
The Parliament of the Commonwealth of Australia

Review of Administration and Expenditure No. 5

Australian Intelligence Organisations

Parliamentary Joint Committee on Intelligence and Security

June 2007

Canberra

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ISBN No: 978-0-642-78948-8 (Printed version)

ISBN No: 978-0-642-78949-5 (HTML version)



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Foreword

It is with pleasure that I present the fifth review of the administration and expenditure of the Australian Intelligence Community by the Parliamentary Joint Committee on Intelligence and Security.

The review examined all aspects of the administration and expenditure of the six intelligence and security agencies, including the financial statements for each agency.

The review revisited recruitment and training issues which were examined in detail during the fourth review of administration and expenditure. The Committee found that agencies continue to deal with substantial challenges related to recruiting, training and retaining staff in a very tight marketplace.

Budgetary growth has been significant over the last several years for most of the agencies, and, for some, growth will continue for several more years. It has been a concern of the Committee in previous reviews that rapid expansion could bring with it unavoidable stresses and strains in the organisations at a time when they could least afford growing pains. Agencies discussed the challenge they have faced and continue to face – handling considerably increased budgets in conjunction with, in most cases, rapidly increasing staff numbers.

All the AIC agencies have undergone some structural reorganisation, to varying degrees, to absorb recent growth in the most effective way. In some of the agencies structural reorganisation has meant quite significant change within the organisation while other agencies have absorbed increased staff numbers into the existing structure with little structural change.

The agencies all demonstrated to the Committee that they are mindful of the dangers of rapidly expanding at the expense of maintaining high standards of professionalism and each agency continues to review its strategies to manage this risk.

The Committee is satisfied that the administration and expenditure of the six intelligence and security agencies is currently sound and it thanks the Heads of the AIC agencies and all those who have contributed to this review.

The Hon David Jull MP
Chair



Membership of the Committee

Chair The Hon David Jull MP

Deputy Chair Mr Anthony Byrne MP

Members The Hon Duncan Kerr SC MP

Mr Stewart McArthur MP

Mr Steven Ciobo MP

Senator Alan Ferguson

Senator the Hon Robert Ray

Senator the Hon John Faulkner

Senator Fiona Nash

Committee Secretariat

Secretary Ms Margaret Swieringa
(till 1 June 2007)

Mr Stephen Boyd
(from 4 June 2007)

Inquiry Secretary Dr Cathryn Ollif

Administrative Officer Mrs Donna Quintus-Bosz



Terms of reference

This review is conducted under paragraph 29(1)(a) of the *Intelligence Services Act 2001*:

- to review the administration and expenditure of ASIO, ASIS, DIGO, DIO, DSD and ONA, including the annual financial statements (of) ASIO, ASIS, DIGO, DIO, DSD and ONA.



List of abbreviations

AIC	Australian Intelligence Community
ANAO	Australian National Audit Office
APS	Australian Public Service
ASIO	Australian Security Intelligence Organisation
ASIS	Australian Secret Intelligence Service
DFAT	Department of Foreign Affairs and Trade
DIGO	Defence Imagery and Geospatial Organisation
DIO	Defence Intelligence Organisation
DSD	Defence Signals Directorate
EL1 / EL2	Executive Level 1 / 2 within APS
FICC	Foreign Intelligence Coordination Committee
FMA Act	<i>Financial Management and Accountability Act 1977</i>
FTE	Full Time Equivalent
IASF	Inter-Agency Security Forum
IGIS	Inspector-General of Intelligence and Security

NICP	National Indigenous Cadetship Project
NSH	National Security Hotline
ONA	Office of National Assessments
OSA	Organisational Suitability Assessment
OSB	Open Source Branch
PM&C	Department of Prime Minister & Cabinet
SES	Senior Executive Service
SIGINT	Signals Intelligence
TS(PV)	Top Secret (Positive Vet) security clearance

