

**FINANCIAL ADMINISTRATION  
LEGISLATION AMENDMENT BILL  
2005**

**EXPLANATORY MEMORANDUM**

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# ACRONYMS

<b>Acronym</b>	<b>Meaning</b>
ARSF	Annual Report on State Finances
CFS	Consolidated Financial Statements
FAAA	<i>Financial Administration and Audit Act 1985</i>
GFS	Government Finance Statistics
GFRA	<i>Government Financial Responsibility Act 2000</i>
GFRR	Government Financial Results Report
QFRR	Quarterly Financial Results Report
TAS	Treasurer's Annual Statements
TQS	Treasurer's Quarterly Statements

# OUTLINE

1. The Financial Administration Legislation Amendment Bill 2005 amends the *Financial Administration and Audit Act 1985 (FAAA)*, the *Government Financial Responsibility Act 2000 (GFRA)* and, through consequential amendment, various other Acts.
2. The Bill provides for the introduction from the financial year commencing 1 July 2005 of the most urgent components of a larger package of financial legislation reforms developed in consultation with key stakeholders, as well as other necessary financial reforms which should take effect during the financial year that commenced 1 July 2004.
3. In summary the Bill:
  - (i) Reduces the number of reports by the Treasurer;
  - (ii) Tightens the timing of reports by the Treasurer and agencies (i.e. both departments and statutory authorities);
  - (iii) Amends the title and role of Principal Accounting Officers;
  - (iv) Facilitates agency access to moneys held in the 27<sup>th</sup> pay suspense account; and
  - (v) Corrects the name in legislation of the Parliamentary Services Department.

## **Reporting by the Treasurer**

4. The Bill introduces an Annual Report on State Finances (ARSF) which will eventually replace the following three annual reports:
  - (i) Treasurer's Annual Statements (TAS) in accordance with section 60 of the FAAA;
  - (ii) Government Financial Results Report (GFRR) in accordance with section 14 of the GFRA; and
  - (iii) Consolidated Financial Statements (CFS) in accordance with Australian Accounting Standards.
5. The (unaudited) GFRR will continue to be produced until the release date of the (audited) ARSF can be brought back to within 90 days of year end, which is expected to be achieved in three years.
6. In addition to the annual reports, the following quarterly reports are currently produced:
  - (i) Treasurer's Quarterly Statements (TQS) in accordance with section 59 of the FAAA; and
  - (ii) The Quarterly Financial Results Report (QFRR) in accordance with section 16 of the GFRR.

7. The Bill discontinues the TQS, and makes provision for the introduction of a time frame for the release of the QFRR. The time frame is to be specified by regulation as being within 60 days of the end of the relevant quarter.
8. As a result of these changes, all Treasurer's reports will be published in accordance with the GFRA, while agency annual reports will continue to be published in accordance with the FAAA.

### **Annual Reports**

9. The FAAA will address the reporting requirements of departments and statutory authorities in the same sections, rather than separately as it currently does.
10. Ministers will be required to table agency annual reports within 90 days of their financial year ending (which comes to 28 September for most agencies), phased in over three years. Existing time constraints on the submission of financial statements to the Auditor General, and of annual reports to the Ministers, will be abolished.

### **Role of Principal Accounting Officers**

11. The role of Principal Accounting Officers will be expanded to provide a more strategic focus, and consistent with this the position will be retitled Chief Finance Officer. These changes complement the government's planned implementation of shared corporate services clusters.

### **Years with 27 fortnightly and 53 weekly pay periods**

12. Departments have been required to make annual payments, which have been included in their annual appropriations, to the suspense account under section 27 of the FAAA that provides for years with additional pay periods. The Bill avoids double counting these moneys by enabling departments to draw down directly from this suspense account in 2004-05, as there are 27 fortnightly pay periods in that year.

### **Parliamentary Services Department**

13. The Bill enables the FAAA to reflect the replacement of the Joint Committees of Parliament by the Parliamentary Services Department.

## **PART 1 - PRELIMINARY**

### **Clause 1: Short Title**

14. When enacted, the Bill will be cited as the *Financial Administration Legislation Amendment Act 2005*.

### **Clause 2: Commencement**

15. The Bill will come into operation on a day to be fixed by proclamation. Different provisions may be proclaimed to come into operation on different days.
16. Clause 31, which repeals the requirement for the release of the GFRR, will not come into effect until the ARSF is being released 90 days or less from the end of the financial year.
17. Clause 7 which deals with the suspense account for additional pays must be proclaimed before the end of the financial year commencing 1 July 2004 to allow departments access to funds for the 27<sup>th</sup> pay.

