

Summary of Reports Tabled and Other Activities during 2003-2004

Report 395, Inquiry into the Draft Financial Framework Legislation Amendment Bill

- 2.1 *Report 395* presented the JCPAA's review of an exposure draft of the Financial Framework Legislation Amendment Bill. The review commenced following a request from the Minister for Finance and Administration for the Committee to undertake an examination of the draft legislation.
- 2.2 The Committee concluded that, when law, the draft Bill will make an important contribution to improving the Commonwealth's financial framework. It will do so by aligning references in many Acts to financial management with the *Financial Management and Accountability Act 1997* (FMA Act); by updating provisions to reflect good practice; and by clarifying other provisions.
- 2.3 The report examined five issues concerning the draft Bill:
- proposed amendments which are a consequence of the FMA Act;
 - the proposed transfer of approval powers from the Treasurer to the Finance Minister;
 - 'Special Accounts' (hypothecations of the Consolidated Revenue Fund);
 - other amendments and issues relating to the Bill; and
 - other reporting matters.

- 2.4 The report made five recommendations and was tabled on 20 August 2003. On 26 June 2004, the Government response to *Report 395* was presented. The Government:
- Agreed with **Recommendation No. 1** that the draft Bill be amended to clarify the information required in a determination by the Finance Minister to establish a Special Account;
 - Did not agree with **Recommendation No. 2** that 'Special Accounts' should be renamed 'Designated Purpose Accounts' on the basis that the Government wished to avoid changes to arrangements that would not significantly improve the financial framework;
 - Agreed in principle with **Recommendation No. 3** that the annual Appropriation Acts should not authorise the crediting of appropriated amounts to a Special Account if the Act or determination establishing the Special Account does not specifically provide for appropriated amounts to be credited to the Special Account. In the report the Committee had observed that annual Appropriation Acts appear to facilitate the crediting of appropriated amounts to Special Accounts whereas some Acts that establish particular Special Accounts do not specifically provide for appropriated amounts to be credited to those Accounts.¹ The Committee concluded that this anomaly should be addressed. Rather than addressing the anomaly through future Appropriation Acts as recommended by the Committee, the Government will add clarifying Notes to the FMA Act as this Act already contains provisions dealing with the crediting of Special Accounts;
 - Agreed with **Recommendation No. 4** that the draft bill include an amendment to establish the Aboriginal Advancement Account under the *Aboriginal Land (Lake Condah and Framlingham Forest) Act 1987* and that two special accounts – the Condah Land Account and the Framlingham Forest Account - be subsumed into the Aboriginal Advancement Account. The Government agreed with the recommendation on the basis that the Aboriginal Advancement Account, unlike the others, would be established within the financial framework for establishing Special Accounts recognised by the FMA Act and would rationalise the number of Special Accounts; and
 - Agreed with **Recommendation No. 5** that the Government should introduce the Financial Framework legislation Amendment Bill into

1 JCPAA, Report 395, *Inquiry into the Draft Financial Framework Legislation Amendment Bill*, paras 4.64, 4.65.

Parliament as soon as feasible. As of 30 June 2004, the Bill had yet to be introduced into Parliament.

Report 396, Review of Auditor-General's Reports, 2002-2003, First, Second & Third Quarters

2.5 In *Report 396*, the Committee reviewed ten of the 29 reports tabled by the Australian National Audit Office in the first, second and third quarters of 2002-2003. The ten reports were:

- Audit Report No. 2, *Grants Management ATSIIC*;
- Audit Report No. 3, *Facilities Management at HMAS Cerberus*;
- Audit Report No. 7, *Client Service in the Child Support Agency Follow-up Audit*;
- Audit Report No. 18, *Management of Trust Monies*;
- Audit Report No. 19, *The Australian Taxation Office's Management of its Relationship with Tax Practitioners*;
- Audit Report No. 25, *Financial Statements of Commonwealth Entities for 2001-02*;
- Audit Report No. 27, *Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*;
- Audit Report No. 20, *Employee Entitlements Support Schemes*;
- Audit Report No. 23, *Physical Security Arrangements in Commonwealth Agencies*; and
- Audit Report No. 28, *Northern Territory Land Councils and the Aboriginal Benefit Account*.