The fifth review of administration and expenditure

- 1.1 Under Section 29 of the *Intelligence Services Act 2001* (the Act), the Parliamentary Joint Committee on Intelligence and Security has an obligation to review the administration and expenditure of ASIO, ASIS, DSD, DIGO, ONA and DIO, including the annual financial statements.
- 1.2 The Committee previously resolved that it would review broadly the administration and expenditure of the agencies at least once a Parliament and, in intervening years, it would narrow its focus to review specific matters of administration and expenditure.
- 1.3 This is the first full review of the administration and expenditure of the six intelligence agencies conducted under Section 29 of the Act since the act was amended in December 2005 to add DIGO, ONA and DIO to the Committee's oversight responsibilities.
- 1.4 In 2006 the Committee conducted a focussed review of the recruitment and training practices of the six intelligence and security agencies. The subsequent report "*Review of administration and expenditure: Australian Intelligence Organisations, Number 4 – Recruitment and Training*" was tabled in Parliament in August 2006.
- 1.5 The review currently being reported on was not publicly advertised and submissions were sought only from each of the six intelligence and security agencies and from the Australian National Audit Office (see Appendix A).
- 1.6 Each agency made a comprehensive and informative submission to the enquiry and the Committee gratefully acknowledges the substantial time

commitment made by the agencies to produce submissions of a very high standard. Several agencies noted that they had given significant thought to some comments they received from the Committee during the fourth review of Administration and Expenditure and had accordingly provided more detail on certain aspects in their submissions.

- 1.7 The submissions were all classified either *Confidential*, *Restricted* or *Secret* and are therefore not available to the public. ASIO provided the Committee with both a classified and an unclassified submission; the unclassified version of which is available on the Committee's website.
- 1.8 The Committee is grateful to ASIO for providing an unclassified submission which has been very helpful in the writing of this report. It means, however, that ASIO is mentioned quite often in the subsequent chapters of this report while the other agencies are generally not referred to by name. This should not be taken to imply that the enquiry focussed on ASIO or that ASIO was scrutinised more than other agencies. It merely reflects that ASIO has the most visible public profile and reporting regime within the Australian intelligence community.¹
- 1.9 The Committee also received a submission from the Australian National Audit Office (ANAO) and it took evidence from the Inspector-General of Intelligence and Security (IGIS) at a private hearing.
- 1.10 A number of private hearings were held to take evidence from the agencies and the Committee appreciates the time commitment each agency made to this process (see Appendix B). In each case the agency Head and other top-ranking officials attended the hearings and expended a considerable amount of time making further presentations and answering the Committee's questions. In November 2006, the Committee wrote to the agencies seeking submissions and outlining the issues it would like to see covered in those submissions. The result was very thorough and comprehensive information. Agency heads were also most forthcoming at the private hearings.
- 1.11 The Committee would, however, add one caveat. Normal parliamentary practice is, where possible, to examine an issue from a variety of perspectives. This method generally gives confidence as a Committee can test information and interpretation from different perceptions of an organisation or an issue. This is not possible in this process. The nature of the intelligence organisations and the restrictions of the Intelligence Services Act mean that the Committee is constrained in the breadth of its
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1 ASIO is the only Australian intelligence agency to table an unclassified annual report in the parliament and to make it available on its website.

examination of administration and expenditure. While the Committee has no reason to think that this is a problem to date, the potential exists for the perspective of the Committee to be too narrow. To this extent the Committee's access to staff survey summaries (see paragraph 2.77) would be beneficial.

The 2006 Review

- 1.12 In the administration and expenditure review tabled in 2006, the Committee made three recommendations (see Appendix C). The Committee had not received any response to those recommendations from the Government at the time of writing the current report.
- 1.13 However, with respect to Recommendation 1, the Committee was pleased to receive separate financial statements for each of the Defence intelligence agencies, as requested in the recommendation. The 'Income Statement Extract' provided for each agency gave the Committee an acceptable amount of information about income, expenses, assets and liabilities for each agency.
- 1.14 With respect to the first part of Recommendation 2, the agencies themselves have demonstrated to the Committee that they are identifying methods to address the security clearance backlog and each agency has been successful in reducing the backlog to some extent. At least one agency had, at the date of the hearing, eliminated its security clearance backlog.

