRCULAR 2006/08 CERTIFICATE OF COMPLIANCE – FMA ACT AGENCIES'  
IN DEFENCE**

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**Purpose of the Defence Position Paper**

This Position Paper details Defence's interpretation of key terms in the draft Finance Circular No. 2006/08, the scope of the Certificate of Compliance for Defence and the process to be taken by Defence in completing their Certificate of Compliance.

**Approvals:**

Mr Phillip Prior  
Chief Finance Officer, Defence  
Date

Mr Will Laurie  
Chair, Defence Audit Committee  
Date

Dr Ian Williams  
Inspector General  
Date

**Endorsements:**

Mr Ric Smith  
Secretary, Defence  
Date

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**Position Paper Summary**

The Defence position paper is set out as follows:

1. Defence definitions of key terms in the Department of Finance and Administration guidance materials at Attachment C of Annex A;
2. The scope of the Certificate of Compliance within Defence;
3. Defence process for completing the Certificate of Compliance; and
4. Summary of the roles and responsibilities within Defence for completion of the Certificate

Annexes:

- A. Finance Circular No. 2006/08 Certificate of Compliance – FMA Act Agencies.
- B. Defence compliance requirements scoping summary table.
- C. Defence Certificate of Compliance Process Map.

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**1. Defence Definitions**

To provide clarity and consistency in the interpretations of Finance Circular No. 2006/08, Defence apply the following definitions.

*Finance Circular No. 2006/08 Attachment C, paragraph 3 states:*

*“When the Chief Executive is certifying, based on the agency’s internal control mechanisms, management and audit committee advice, it is not intended that all actions and transactions of the agency must be checked. It is, however, expected that Chief Executive 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.”*

Internal Control Mechanisms

‘Internal control mechanisms’ are the internal processes and controls implemented to either prevent and/or detect instances of non compliance with the requirements of the Certificate of Compliance.

Management Advice

‘Management advice’ is the four-monthly Certificates of Compliance completed and submitted to the Finance Executive by the Heads (“Heads”) of the following organisational entities:

<b>Defence</b>
Army
Navy
Air Force
Intelligence and Security Group
Defence Support Group
Joint Logistics Group
Chief Information Officer Group
Defence Science and Technology Organisation
Inspector-General
Vice Chief of Defence Force/ Chief Joint Operations
Capability Development Executive
Strategy Executive
Finance Executive
Personnel Executive
Chief of Staff Australian Defence Headquarters
Military Justice Entities

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Audit Committee Advice

Audit Committee advice includes any Certificate of Compliance advice provided by the Defence Audit Committee to the Secretary.

***Finance Circular No. 2006/08 Attachment C, Paragraph 8 states***

*“The level of confidence is therefore not absolute – however it is expected that reasonable confidence would be associated with a fairly remote chance of overlooking a significant compliance failing.”*

Significant Compliance Failing

A compliance failing is significant if:

- 1) It is systemic in nature;
- 2) It has an associated penalty;
- 3) It will affect the sustainability of Defence; or
- 4) It may result in negative public perception of Defence.

***Finance Circular No. 2006/08 Attachment C, Paragraph 6 states:***

*“Any internal control system, no matter how well operated, is unlikely to be able to prevent or detect all error or misstatements. Such systems are limited by the realities that judgements in decision making can be faulty and that systems can fail. A reasoned judgement and balanced risk-based approach to the compliance monitoring process is required. “*

Balanced Risk Based Approach

A ‘balanced risk based approach’ is an approach aimed at ensuring the right balance is achieved between establishing monitoring processes and controls, compared to the level of risk of non compliance. Each year, Finance Executive will perform a risk assessment of the Certificate’s requirements. The results of this exercise will be endorsed by the Defence Audit Committee and forwarded to the Heads to provide guidance for their compliance monitoring activities.

***Finance Circular No. 2006/08 Attachment C, Paragraph 35***

*“Where an agency is not operating within agreed resources for the financial year as recorded in the Australian Government’s central budget management system), an explanation must be provided at Appendix B.”*

Resources

Resources are defined by Defence as being cash to meet current and future commitments.

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**2. The scope of the Certificate of Compliance within Defence**

Defence has analysed the contents of the legislation, policies and guidelines referred to in the Certificate to determine those requirements which are applicable to Defence. A summary of this analysis is attached in Annex B.