2.6 This report made seven recommendations, and was tabled on 8 October 2003.

2.7 Six Executive Minutes have been received for this report:

- from the Aboriginal and Torres Strait Islander Services (ATSIS), dated 5 May 2004, noting that they will be unable to implement **Recommendation No. 1**, that they investigate methods of compiling and publishing information about alternative sources of funding, because ATSIS will not exist in the 2004-2005 financial year;

- from the Minister of Defence, dated 26 February 2004, stating the Department of Defence's (Defence) will support **Recommendation No. 2**, that it update the Defence Audit Recommendations Management System;
 - from the Minister for Family and Community Services, dated 29 April 2004, fulfilling **Recommendation No. 3**, that the JCPAA be advised of the Child Support Agency's (CSA) progress in implementing Recommendations Nos. 2, 3 and 4 of JCPAA Report No. 367, *Review of Auditor-General's Reports, 1997-1998, Third Quarter*. The Executive Minute also met **Recommendation No. 4**, by reporting on the CSA's progress in implementing new strategies to address debt management for its clients;
 - from the Australian Taxation Office (ATO), dated 1 March 2004, agreeing with **Recommendation No. 5**, that the ATO should review the terms of its information technology outsourcing contract when the contract is renewed;
 - from the Minister for Finance and Administration, dated 27 April 2004, not agreeing to **Recommendation No. 6**, to adopt procedures for notifying the Parliament of the issuing of indemnities based on the procedures used by the United Kingdom Parliament. The Executive Minute also stated that this recommendation is now partially implemented through Finance Minister's Orders; and
 - from the Department of Employment and Workplace Relations (DEWR), dated 6 April 2004, agreeing to **Recommendation No. 7**, that the department examine ways to improve claimants' awareness of the Employee Entitlements Support Schemes and to monitor interactions between insolvency practitioners and individual claimants for quality and accuracy.
- 2.8 Support for the majority of these recommendations demonstrates that the Committee plays an important value-adding role in reviewing the implementation by agencies of recommendations made by the Auditor-General.

Report 397, Annual Report 2002-2003

- 2.9 Section 8B of the PAAC Act requires the Committee to table a report on its performance each financial year. *Report 397*, tabled on 26 November 2003, reported on the Committee's activities in the 2002-2003 financial year.

Report 398, Review of Auditor-General's Reports, 2002-2003, Fourth Quarter

2.10 In *Report 398* the Committee reviewed three of the 34 reports tabled by the Australian National Audit Office in the fourth quarter of 2002-2003. The three reports were:

- Audit Report No. 42, *Managing Residential Aged Care Accreditation*;
- Audit Report No. 51, *Defence Housing and Relocation Services*; and
- Audit Report No. 55, *Goods and Services Tax Fraud Prevention and Control*.

2.11 This report was tabled on 30 March 2004, and made the following recommendations:

- to include quality-of-life information in the quality assessment data currently used by the Aged Care Standards and Accreditation Agency Limited for its accreditations;
- to remove the provision from the *Defence Housing Authority Act 1987* that the Defence Housing Authority include three members of the Australian Defence Force, and to amend the Services Agreement for Housing and Related Requirements to allow for a formal consultative process;
- that the Department of Defence report to the JCPAA on its progress towards addressing the outstanding issues listed in the ANAO Audit Report No. 51, 2002-03, *Defence Housing and Relocation Services*;
- that the Attorney-General's Department draft amendments to legislation to enhance the ease of proof in the prosecution of suspected Goods and Services Tax fraud; and
- that the Australian Taxation Office report to the JCPAA, on a mechanism to estimate the tax gap, that would serve as the basis for reporting the overall efficacy of the range of measures being adopted to prevent and control Goods and Services Tax fraud.

