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JOINT COMMITTEE OF

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PUBLIC ACCOUNTS & AUDIT

Senator the Hon Richard Colbeck
Senator for Tasmania
Parliamentary Secretary to the Minister for Finance and Administration

Mr Tony Smith MP
Chairman
Joint Committee of Public Accounts and Audit
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

3 0 MAY 2006

Dear ~~Mr Smith~~ Tony,

Responses to the Joint Committee of Public Accounts and Audit (JCPAA) Report 404 Recommendations

I am writing in regard to the 404th report of the JCPAA tabled in Parliament on 7 November 2005, entitled *Review of Auditor-General's Reports 2003-04 Third and Fourth Quarters; and First and Second Quarters of 2004-05* (the Report).

I have attached the response from the Department of Finance and Administration in respect of recommendations 3, 15 and 32. Where necessary, these responses have been developed in consultation with the other relevant agencies. Finance has held discussions with the Attorney-General's Department and agreed that the response to recommendation 33 will be provided by the Attorney-General's Department, given its responsibility for the legislation concerned.

If you would like to discuss any of these issues further, please contact Mr Neil Robertson, Acting Branch Manager, Finance and Banking Branch on (02) 6215 2110.

Yours sincerely

Richard Colbeck

Richard Colbeck

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Australian Government

Department of Finance and Administration

Dr Ian Watt
Secretary

EXECUTIVE MINUTE

on

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REPORT ***[No.404]***

[Review of Auditor General's Reports 2003-2004, Third & Fourth Quarters: and First and Second Quarters of 2004-2005]

Response to the recommendations

Recommendation No. 3 paragraph 2.62

The Committee recommends that the Department of Finance and Administration in consultation with the Attorney-General's Department develop guidelines to assist agencies in developing valuation systems for their intellectual property.

Finance agrees with this recommendation, noting that agency valuation systems should be directed towards providing valuations for internal risk and asset management purposes only. Valuations undertaken by agencies should not be used for accounting purposes and should not be used as the sole or principal justification for commercialisation decisions (sale, licensing etc).

Intellectual property is rarely recorded in the financial statements of Commonwealth agencies. One reason for this is that intellectual property is considered difficult to value reliably, because there are a variety of methods available to prepare valuations, and there is often difficulty in obtaining data to use in the valuations. Thus there is a considerable reliability issue in agencies preparing valuations of intellectual property in response to the recommendation of the JCPAA.

Nevertheless, having a valuation may be relevant in the management of significant items of intellectual property. It is relevant in considering the consequences of risks to know the value being put at risk. Accordingly, it is relevant to obtain an indicative value of intellectual property as long as the valuation is treated with appropriate care. Thus it is appropriate to agree to the JCPAA recommendation, noting the restriction of the use of valuations for risk and asset management purposes.

Recommendation No. 15 paragraph 6.29

The Committee recommends that in future privatisation programs, government agencies include a clause in all sales contracts which provides for the Commonwealth's cost-recovery of administrative expenses. Government agencies should then ensure that they undertake cost-recovery of such expenses as a matter of course.

Finance does not support this recommendation. Based on past experience, asset sales do not typically trigger ongoing post sale expenses for Government to administer.

On the rare occasion that this might be the case, Finance considers this a valid cost to Government and should not be borne by the purchaser.

Recommendation No. 32 paragraph 10.55

The Committee recommends that the Department of Finance and Administration continues to provide ongoing advice to all Commonwealth agencies in relation to the accurate management and reporting of special appropriations.

Finance agrees with this recommendation. Agencies' Chief Executives are responsible for complying with the relevant provisions of the financial management framework. As part of its existing role, Finance will continue to provide guidance and advice to Australian Government agencies to assist Chief Executives to meet their compliance obligations, including the requirements for the accurate management and reporting of special appropriations.

The Australian National Audit Office (ANAO) in its audit report on the Financial Management of Special Appropriations, identified the range of guidance already issued by Finance on appropriation management. The ANAO also noted that this work provides a strong platform for agencies enhancing their management and disclosure of appropriations.

Since the audit, Finance has released Finance Circular 2005/13: *Allocation of Responsibilities for Special Appropriations* to assist departments and agencies in determining responsibilities for managing and reporting on particular special appropriations. This Finance Circular provides guidance on how to allocate special appropriations, contained within legislation described in the Administrative Arrangements Order, to the relevant *Financial Management and Accountability Act 1997* (FMA Act) agencies within a portfolio and Chief Executives' subsequent responsibilities to manage those special appropriations in accordance with the FMA Act.

The Finance Minister's Orders now clarify the arrangements for the reporting of Special Appropriations by agencies. Agencies are required to report the amount drawn on every special appropriation for which they are responsible, including where the amount drawn is zero.

I J Watt