## **PART 2 – AMENDMENTS TO *FINANCIAL ADMINISTRATION AND AUDIT ACT 1985***

### **Clause 3: The Act amended**

18. Self explanatory.

### **Clause 4: Section 3 amended**

19. Sub clause (1) deletes the definition of “Principal Accounting Officer”, which will be replaced by “Chief Finance Officer”. No definition of Chief Finance Officer is provided, as the term will only be used once in the FAAA, in section 56, and it is explained there.
20. Sub clause (2) updates the nomenclature for the Parliamentary Services Department.

### **Clause 5: Section 10 amended**

21. The requirement to place copies of trust statements in the TAS in the year in which the trust accounts were opened will be removed, as:
  - (i) The TAS will be abolished; and
  - (ii) Treasurer’s Instruction 950 already requires the publication of trust statements in agency annual reports in the years in which trust accounts are opened.

### **Clause 6: Section 25 amended**

22. Section 25 (2) requires the TAS to be produced in accordance with any determination by the Treasurer to transfer an appropriation for a service or function when, within that financial year, responsibility for that service or function is transferred. The Bill repeals section 25 (2), consequential to the abolition of the TAS by the repeal of section 60.
23. Budget papers and agency annual reports, in the notes to the financial statements, will still provide details of expenditure against appropriation items.

### **Clause 7: Section 27 amended**

24. The additional subsection applies to the suspense account that holds moneys to be used for salaries and wages in years with additional pay periods. It will enable moneys to be transferred from that suspense account for the purpose of salaries and wages in those years ‘as and when needed’, i.e. without further appropriation.
25. As these moneys were already appropriated when they were transferred into the suspense account, this amendment prevents double counting of the appropriations.

**Clause 8: Section 52 amended**

26. The amended reference is consequential to the repeal of section 65A and the uniting of the relevant provisions that apply to both departments and statutory authorities.

**Clause 9: Section 56 replaced**

27. The new section would expand the role of Principal Accounting Officers to give it a more strategic focus. Consistent with this it will be retitled “Chief Finance Officer”.
28. The change would also ensure that the position is compatible with the upcoming shared corporate service arrangements, removing the requirement for the Chief Finance Officers to undertake some routine duties which will be transferred to the host agencies of the shared corporate service clusters.

**Clause 10: Section 58 amended**

29. The amended reference is consequential to the repeal of section 65A and the uniting of the relevant provisions that apply to both departments and statutory authorities.

**Clause 11: Part II Division 12 repealed**

30. Repealing this division removes the requirement to publish the TAS and TQS. The focus of Government financial reporting is now on the GFRR and QFRR produced in accordance with the GFRA.

**Clause 12: Part II Division 13 repealed**

31. Repeal of this division is consequential to the amendment of Division 14 so that it applies to both departments and statutory authorities.

**Clause 13: Part II Division 14 heading replaced**

32. The heading is amended to extend the coverage of the division to departments’ annual reports from its existing restriction to statutory authorities’ annual reports.

**Clause 14: Section 65B inserted**

33. Section 65B directs readers of the legislation to the *Government Financial Responsibility Act 2000* for information on the Treasurer’s duties with respect to financial reports and statements.

**Clause 15: Section 66 amended**

34. The time limit for provision to the Minister of the annual report has been removed, consistent with the Minister’s overall responsibility to ensure that the annual report be submitted to Parliament.
35. Other amendments extend application of the section to departments as well as to statutory authorities.



**Clause 16: Section 67 replaced**

36. This clause simplifies the requirements that annual financial reports must fulfil.
37. Sub clause (1) refers in general terms to the accounting standards and other requirements issued by the Australian Accounting Standards Board to remove the need for further amendments as these requirements evolve. For example, the Australian Accounting Standards Board will adopt the Australian equivalents to International Financial Reporting Standards from 1 January 2005, which will change the names of the financial statements referred to in the Act.

**Clause 17: Section 68 amended**

38. The time limit on agencies for provision to the Auditor General of information for the annual report has been removed, consistent with the Minister's overall responsibility to ensure that the annual report is submitted to Parliament.
39. Other amendments apply this section to departments as well as to statutory authorities.
40. The clause adds subsection (2) to clarify that it is the responsibility of the accountable officer/accountable authority to pass the annual report with the Auditor General's opinion to the Minister.

**Clause 18: Section 69 amended**

41. The clause alters the required timing for the Minister to table annual reports and the Auditor General's opinions on those reports, to be with reference to the end of the financial year rather than from when the Minister receives the Auditor General's opinions. Existing legislated time frames focus on process rather than outcome and do not encourage Ministers and agencies to strive for more timely preparation of annual reports. The amendment focuses on the Minister's overall responsibility to ensure that annual reports are available on time.
42. The clause requires that annual reports be tabled within 128 days of the end of the financial year - which is the time currently available to departments to have their annual reports tabled. There is provision for this period to be shortened by regulation. It is proposed that regulations be introduced to shorten this period to 120 days in 2005-06, 105 days in 2006-07 and 90 days from 2007-08 onwards.
43. Other amendments apply this section to departments as well as to statutory authorities.