2.12 Executive Minutes for *Report 398* are due to the Committee by 30 September 2004. No responses had been received by 30 June 2004.

Report 399, Management and Integrity of Electronic Information in the Commonwealth

- 2.13 *Report 399*, tabled on 1 April 2004, was the outcome of an inquiry into the management and integrity of electronic information in the Commonwealth. The inquiry had originally focused on the electronic protection of information held by Commonwealth agencies. However, it became apparent that a far more fundamental problem was the physical security of Commonwealth computing assets and the data they held.
- 2.14 Towards the end of the inquiry, the Committee had been angered to learn about the theft of IT equipment from an Australian Customs Service facility at Sydney airport through the media, rather than from Customs officials – who had appeared before the Committee the previous day. So concerned was the Committee at the approach by Customs and the nature of the security breach at the airport that Members resolved to extend the inquiry – in part to take further evidence from Customs.
- 2.15 The Committee wrote to all departments seeking details of their security breaches and thefts of IT equipment. The Committee discovered that more than 1,800 Commonwealth government laptops and desktop computers have either been stolen or lost during the past five years.
- 2.16 The Committee found that a number of Commonwealth agencies had inadequate levels of physical security for IT equipment. This was reflected in successful breaches of the security of facilities, in poor record keeping of lost or stolen IT equipment and in a lack of knowledge of appropriate reporting mechanisms in the event of a security breach.
- 2.17 The Committee also examined security measures associated with the transmission of data between Commonwealth agencies and between agencies and citizens. Finally, the Committee found that Commonwealth agencies need to implement effective data storage practices to guarantee future access to data in the face of rapidly changing technology.
- 2.18 The report made nine recommendations relating to physical security, risk management, data preservation and information security.
- 2.19 Executive Minutes for *Report 399* are due to the Committee by 1 October 2004. No responses had been received by 30 June 2004. The Committee noted, however, that the 2004-2005 Appropriation Act allocates \$4.5

million to assist the ACS to upgrade the physical security of its computer server and communications rooms.²

Report 400, Review of Aviation Security in Australia

- 2.20 This report, tabled on 24 June 2004, presents the JCPAA's review of aviation security in Australia. The review arose from the Committee's statutory obligation to review reports of the Auditor-General, namely Audit Report No. 26, 2002–2003, *Aviation Security in Australia*.
- 2.21 Australia's aviation industry services approximately 50 million international and domestic passenger movements each year and involves some 70 000 employees who contribute in one way or another to aviation security. The industry is regulated by the Department of Transport and Regional Services.
- 2.22 The Committee reviewed the current threat environment within which Australia's aviation industry operates, the opportunities and costs of security enhancements, the aviation security framework, and the human aspects of security, including the culture of security.
- 2.23 The report found that the security measures under which aviation security operates in Australia are appropriate to the current level of threat, that there is flexibility to adjust the framework to meet changing threats. In addition, aviation and security officials have a positive approach to security that encourages security compliance by the travelling public.
- 2.24 The Committee has made five recommendations aimed at:
- clarifying the interaction between the newly created Australian Government airport security committees and existing airport security committees;
 - strengthening the regulations by the inclusion in them of the non-negotiable aspects of the security framework;
 - improving the procedures for the return of expired aviation security identification cards;
 - broadening security awareness training to cover everyone who has access to security-controlled areas at airports; and

2 Hon Peter Costello MP and Senator the Hon Nick Minchin, *Budget Measures 2004-05, Budget Paper No. 2*, p. 289.

- maintaining the positive security culture through the introduction of educational measures aimed at promoting a robust security culture.
- 2.25 Executive Minutes to *Report 400* are due to the Committee by 24 December 2004. No responses had been received by 30 June 2004.