Scope of the fifth review

- 1.15 The fifth review of administration and expenditure broadly looked at all aspects of the administration and expenditure of the six intelligence and security agencies. While the review was not focussed on any specific issues, during hearings it did follow-up on those areas which had presented themselves as problematic during the 2006 report, that is: employing, training and retaining linguists; and having new staff security cleared in a reasonable timeframe.
- 1.16 As mentioned above, the Committee took considerable classified evidence from the agencies which cannot be published. The discussion in the following chapters will generally not identify specific organisations due to

the classified nature of much of the evidence received. While this may not allow the presentation of the level of detail that the Committee would like to be able to present, the Committee trusts that the report will serve to assure the Parliament, and the public, that the administration and expenditure functions of the intelligence and security agencies are being monitored by the Committee to the extent that the Committee finds possible.

- 1.17 In the following report, the words “the agencies” or “the organisations” refer to all or any combination of ONA, DIO, ASIO, ASIS, DSD and DIGO. In the footnotes the notation “Classified submission” is used to refer to submissions from any of the agencies whether the actual submissions were classified Secret, Restricted or Confidential.

Administration

- 2.1 As mentioned in Chapter 1, the review of administration and expenditure being reported on here is the first *full* review of the administration and expenditure of the six intelligence agencies conducted under Section 29 of the Act since the act was amended in December 2005. The 2006 review of administration and expenditure focussed on: recruitment, training, security clearances and language capability. During the review being reported on now, the Committee looked broadly at all aspects of the administration of the agencies, including re-visiting the recruitment, training, security clearances and language capability of agencies.
- 2.2 Working within the constraints of not including any classified information, this chapter reports broadly on some of the areas discussed during hearings and/or in submissions relating to the administration of the AIC agencies.

Reorganisation of agency structures

- 2.3 The agencies have undergone structural reorganisation, to varying degrees, to absorb recent growth in the most effective way. One agency talked of a significant 'rebalancing' of the organisation, to build-up various sections to better serve the whole organisation and to deal with emerging needs. Other organisations have absorbed increased staff numbers into the existing structure with little structural change.
- 2.4 ASIO underwent quite a significant restructure in July 2006, moving from a five-division to a nine-division structure to provide 'logical groupings of functions and responsibilities' and to meet Government expectations of

ASIO.¹ ASIO told the Committee that its new organisational structure is now based on nine divisions which provide 'logical groupings of functions and responsibilities'.² ASIO believes the new structure:

... provides for management arrangements which are better aligned with the needs of a larger organisation. ASIO will continue to focus on building its capabilities across the full range of functions it performs.³

- 2.5 ONA made several organisational changes following recommendations in the Flood Review of July 2004. In 2005 the Open Source Branch (OSB) within the Department of Foreign Affairs and Trade was transferred into ONA. Within ONA, its role is to :

... provide a structured, systematically collected and validated open source contribution to assist ONA's intelligence assessments. In addition to its support to ONA, OSB also distributes some of its open source products to Australian and allied government customers.⁴

- 2.6 Additionally, ONA's focus shifted 'a bit'⁵ as a result of recommendation seven in the Flood Report which recommended the establishment of a Foreign Intelligence Coordination Committee (FICC) under the chairmanship of the Director-General of ONA.⁶ The Director-General told the Committee that, as a result of the FICC being established, ONA has moved from doing about 95 per cent assessments and five per cent coordination and evaluation to about a 70-30 per cent split.⁷
- 2.7 The Deputy Secretary of Intelligence and Security, Department of Defence, told the Committee that, following some limited structural changes, all three Defence agencies are now 'positioned well for continuing to deliver high-quality outputs to the Australian government' following growth and some necessary upgrading of systems.⁸

1 ASIO *Unclassified Submission*, page 12.

2 ASIO *Unclassified Submission*, page 12.

3 ASIO *Unclassified Submission*, page 15.

4 <http://www.ona.gov.au/osb.htm>

5 *Private hearing transcript*.

6 Flood, P. 'Report of the Inquiry into Australian Intelligence Agencies', Australian Government, July 2004, p.180.

7 *Private hearing transcript*.

