

**GOVERNMENT RESPONSES TO JOINT STANDING COMMITTEE ON AUDIT –  
REVIEW OF THE MINISTER’S REPORT ON THE *FINANCIAL MANAGEMENT  
ACT 2006***

**Recommendation 1: The Committee recommends that the Treasurer ensures that consideration of consolidating financial management legislation into a single Act is part of the next review of the FMA.**

**Noted**

Reviews of the *Financial Management Act 2006* (FMA) are conducted pursuant to section 85 of the FMA. Those reviews are to include a consideration of whether there is a need for the FMA to continue and "*any other matters that appear to the Minister to be relevant to the operation and effectiveness of this Act*". Subject to it being consistent with the Treasurer's obligation under section 85 of the FMA at the time, the Government notes forthcoming reviews of the FMA will give due consideration to the advantages and disadvantages of consolidating financial management legislation into a single Act.

**Recommendation 2: The Committee recommends that the Treasurer amend the FMA in 2017 to implement Recommendation 7 (financial difficulty) in the Treasury report and the notification requirement be expanded to all agencies.**

**Supported in principle**

Recommendation 7 of the Treasurer's Report requires formal notification of financial difficulty to an agency's Minister and the Treasurer for all budget dependent agencies.

The Government acknowledges that expanding application of Recommendation 7 to all FMA agencies will enhance overall fiscal responsibility. Prior to commencing any process of legislative amendment, Treasury will need to undertake further deliberation of the concept of 'financial difficulty', in conjunction with stakeholders, with a view to developing a practicable and meaningful reporting mechanism. This will affect the timing of any legislative amendments.

**Recommendation 3: The Committee recommends that the Treasurer provide the Parliament with further information on the State's current and future exposure to any potential adverse financial situation at any public university. This information should include advice on whether those exposures are likely to change if public universities are subject to the FMA or not.**

**Not supported**

The Government notes that potentially adverse financial situations at a public university are already communicated to Parliament. Consequently, the Government is of the view that removing public universities from the purview of the FMA will not compromise the process of notification of emerging exposures to the State.

Whilst the universities are not consolidated into the Annual Report on State Finances (ARSF), their enabling statutes commit the Treasurer to guarantee specific liabilities. As the State of Western Australia is the effective guarantor, Treasury surveys Universities annually to determine the existence of guaranteed liabilities for the purpose of compiling the ARSF. The universities are required to incorporate these liabilities in their balance sheets and also disclose information relating to those liabilities under the accounting standards.

Where the State faces emerging current and future exposures, these will first be disclosed as contingent liabilities in the notes to the ARSF. If the estimate of the exposure becomes reliable and obligatory to settle, the State's balance sheet will incorporate the liability at that time.

**Recommendation 4: The Committee recommends that the Treasurer amend the FMA to require the Treasurer to cause to be laid before each House of Parliament, notification of any decision to exempt an agency from reporting key performance indicators in annual reports. Further, the notice should explain why an exemption is considered appropriate.**

#### **Not supported**

The Government continues in principle support of exempting agencies from reporting of Key Performance Indicators (KPIs) where they are principally engaged in policy, planning and research functions. The ability to exempt appropriate agencies from a 'one size fits all' policy has the effect of reducing red tape imposed on agencies, and the corresponding costs of presenting and auditing information where the information provides little benefit in making decisions about agency operations.

The Government is of the opinion that there are numerous mechanisms already in place to ensure Parliament is informed of any exemptions granted that alleviate agencies from reporting KPIs, including the highlighting of exemptions:

- for agencies appearing as separate divisions of the Estimates;
- in Annual Reports tabled in Parliament; and
- on agency creation or during Machinery of Government changes.

**Recommendation 5: The Committee recommends that the Treasurer introduce at the next sitting of the Parliament two bills to appropriate funds out of the Consolidated Account to cover spending made under the Treasurer's Advance for 2010-11, 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16.**

#### **Supported in principle**

The Government will seek to reintroduce the Appropriation (Recurrent 2010-11 to 2013-14) Supplementary Bill 2014 and the Appropriation (Capital 2010-11 to 2013-14) Supplementary Bill 2014 that includes Treasurer's Advances (supplementary funding) provided in 2014-15 and 2015-16 at the earliest opportunity.

However, the Government notes that the date of introduction of Supplementary Appropriation Bills may be impacted by other unanticipated legislative priorities.

**Recommendation 6: The Committee recommends that the Treasurer amend the FMA to require the Treasurer to introduce, within three months of the actual amount of spending in the previous financial year being known, the bills to appropriate funds out of the Consolidated Account.**

**Not supported**

The Government notes that introduction of Supplementary Appropriation Bills can be stymied by emerging or competing urgent issues, therefore this will require further investigation of practicable solutions which may involve the passage of current year Appropriation Bills or other appropriate legislative mechanisms.

**Recommendation 7: The Committee recommends that the Treasurer amend the FMA to require a Minister to notify the Parliament of write offs that required the Governor's prior approval.**

**Not supported**

The Government considers the write-off process will be improved by adopting Recommendation 16 of the FMA Review, whereby the Minister endorses the write-off and then the Governor provides final approval. Moreover, the Government notes that Parliament is already notified of all write-offs through the requirement to table agencies' annual reports. An additional process to inform Parliament of write-offs approved by the Governor would increase red tape and procedural effort.

**Recommendation 8: The Committee recommends that Treasury amend the Model Annual Reports contained in the Financial Administration Bookcase to provide guidance to agencies on how to report act of grace payments in annual reports.**

**Supported**

The Government recognises that act of grace payments are currently required to be disclosed in agency annual reports. However, the nature of these payments and the circumstances in which they are made do vary considerably. The appropriate level of disclosure would need to be considered on a case by case basis by the individual agencies concerned.

Consequently, the Government recognises that only a limited number of examples could be illustrated in the Model Annual Reports and in guidance to the Treasurer's instruction (TI) 319 *Act of Grace Payments*. Despite including disclosure guidance, Chief Finance Officers will continue to exercise judgement, informed by legal advice, on the best presentation of act of grace payments in their agency's annual reports.

**Recommendation 9: The Committee recommends that the Treasurer amend section 80 of the FMA to require the Treasurer to cause to be laid before each House of Parliament, notification of any act of grace payment that required the Governor's approval.**

**Not supported**

The Government considers the scope of this recommendation to be too broad given the varied nature of these payments and the circumstances in which they are made.

The Government notes that Parliament is already notified of all act of grace payments through the requirement to disclose these payments in agency annual reports (tabled in Parliament). An additional process to inform Parliament of any act of grace payments that required the Governor's approval would involve duplication and an additional layer of red tape and procedural effort.

**Recommendation 10: The Committee recommends that the Treasurer amend section 83 of the FMA to address the shortcoming identified in the Treasury report relating to tabling an annual report after the prescribed period has expired.**

### **Supported**

The Treasurer recommended legislative amendments to deal with this issue in the Treasury report. The Government intends to address this issue in future amendments to the FMA.