In determining the applicable requirements, Defence has considered the entire contents of the legislation, policies and guidelines. Some of the content does not necessarily detail a requirement for compliance and thus has been deemed not applicable for compliance reporting by Defence. Content is not applicable to Defence for compliance reporting when it describes:

- a) the commencement of the legislation, policies, or guideline;
- b) the name of the legislation, policies or guideline;
- c) definitions;
- d) background information to a requirement;
- e) a requirement of the Finance Minister, Minister or Governor General.

The Defence analysis determined that out of 463 section contents analysed there are 210 applicable requirements for compliance reporting under the Certificate of Compliance as detailed in Annex B.

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### **3. Defence process for completing the Certificate of Compliance**

Every 4 months each Head will complete their own Certificate of Compliance by certifying with reasonable confidence that their Group/Service/Division/Team has complied with the requirements of the Certificate, except for the known instances of non compliance documented. The Certificates will be due end of July, November and March each year, which aligns with the Due Diligence reporting process.

At the beginning of the Certificate of Compliance annual reporting cycle, Heads will be provided with the current risk assessment and guidance materials. The risk assessment will guide their process and control monitoring activities while the guidance materials will assist them in completing and submitting their certificates.

The guidance materials will include

- Information about the Certificate of Compliance;
- The four-monthly Certificates of Compliance;
- The four-monthly Certificate templates (detailing applicable Defence requirements);
- Instructions for the completion and submission of the templates and the Certificate;
- Information about the Quality Assurance process to be performed by the Finance Executive; and
- Information on how the certificates from the 3 reporting periods are aggregated into the Annual Defence Certificate of Compliance.

During the year, quality assurance on certificates will be performed by the Finance Executive. This may include interviews with the Heads, review of documentation supporting their certification, and/or audits. Quality assurance is designed to assess whether the Heads have performed sufficient monitoring activities to complete their certificates and to achieve reasonable confidence with their certifications. In addition, audit reports from audits performed as part of the internal audit program during the certificate year will be reviewed and any compliance related findings compared to the certificates for consistency.

After the quality assurance has been performed, the Finance Executive will provide the audit committee with an analysis of the returned four-monthly Certificates of Compliance. The Defence Audit Committee will review this analysis and take action and/or provide advice as deemed appropriate.

At the end of the last reporting period in the certificate year, the Finance Executive will draft the Annual Certificate of Compliance for the Secretary based on the returned certificates for the 3 reporting periods and quality assurance. The Defence Audit Committee will review the Certificate and provide advice to the Secretary as appropriate. Once the Audit Committee has endorsed the draft Annual Certificate of Compliance, the Certificate will be forwarded to the Secretary for consideration.

A diagram illustrating the above process is attached at Annex C.

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**4. Summary of the roles and responsibilities within Defence for completion of the Certificate**

The following roles and responsibilities apply to ensure the Defence Certificate of Compliance is completed in a timely and accurate manner -

The Finance Executive will:

- a) Perform the risk assessment on the compliance requirements;
- b) Obtain endorsement on the risk assessment from the Audit Committee;
- c) Develop the Guidelines for the Heads;
- d) Manage the completion of the four-monthly compliance certificates
- e) Perform quality assurance on the returned four-monthly compliance certificates;
- f) Prepare an analysis on the four-monthly certificates for the audit committee each quarter;
- g) Draft the Annual Certificate of Compliance for consideration by the Audit Committee; and
- h) Forward the Annual Certificate of Compliance for consideration by the Secretary.

The Heads are responsible for:

- a) Implementing and maintaining sufficient processes and controls to monitor compliance; and
- b) Completion and sign-off of the four-monthly certificates

The Audit Committee will:

- a) Approve the Management Position Paper;
- b) Endorse the risk assessment;
- c) Review the analysis of the four-monthly certificates and take any action deemed necessary; and
- d) Provide advice to the Secretary prior to their sign off on the Annual Certificate of Compliance.

The Secretary will:

- a) Endorse the Management Position Paper;
- b) Consider the internal control mechanisms, management and audit committee advice; and
- c) Sign and submit the Annual Certificate of Compliance.