8 *Private hearing transcript*.

Impact on agencies of recent legislative changes

- 2.8 The Committee found that recent legislative changes to the Act and other acts which have relevance to certain areas of agency operations, have impacted on agencies to varying degrees but no agency felt negatively impacted by recent legislative changes. On the contrary, agencies generally felt that legislative changes have improved their ability to operate.
- 2.9 In general, agencies noted that they are developing, or have developed, processes to ensure compliance with relevant legislative changes. Examples of such processes were given to the Committee in submissions and/or during hearings. Several agencies also noted that they provide regular/periodic training to staff on the requirements of relevant Acts.
- 2.10 Amendments in December 2005 to the *Intelligence Services Act* incorporated DIGO into the Act⁹ and added DIGO, ONA and DIO to the Committee's oversight responsibilities.
- 2.11 The Committee heard that, for DIGO, incorporation into the Act necessitated significant administrative changes within the organisation in 2006. DIGO noted that requirements of the Act on the agency include compliance with Ministerial directions; compliance with the Privacy Rules; review by the IGIS; review by the PJCIS; training, IT systems and internal audit; and engagement of a Legal Adviser.¹⁰
- 2.12 At the private hearing the Director of DIGO told the Committee that its transition to working under the Act was almost complete and had presented 'no insurmountable problems'¹¹ for DIGO. In some ways it was more a matter of formalising existing administrative procedures, for example, DIGO 'had already been subject to the Inspector-General of Intelligence and Security oversight through an agreement prior to the Act coming into place'.¹² DIGO employed legal counsel from the Australian Government Solicitor in advance to help the organisation make sure that its work in preparation for the Act was adequate for the task.
- 2.13 For DSD, the changes to the Act:
- ... clarified DSD's functions, enshrined pre-existing policy and practice in law, improved the flow of information into and out of

9 The functions of DIGO are set out in section 6B.

10 *DIGO Confidential submission.*

11 *Private hearing transcript.*

12 *Private hearing transcript.*

DSD, and resolved policy anomalies. Overall these changes have had only a minor impact on administration within DSD.¹³

- 2.14 The Director of DIO told the Committee that DIO has not specifically been influenced by any recent legislative changes apart from now being subject to review by the PJCIS following the amendments to the Act.
- 2.15 ASIO outlined in its unclassified submission a number of recent changes to both the ASIO Act and to other acts which directly impacts on the work of ASIO.¹⁴ The Director-General of ASIO believes these amendments have 'given ASIO the powers that it needs to do the job effectively'.¹⁵
- 2.16 ASIO created a new Executive and Legal Division to address its increased workload following the various legislative changes which criminalised a range of activities related to terrorism and to meet the increased requirements for in-house legal services in connection with both litigation and advice. It also created a Counter-Terrorism Litigation Advice Branch within its Investigative Analysis and Advice Division.¹⁶
- 2.17 For ONA, the *Office of National Assessments Act 1977* was amended in December 2005 to strengthen its co-ordination and evaluation role vis-à-vis Australia's foreign intelligence community (see paragraph 2.6 above). Amendments also brought ONA under more direct scrutiny by the IGIS and gave the IGIS the authority to initiate his own inquiries into the legality and propriety of ONA's activities.¹⁷
- 2.18 The Committee spent some time discussing with the agency heads whether, in view of the huge leaps being made in telecommunications technology, the agencies believe that all new communications technology complies with those parts of the *Telecommunications Act 1979* which interest the intelligence organisations. After much discussion, the Committee was satisfied that agencies are monitoring the situation but resolved to continue dialogue with the agencies about this matter.
- 2.19 The Committee is satisfied that each agency is managing the impacts of recent legislative changes adequately and appropriately.

13 *DSD Confidential submission.*

14 *ASIO Unclassified Submission*, page 19.

15 *Private hearing transcript.*

16 *ASIO Unclassified Submission*, page 40.

