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25 APR 2004

**SENATOR THE HON NICK MINCHIN**  
Minister for Finance and Administration  
Deputy Leader of the Government in the Senate

JOINT COMMITTEE OF  
29 APR 2004  
PUBLIC ACCOUNTS & AUDIT

18 APR 2004

Mr Bob Charles MP  
Chairman  
Joint Committee of Public Accounts and Audit  
Parliament House  
CANBERRA ACT 2600

Dear Bob,

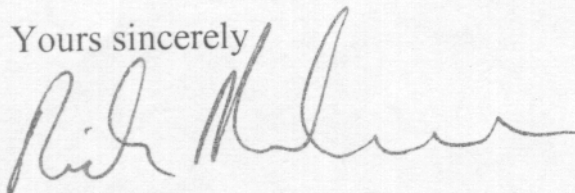
I am writing to provide you with the Government response to Report 396 of the Joint Committee of Public Accounts and Audit, entitled *Review of Auditor-General's Reports, 2002-2003, First, Second, and Third Quarters*.

Recommendation 6 of Report 396 recommended that 'the Commonwealth should adopt procedures for notifying the Parliament of the issuing of indemnities based on the procedures used by the United Kingdom Parliament'.

The Government has not agreed to this recommendation, but I note that the Finance Minister's Orders for 2003-04 will include considerably enhanced requirements relating to the reporting of indemnities and other contingencies in agencies' financial statements.

My Department would be happy to discuss any aspect of the Government response further. Should the Committee have any questions on the response, or the Australian Government policy on the issuing and management of indemnities and other contingencies, please contact Michael Culhane on 6215 2148.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nick Minchin', written in a cursive style.

**Nick Minchin**

**JCPAA Report 396: Review of Auditor-General's Reports,  
2002-2003, First, Second and Third Quarters**

**Government Response to Recommendation 6 of the report**

**Recommendation 6**

The Commonwealth should adopt procedures for notifying the Parliament of the issuing of indemnities based on the procedures used by the United Kingdom Parliament.

*Do not agree*

The Government does not agree with the recommendation. The Government will, however, enhance the level of disclosure of indemnities in agency financial statements.

In the United Kingdom the process for entering and reporting indemnities involves a requirement that certain classes of indemnities be advised to the Parliament by the tabling of a minute in the House of Commons, generally for a period of 14 days before they are issued. This minute is for information purposes and does not provide Parliament with a role in approving these instruments. Minutes can be tabled after the event should circumstances dictate.

While the Australian system does not replicate this requirement, it has a more broadly based approach to managing proposals for indemnities and their reporting to Parliament. Prior to approving a proposal to enter into an indemnity, Australian Government officials are required, by regulations under the *Financial Management and Accountability Act 1997*, to consider the available appropriation to meet the costs of the indemnity. Should there not be sufficient appropriation, the official must seek the authorisation of the Minister for Finance and Administration or his or her delegate. We understand that similar statutory requirements do not exist in the United Kingdom. Further, in Australia, material indemnities and other contingent liabilities are reported in agencies' financial statements, and the Consolidated Financial Statements. Those contingent liabilities that are material to the budget are required, under the *Charter of Budget Honesty Act 1998*, to be advised to Parliament twice a year in the Budget Papers and the Mid-Year Economic and Fiscal Outlook.

However, the Government recognises the need to continually review the processes for issuing and managing indemnities, and reporting these instruments to Parliament. The Department of Finance and Administration released the 'Guidelines for Issuing and Managing Indemnities, Guarantees, Warranties and Letters of Comfort' in September 2003. In terms of reporting, it is intended that the Finance Minister's Orders (FMOs) for 2003-04 will include considerably enhanced requirements to ensure that agencies' financial statements distinguish between quantifiable indemnities, and other contingencies, that have been issued during the financial year, those which have crystallised, and those that remain in force from previous financial years.