



Senator the Hon Richard Colbeck

Senator for Tasmania

Parliamentary Secretary to the Minister for Finance and Administration

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

14 MAR 2007

Dear Mr ~~Barresi~~ Phil,

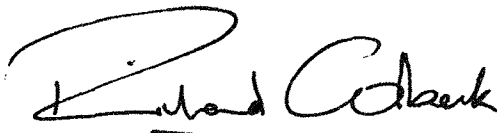
**Response to the Joint Committee of Public Accounts and Audit (JCPAA)
Report 407 Recommendations**

I am writing in regard to the 407th report of the JCPAA tabled in Parliament on 4 September 2006, entitled *Review of Auditor-General's Reports tabled between 18 January and 18 April 2005* (the Report).

I have attached the response from the Department of Finance and Administration in respect of recommendations 2 and 13.

The contact officer for this matter is Dr Tom Ioannou, Assistant Secretary, Financial Framework Policy Branch on (02) 6215 3538.

Yours sincerely


Richard Colbeck



Australian Government
Department of Finance and Administration

Dr Ian Watt
Secretary

EXECUTIVE MINUTE

on

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT
REPORT No.407

Review of Auditor-General's Reports tabled between 18 January and 18 April 2005

Response to the recommendations

Recommendation No. 2 paragraph 2.73

The Committee recommends that the Department of Finance and Administration develop a register of information about the investment of public monies by FMA Act and CAC Act entities. The register should include:

- *the dollar value of investments by each agency;*
- *the rate of return on investments in the previous 12 months;*
- *a copy of each agency's investment strategy and credit risk strategy;*
- *an outline of the management of investments – via an external management agent (and any applicable fees), or in-house.*

This register should be updated annually, at the conclusion of the financial year.

The Department of Finance and Administration (Finance) does not support this recommendation.

Finance considers that the development of a register of information on entities' investments where Finance is responsible for collecting and maintaining information may cause confusion regarding the respective responsibilities of Finance, the Chief Executives of FMA Act agencies, and the directors of CAC Act bodies.

Consistent with the devolved financial framework, responsibility for financial management sits with the individual *Financial Management and Accountability Act 1997* (FMA Act) agency. It is the responsibility of agency Chief Executives to ensure compliance with the financial framework and the proper management and reporting of their investments.

Commonwealth Authorities and Companies Act 1997 (CAC Act) bodies are legally and financially separate from the Commonwealth, and have the ability to hold money on their own account. Under the CAC Act, directors of Commonwealth authorities are responsible, in accordance with their director's duties, for the financial management of their organisation including the investment of any surplus moneys.

Finance also considers that a register may not represent the most efficient use of government resources, as appropriate mechanisms already exist for the open and transparent reporting of entities' investment activities.

Since the Australian National Audit Office's audit on investments, tabled on 18 January 2005, Finance has issued guidance to assist agencies with their compliance and has introduced measures that will improve the transparency of investment activities for both FMA Act agencies and Commonwealth Authorities.

The initiatives introduced for FMA Act agencies with investment powers delegated under section 39 of the FMA Act include:

- The revision of the *Financial Management and Accountability Orders (Financial statements for reporting periods ending on or after 1 July 2006)* (Finance Minister's Orders) to more clearly detail the flow of investments transacted through Special Accounts¹. These reporting requirements are at [Attachment A](#); and
- Finance Circular 2005/11 ([Attachment B](#)) on the investment of public money under section 39 of the FMA Act. Among other things, the circular highlights the importance of agencies developing an investment management strategy that will allow the Chief Executive (or delegate) to effectively monitor and manage the investments held by the agency.

The initiatives introduced regarding the investment activities of Commonwealth Authorities include:

- The Finance Minister's Orders, which reflect Australian Accounting Standard AASB 132 *Financial Instruments: Presentation and Disclosure*, require disclosure of information on expected future cash flows, the entity's policies regarding investments, the purpose of holding them and the risks associated with them (and includes the disclosure of effective interest rates and significant concentrations of credit risk, where relevant);
- The Finance Minister's Orders require the reporting of additional information on any investments held that are not covered by paragraphs 18(3)(a)-(c) of the CAC Act. This includes the statutory basis for holding these investments, and whether an approval has been received by the body under section 18(3)(d). These requirements are also detailed at [Attachment A](#);
- AASB 7, *Financial Instruments: Disclosures*, will apply to Commonwealth authorities for reporting periods beginning on or after 1 July 2007, and will require that financial statements include enhanced details on investments, such as investment objectives and policies and processes for managing risk;
- Finance also issued Finance Circular 2005/05 ([Attachment C](#)) on the investment of surplus moneys under section 18 of the CAC Act, to assist Commonwealth authorities that invest surplus moneys. The circular reiterates the responsibilities of CAC Act directors in ensuring compliance and proper management of their investments, clarifies the scope of allowable investments, and notes that if a body is uncertain whether the investment is allowed under section 18(3)(a)-(c), it should obtain clarity by seeking an approval from the Finance Minister; and

¹ All investment powers delegated by the Finance Minister under section 39 of the FMA Act have been delegated with regards to amounts standing to the credit of Special Accounts.

- The *Financial Framework Legislation Amendment Act 2005* transferred responsibility in relation to the approval of investments under paragraph 18(3)(d) of the CAC Act from the Treasurer to the Finance Minister. To support the Finance Minister in this role, Finance has reviewed all existing investment approvals, with a view to revoking unused approvals and, where appropriate, issuing new investment approval instruments that better reflect the particular business needs of each body.

Recommendation No. 13 paragraph 4.38


The Committee recommends Memoranda of Understanding between all parties be signed before any joint agency contracts are entered into.

Finance supports this recommendation, but considers that responsibility for the management of joint agency contracts is a matter for individual agencies.

Finance notes that the recommendation is consistent with the principles contained in the Commonwealth Procurement Guidelines (CPGs) that agencies should appropriately document procurement activities. This would include documents such as Memoranda of Understanding for joint agency projects, highlighting the responsibilities of the parties as part of a broader procurement plan. Consistent with the CPGs, the appropriate mix and level of documentation depends on the nature and risk profile of the procurement activity being undertaken.

For activities that are not strictly a procurement, Finance continues to promote to agencies that the principles contained in the CPGs should still be applied, and appropriately documented.

My department will implement the recommendation internally by inserting a paragraph into my Chief Executive's Instruction (CEI) 4.4: Entering into and managing contracts, agreements and arrangements. This CEI sets out departmental policies relating to entering into contracts and agreements on behalf of the department. The new paragraph will indicate that any Memoranda of Understanding between relevant parties must be signed before any joint agency contracts are entered into.


I Watt