The Operations and Resources of the Audit Office

- 2.26 As outlined in chapter one, section 8(1)(j) of the PAAC Act requires the Committee to consider draft estimates for the Audit Office. Section 8(1)(l) of the Act requires the Committee to make recommendations to both Houses of parliament and to the Minister who administers the *Auditor-General Act 1997* (the Prime Minister) on those draft estimates.
- 2.27 The JCPAA was ultimately satisfied that the 2004-2005 draft budget estimates for the Audit Office would be sufficient to enable the Auditor-General to properly exercise his functions and powers.
- 2.28 However, during a preliminary meeting with Audit Office officials about the draft estimates, the Committee had been advised that the ANAO would need extra funds to meet additional measures that could not be accommodated within base funding.
- 2.29 The Committee, for the first time, could not reassure itself that the Audit Office would have sufficient funds in the following year to properly exercise its functions.
- 2.30 Following correspondence with the Prime Minister, the Audit Office's draft budget estimates were increased. The Committee was satisfied that the additional funding was sufficient and the Chairman advised Parliament and the Prime Minister on Budget Day 2004 accordingly.

Centre for Democratic Institutions Workshop

- 2.31 On 8–9 July 2003 members of the Committee attended a forum with Thai politicians and officials in Bangkok.³ The forum was part of an ongoing program of participation between Australia's Centre for Democratic

3 The delegation consisted of the Chairman, Mr Griffin, Mr Somlyay and Senator Watson. Senator Hogg was also a member of the delegation, although he was not a member of the Committee at the time.

Institutions (CDI) and Thailand's King Prajadhipok's Institute (KPI). The Committee's expenses were paid for by the CDI.

- 2.32 The July meeting followed on from a visit of Thai Senators to the Australian Parliament in December 2002 during which the Thai Senators expressed an interest in the activities of the Committee.
- 2.33 Committee Members conducted workshops with Thai politicians and senior Thai officials. Attendees included seven Thai Senators and Members of Parliament, the Thai Auditor-General, and the Secretary General and Deputy Secretary-General of the KPI.
- 2.34 Issues covered in members' workshops included:
- making Public Accounts Committees effective;
 - involving the public in Parliamentary inquiries;
 - obtaining value for money from government programs;
 - the need to focus on strategic issues, such as creating frameworks for good governance at local and national levels; and
 - the need to be aware of global issues when inquiring into national issues.
- 2.35 Outcomes of the forum included:
- the opportunity for Thai politicians to question senior Thai Government officials on various Thai Government programs;
 - the opportunity for Thai politicians to be briefed on developments in financial management systems and accrual accounting;
 - the recognition by Thai Parliament committee members of the mechanisms and value of public input into parliamentary inquiries; and
 - an appreciation by the Committee of the complexities arising from a Constitution only introduced in 1997.

South Asia Public Accounts Committees Forum

- 2.36 On 17–19 November 2003 the Chairman chaired a forum of South Asia Region Public Accounts Committees in Bangkok. The forum was sponsored and funded by the World Bank and representatives from Bangladesh; Bhutan; Nepal; Pakistan; and Sri Lanka attended. The aim of the Forum was to discuss the role of public accounts committees with a

view to creating a regional organisation similar to the Australasian Council of Public Accounts Committees.

2.37 Issues discussed included:

- the challenge posed by the lack of executive responsiveness to committee recommendations;
- delays in audit reporting which undermined the value of the audit process;
- persistent and excessive levels of unauthorised spending by government agencies; and
- the challenges and benefits provided through public and media involvement in committee activities.

2.38 The outcome of the forum was the recognition of the need for strengthening the interaction between public accounts committees in the South Asia region. As a result, delegates unanimously endorsed in principle the concept of a regional forum of public accounts committees.

2.39 Unfortunately, due to the absence of representatives from India, delegates were reluctant to create a steering committee to progress the matter. A commitment was made, however, to discuss issues further by way of a video conference in 2004.