

Expenditure

- 3.1 The Committee has a statutory obligation to review the financial statements for all six AIC agencies.
- 3.2 As most of the evidence taken from the intelligence agencies at the hearings was of a classified nature, the following is a broad overview of the Committee's findings relating to the expenditure of the agencies.

The efficiency dividend

- 3.3 In December 2008 the Joint Committee of Public Accounts and Audit tabled its report *The efficiency dividend and small agencies: Size does matter*. The report looked at the effect of the efficiency dividend on small agencies.
- 3.4 The report *The efficiency dividend and small agencies: Size does matter* stated that:
- . . . the Committee concludes that there is a definable group of agencies that are being placed in financial difficulty by the combined effect of the efficiency dividend, the indexation measures and the NPP¹ this group is defined by their smaller size and their technical, well-defined roles.²
- 3.5 During its report *Review of administration and expenditure: Australian Intelligence Organisations, Number 7* it became clear to the Committee that

1 New Policy Proposal.

2 Parliamentary Joint Committee of Public Accounts and Audit, *The efficiency dividends and small agencies: Size does matter*, 4 December 2008.

issues relating to the efficiency dividend and its impact on agencies outside of the AIC apply equally to smaller agencies within the AIC. The Committee advised that it would continue to monitor the impact of the efficiency dividend on all the agencies.

- 3.6 No additional information was received from agencies and no agency reported any degradation of capability. However ONA's submission stated that, as a result of the efficiency dividend, there would be 'some modest reduction in ONA's analytical capacity . . .³'. Another agency stated that any additional reduction in their budget would significantly impact their operational activities.
- 3.7 The Committee remain concerned about the impact of the efficiency dividend on the smaller agencies of the AIC and recommends that the Australian Government review the potential adverse effects of the efficiency dividend on the AIC having particular regard to the Joint Committee of Public Accounts and Audit report *The efficiency dividend and small agencies: Size does matter*.

Recommendation 6

The Committee recommends that the Australian Government review the potential adverse effects of the efficiency dividend on the Australian Intelligence Community having particular regard to the Joint Committee of Public Accounts and Audit report *The efficiency dividend and small agencies: Size does matter*.

Submission from the ANAO

- 3.8 The Committee relies to a large extent on the advice it receives from the ANAO when it assesses the financial health of the AIC agencies. The Auditor-General responded to the Committee's request to make a submission to the inquiry, reporting on the results of the ANAO audits of the 2008-09 financial statements of the intelligence agencies.

- 3.9 The ANAO conducts an annual audit of the internal systems and key financial controls of each organisation. In the case of the Defence agencies, they are audited as part of the overall Defence financial statement audit.
- 3.10 In ANAO's submission, the results of the audits for the Defence agencies as a group and the three other individual agencies were discussed. ANAO raised issues for two of the individual agencies. These classified matters were followed up by the Committee at its hearings.
- 3.11 The Committee is satisfied that matters raised by the ANAO are being dealt with by the agencies in question.
- 3.12 The ANAO's assistance on expenditure is particularly important to the Committee and the Committee has been fully satisfied with the ANAO's co-operation and willingness in previously reporting to the Committee. However, in the context of the current review of the *Intelligence Services Act 2001* it is desirable that it be updated to properly reflect the current practice.
- 3.13 The Committee therefore recommends that the *Intelligence Services Act 2001* be amended to include a provision requiring the ANAO to report to the Committee on its reviews of the AIC.