17 *ONA Restricted submission.*

Human resource management within agencies

Management of growth

- 2.20 The Committee questioned agency heads about the impact of the rapid growth which most have experienced over the last 2-5 years. Several of the agency heads told the Committee that it is foremost in their minds that rapid growth could negatively impact the agency's work if not handled very carefully. Agencies noted that with so many new staff, average experience levels will be lower in the short term. To counter the effects of this experience gap, all agencies are putting extra emphasis on training programs for new starters in the early stages of their employment.
- 2.21 One agency described the substantial intake of inexperienced staff into the organisation in this way:
- We have a staffing bulge that looks a bit like a laboratory flask, in terms of experience. We do have a lack of depth at the EL1 and EL2 levels. ... We have had to look outside [the agency] for experienced SES officers who have leadership and management experience and hope that they can learn the business as we go.¹⁸
- 2.22 Several agencies have engaged independent consultants to help identify areas of concern due to the considerable challenges posed by rapid expansion. One agency told the Committee that as a result of an independent report on agency resourcing, the agency sought, and received, substantial funding from government to address shortfalls within its corporate support and risk management capacities. The agency then created a committee as its key governance instrument to manage the early stages of its resource rebalancing.
- 2.23 ASIO told the Committee that a critical focus for it has been the strategic management of its growth through carefully planned and executed recruitment activities so that it can grow 'while continuing to meet critical business priorities'.¹⁹ ASIO notes that:
- Continuing to recruit the right people at the right time and in the right numbers will be challenging in a tight and competitive employment market. Similarly, retaining experienced staff who

18 *Private hearing transcript.*

19 *ASIO Unclassified Submission, page 14.*

will be required to play a key role in training and mentoring newer staff will be particularly important.²⁰

- 2.24 Another agency noted that growth within the agency has resulted in a workforce which 'now comprises younger managers and supervisors, lacking the decision-making experience of staff members with more time in the workforce'. Thus, the agency has 'placed considerable emphasis on leadership training and development to help compensate for the lack of experience, and prepare younger managers for their role in leading a vital function of government.'²¹
- 2.25 It goes without saying that the cost of rapid and significant growth for the agencies has been substantial. The costs of growth are discussed in Chapter 3.

Recruitment

- 2.26 Agencies continue to work hard to meet recruitment targets in a highly competitive labour market and with the additional challenge of recruiting staff who are able to meet the stringent Commonwealth security standard Top Secret (Positive Vet) (TSPV).
- 2.27 The Committee heard that most applicants to the graduate programs are 'Generation Y' applicants who, if recruited, have expectations of rapid recruitment, rapid promotion and much more flexible career options than previous employees expected. This means that organisations have had to adjust the way they deal with new graduates once recruited:
- ... they clearly have a different view about commitment to an organisation over the long term. So we need to get them up to speed must faster. We cannot rely on them being around for five, 10 or 15 years. So we are looking at how we get a return, basically, in our investment in them in a much shorter time frame.²²
- 2.28 All agencies demonstrated to the Committee that they are expending a considerable amount of their resources to attract and then retain, the right staff for the agency. The agencies are employing a variety of methods and strategies to achieve their recruitment goals and all agencies are confident that they are on track to achieve their recruiting targets.
- 2.29 The Committee heard during private hearings and in submissions that several of the AIC agencies are 'working together and with the

20 *ASIO Unclassified Submission*, page 15.

21 *Classified Submission*.

22 *Private hearing transcript*.