**Clause 19: Section 70 replaced**

44. The current section provides for Ministers to grant extensions of the time in which annual reports will be provided to them and the Auditor General. The clause repeals this as Ministers already have implicit

authority to require annual reports from their agencies, including the authority to grant extensions.

45. The proposed section requires Ministers to advise Parliament if they cannot provide the annual reports within the prescribed period, and to explain the reason for the delay.

**Clause 20: Part II Division 15 heading inserted**

46. The heading distinguishes the division's content of final reports from the previous division's content of annual reports.

**Clause 21: Section 70A replaced**

47. Section 70A currently applies to statutory authorities the provisions of section 65A, which pertain to the abolition of a department. The proposed section 70A, which is consequential to the repeal of section 65A, applies these provisions directly to both departments and statutory authorities.
48. Other differences between the existing section 65A and the proposed section 70A are consequential to the changes to the timing and process of preparing annual reports.

**Clause 22: Section 81 amended**

49. The change is consequential to the repeal of section 62 and the extension of section 66 to cover departments as well as statutory authorities.

**Clause 23: Section 93 amended**

50. The changes are consequential to changes to the timing and process of preparing annual reports, provisions for reporting by departments and statutory authorities being placed in the same sections, and the abolition of the TAS.

**Clause 24: Section 94 repealed**

51. The requirement for the Auditor General to issue an interim report is discontinued consequentially to the repeal of the deadline placed on the Auditor General to provide an opinion.

**Clause 25: Section 95 amended**

52. The amendment is consequential to changes to the *Government Financial Responsibility Act 2000*.

**Clause 26: Schedule 1A amended**

53. The changes are consequential to the changes to the timing and process of preparing annual reports, and provisions for reporting by departments and statutory authorities being placed in the same sections.

## **PART 3 – AMENDMENTS TO GOVERNMENT FINANCIAL RESPONSIBILITY ACT 2000**

### **Clause 27: The Act amended**

54. Self explanatory.

### **Clause 28: Section 4 amended**

55. Sub clause (1) adds definitions for additional reports produced under the *Government Financial Responsibility Act 2000*.
56. Sub clause (2) renders the definition robust with respect to any changes in the name of the standards issued by the Australian Accounting Standards Board. For example, the Australian Accounting Standards Board will adopt the Australian equivalents to International Financial Reporting Standards from 1 January 2005.
57. Sub clause (3) makes the definition of “external reporting standards” more flexible by enabling it to refer to either GFS Australia (produced by the Australian Bureau of Statistics) or the Australian Accounting Standards. External reporting standards are referred to in sections 7 and 14, and in the proposed section 14A.

### **Clause 29: Section 5 amended**

58. The amendments strengthen the ability of the Under Treasurer to obtain information from public sector bodies. This is required as agencies such as Water Corporation and Western Power form a material part of government’s financial reports but are not bound by the FAAA or Treasurer’s Instructions.

### **Clause 30: Section 9 amended**

59. The clause requires the Treasurer to advise Parliament if any of the additional reports produced under the Act cannot be released within their prescribed periods.

### **Clause 31: Section 14 repealed**

60. This clause abolishes the requirement for the Treasurer to release the GFRR, which will be replaced by the ARSF provided for in the proposed section 14A. Clause 2 delays this clause from coming into effect until the ARSF is being released within 90 days of the end of the financial year, so as to maintain timely year end financial reporting.

### **Clause 32: Section 14A inserted and amended**

61. The proposed section requires the Treasurer to release the ARSF. It must be released within 150 days of the end of the financial year, or within the period prescribed by the regulations. It is intended to prescribe a period of 120 days in 2005-06, 105 days in 2006-07 and 90 days in 2007-08.

62. Sub clause (2) requires the ARSF to provide additional explanatory information, currently provided in the GFRR. It is intended to delay bringing this requirement into effect until the GFRR is abolished in accordance with clause 31.

**Clause 33: Section 14B inserted**

63. The new section requires the Auditor General to provide an opinion on the ARSF.

**Clause 34: Section 16 amended**

64. The amendments remove the requirement for a QFRR for the fourth quarter of each financial year. The focus at the end of a year is on reports for the entire financial year.
65. The amendments also introduce a time frame for the release of the QFRR. It will initially be released within 90 days of the end of the quarter to which it relates, but it is intended to shorten this period by regulations to 80 days in 2005-06, 70 days in 2006-07 and 60 days in 2007-08.

**Clause 35: Part 3 inserted**

66. This clause provides for regulations to be made to the GFRA.

## **PART 4 – CONSEQUENTIAL AMENDMENTS TO OTHER ACTS**

### **Clause 36 to 45**

67. These clauses update the references to the FAAA made by the cited Acts.