Recommendation 7

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Budget Growth

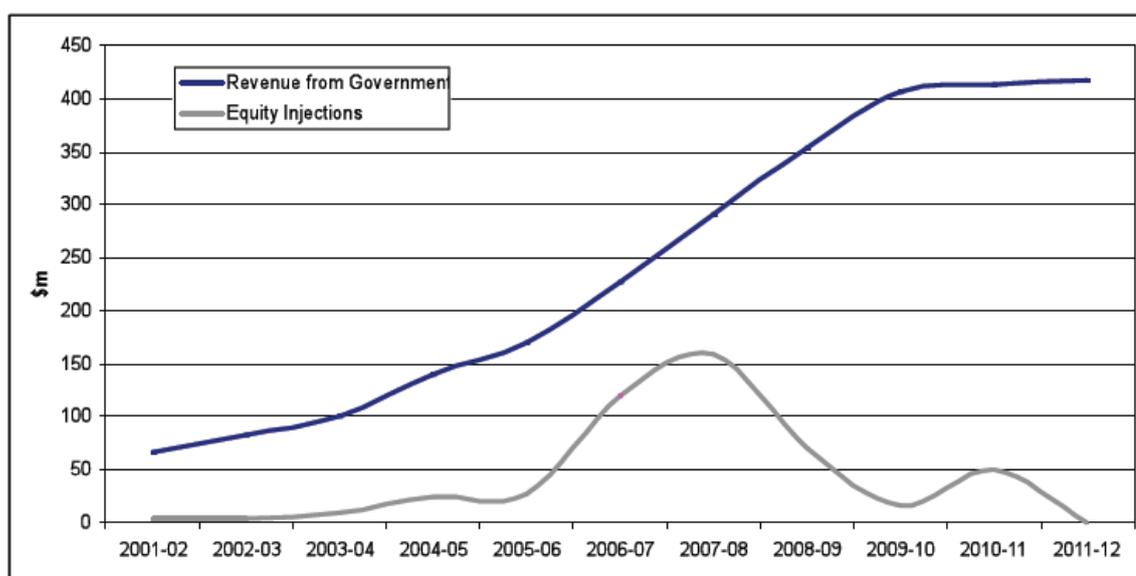
- 3.14 Growth has been significant over the last several years for most of the agencies and, subject to the impact of the global financial crisis and subsequent budgetary constraints, current accounts suggest that this growth will continue. The Committee was satisfied that the agencies are taking measures to manage budget growth appropriately.
- 3.15 In ASIO's case, in 2003 it had 584 staff compared with 1,690 in June 2009.⁴ Revenue from government is correspondingly increasing, from \$66 million in 2001-02 to \$353 million in 2007-08 which is an increase of \$62 million. ASIO's equity injections peaked at \$159 million in 2007-08 with 2008-09's

4 ASIO *Unclassified Submission*, No. 9, p. 18.

equity injection being \$71 million. No equity injection is planned for 2011-12.⁵

- 3.16 ASIO's funding and growth levels will stabilise in 2010, when ASIO reaches the end point of its five-year growth and capability enhancement program.
- 3.17 The Committee heard that developments in technology and changing commercial practices across the board, particularly in connection with telecommunications, require the ongoing dedication of resources for research and development from all the agencies.
- 3.18 ASIO recorded an operating surplus of \$9.6 million in 2008-09⁶ an increase from \$0.3 million in 2007-08.

Figure 3.1 ASIO Revenue from Government, 2001-02 – 2011 - 12



- 3.19 Source: ASIO Unclassified Submission, page 13.

Recruitment costs

- 3.20 The costs to agencies for recruitment have been steadily increasing in line with increasing recruitment. The cost of advertising and obtaining security clearances continues to account for a large portion of recruitment budgets.
- 3.21 In the case of ASIO there has been a strong response to their advertisements with 12,550 applications in 2008-09 compared with 9,567

⁵ ASIO Unclassified Submission, No. 9, p. 6.

⁶ ASIO Unclassified Submission, No. 9, p. 13.

application received in 2007-08. They were also more cost effective with ASIO's advertising costs decreasing from \$ \$2.192 million in 2007-08 to \$1.962m in 2008-09.⁷

- 3.22 Security clearance costs continue to be a significant part of recruitment costs for agencies. The process takes agencies between three and nine months to complete and is resource intensive. The Committee fully accepts that this is necessary to ensure the suitability of applicants to work in a National Security environment.

Training costs

- 3.23 Expenditure on training comprises a significant portion of each agencies budget. On agency noted that 11% of their budget was expended on training with 90% of that amount allocated to the support and conduct of operational training activities.
- 3.24 Each agency provided the Committee with agency costs for training. In contrast to previous years, in some cases, there have been very significant decreases in training costs for 2008-09. Where there had been an increase in training costs this was usually less than 5%.

Budget growth and the Office of the IGIS

- 3.25 The Inspector-General of Intelligence and Security is an independent statutory office holder who reviews the activities of the six intelligence agencies of the AIC.
- 3.26 The purpose of this review is to ensure that the agencies act legally and with propriety, comply with ministerial guidelines and directives and respect human rights.
- 3.27 The Inspector-General can undertake a formal inquiry into the activities of an Australian intelligence agency in response to a complaint – including complaints by staff of an AIC agency – or a reference from a minister. The Inspector-General can also act independently to initiate inquiries and conducts regular inspections and monitoring of agency activities.
- 3.28 In conducting an inquiry, the Inspector-General has significant powers which include requiring the attendance of witnesses, taking sworn

7 ASIO Unclassified Submission, No. 9, p. 33.

evidence, copying and retention of documents, and entry into an Australian intelligence agency's premises.

- 3.29 The Inspector-General can also conduct preliminary inquiries into matters in order to decide whether to initiate a full inquiry.
- 3.30 As the following table makes clear the budget of the Office of the IGIS (OIGIS) has not grown in line with ASIO's budget growth.

Comparison of ASIO and OIGIS Budget Growth

Financial Years	ASIO	% Growth	OIGIS ⁸	% Growth
2008/2009	\$353m ⁹	21	\$2.017	8
2007/2008	\$291m ¹⁰	28	\$1.872	18
2006/2007	\$227m ¹¹	30	\$1.578m	18
2005/2006	\$175m ¹²	28	\$1.142m	38
2004/2005	\$137m ¹³	n/a	\$0.833m	n/a

- 3.31 The *National Security Legislation Amendment Bill 2010*, currently before the Parliament, significantly increases the role of the IGIS. As the explanatory memorandum to the bill states, it:

... contains proposed amendments to enable the Prime Minister to request the Inspector-General of Intelligence and Security (IGIS) to inquire into an intelligence or security matter relating to any Commonwealth department or agency. This reflects the increasing interaction between a range of Commonwealth departments and agencies and the Australian Intelligence Community on intelligence and security matters. To fully consider an intelligence or security matter, it may sometimes be necessary for the IGIS to consider the role played by a non-AIC department or agency in relation to that matter.¹⁴

8 Comprises revenue from Government and resources received free of charge: ANAO Audit Services, DSD provision of secure computer system and PMC accommodation.

9 *ASIO Unclassified Submission*, No. 9, p. 13.

10 *ASIO Unclassified Submission*, No. 9, p. 13.

11 *ASIO Unclassified Submission*, No. 9, p. 13.

12 *ASIO Report to Parliament 2005- 2006*, p. 97.

13 *ASIO Report to Parliament 2005- 2006*, p. 97.

14 *Explanatory Memorandum: National Security Legislation Amendment Bill 2010* p. 2. <
http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4320_ems_8c494d28-3637-4ab8-95ae-ef76b5d8250c/upload_pdf/340700.pdf;fileType=application%2Fpdf> at 6 April 2010.

- 3.32 An analysis of the classified budget figures supplied by other agencies suggests that their growth has not always been as high as ASIO's. However, in light of the increases in the number of personnel, the activities of the AIC, and the IGIS' expanding role, as outlined above, it is the Committee's view that it is necessary that there be a significant increase in the resources of the OIGIS.

Recommendation 8

The Committee recommends that, due to the increased activities of the Australian Intelligence Community and the additional functions required of the IGIS, the budget of the Office of the Inspector General of Intelligence and Security be increased.

Financial governance systems

- 3.33 Each agency has its own internal audit committee. The functions of internal audit committees and the key issues that they addressed in the period under review were set out in the submissions. Typically, such committees comprise the Director or Director-General; one or two Assistant Directors or Assistant Directors-General; Chief Finance Officer and/or Director of Finance; and a representative from the ANAO with other staff members invited as required. Audit Committees generally meet quarterly, or more frequently if required.
- 3.34 ASIO's Audit and Evaluation Committee is chaired by the Deputy Director-General and includes a representative from the ANAO:
- Each year the Audit and Evaluation Committee approves a strategic internal audit plan which includes a range of mandatory audits undertaken to satisfy the requirements of various state legislation and memoranda of understanding.¹⁵
- 3.35 Submissions also listed a range of other resource management committees in place within agencies to manage and monitor expenditure.
- 3.36 In 2008-09 ASIO completed nine internal audits which were the subject of classified reporting to ASIO's Audit and Evaluation Committee. No loss of

¹⁵ ASIO *Unclassified Submission*, No. 9, p 22.

public monies was reported in these audits and recommendations for improvements have been accepted through the Audit and Evaluation Committee and responsible work areas.

Fraud control and risk management

3.37 Section 45 of the FMA Act requires the chief executive of an agency to implement a fraud control plan:

A Chief Executive must implement a fraud control plan for the Agency. For this purpose, fraud includes fraud by persons outside the Agency in relation to activities of the Agency.¹⁶

3.38 Agencies noted their compliance with this requirement in their submissions.

3.39 In ASIO a new *Fraud Control Plan (2008-2010)* was implemented in December 2008 based on the 2008 Fraud Risk Assessment.

3.40 During 2008-09 ASIO also completed the *Commonwealth Fraud Control Guidelines Annual Questionnaire* and holds date as required under the Guidelines. In accordance with the Guidelines, the AFP has been advised of ASIO's major fraud risks.

Conclusion

3.41 Together with assurances from the Australian National Audit Office, the Committee was satisfied, within the limits of the *Intelligence Services Act 2001*, that all the agencies are currently managing the expenditure of their organisations.

The Hon Arch Bevis MP
Chairman

June 2010

16 *Financial Management and Accountability Act 1997*, Part 7—Special responsibilities of Chief Executives, Section 45 Fraud control plan.