- Department of Foreign Affairs and Trade (DFAT) to share employee applications where candidates have given their consent'.²³
- 2.30 ASIO reports that it 'achieved net staff growth of 155 in 2005-06 and is confident of meeting the annual net growth of 170 in 2006-07 that has been endorsed by Government'²⁴. It continues to experience challenges in meeting targets for some specified jobs.
- 2.31 ASIO is continuing to refine and improve its recruitment strategies, in particular, an ASIO recruitment internet tool which was scheduled to go online in March 2007 was expected to substantially improve the efficiency with which individual applications are received and processed. ASIO believes that applicants will find the system easy to use and professional and they will receive timely and regular updates on their progress (where appropriate).²⁵
- 2.32 Other agencies told the Committee they have increased resources within their Recruitment and Vetting Sections, including in at least one agency new senior positions responsible for providing enhanced strategic direction to recruitment work. For the agency in question, its recruitment outcomes improved in 2006 with an increased number of commencements compared with the same period in 2005 and the trend is expected to continue to increase as new strategies are consolidated.
- 2.33 Over the last few years the AIC agencies have raised their public profile in the recruitment market and, among other recruitment strategies, may utilise strategic market placement and pro-active recruitment efforts to attract prospective applicants for employment. AIC agencies have been participating in the AIC recruitment 'roadshows' at university recruitment days as well as other university and special interest conferences and information sessions. They have enhanced their websites to be a key source of information for potential job applicants. Some agencies have also been outsourcing more vacancies and elements of the recruitment process to recruitment companies to supplement internal recruitment efforts. In 2006 these efforts saw an increased response rate to several of the agencies' advertisements.
- 2.34 One of the Defence agencies told the Committee that this current year it used a 'much more aggressive advertising campaign, bigger media presence in newspapers and on campus a much greater presence at

23 *Classified Submission.*

24 *ASIO Unclassified Submission, page 45.*

25 *ASIO Unclassified Submission, page 45-46.*

university fairs'²⁶ in its graduate campaign. As a result, its figures show a consistent increase in actual FTE across the financial year. The agency told the Committee that this achievement will place the organisation in an excellent position at the beginning of the 2007-08 financial year.²⁷

- 2.35 The Committee heard from another of the Defence agencies that it utilises a number of methods to recruit 'high calibre staff'²⁸ including generic and specialist recruitment rounds and the use of the Defence Graduate Development Program. As with most of the AIC agencies, its recruitment continues to be impeded by the security clearance process which causes delays in clearing personnel to the appropriate security level.
- 2.36 The Committee noted that in the particular case of DIGO, there are now a number of small civilian firms dealing with geospatial and imagery areas. The Committee wondered if DIGO anticipated losing staff to such firms in the future or benefiting because some of those people may eventually seek work with DIGO. The Director noted that some educational institutions are responding to the demand for geospatial skills, not just in the private sector but also at the local and state levels of government and he told the Committee that any expansion of the skill base will be a good thing – DIGO may lose some staff to private companies but it is equally likely to gain staff from this source too.²⁹
- 2.37 The Flood Inquiry of 2004 recommended that ONA double its size. The agency completed this task almost a year ahead of schedule. ONA told the Committee that notwithstanding 'the considerable challenges posed by rapid expansion'³⁰ the agency was able to identify and attract high quality officers and process applications and security clearances in a timely way.
- 2.38 ONA convened and led the AIC Roadshow (mentioned above) which visited 25 universities across the country and addressed around 1,000 students. The principal objective of the roadshow was to raise awareness of the AIC and the career opportunities that exist for graduates. The feedback from universities and students was positive.³¹
- 2.39 The Committee commends all the agencies on their efforts to meet their recruitment targets in a very tough labour market. The Committee was impressed by the various innovative strategies agencies have developed to

26 *Private hearing transcript.*

27 *Classified Submission.*

28 *Classified Submission.*

29 *Private hearing transcript.*

30 *ONA Restricted Submission.*

31 *ONA Restricted Submission.*

attract and recruit high calibre staff. It found no evidence that any of the agencies are not putting adequate resources into meeting recruitment targets.

Recruiting Indigenous Employees

- 2.40 The Committee noted that DIO participates in the National Indigenous Cadetship Project (NICP). The NICP:
- ... provides sponsorship for indigenous Australians who are intending to, or are currently enrolled in, full-time study at a tertiary institution. Upon successful completion of their degree, cadets are offered permanent positions within their sponsoring Group (i.e. DIO) at the APS 4 level.³²
- 2.41 DIO has participated in the NICP since 2001 and has put five indigenous Australians through the cadetships in that time. Four completed the NICP and were subsequently offered permanent placement in DIO.
- 2.42 The Committee heard that DIO is being proactive in chasing indigenous cadets, having approached several indigenous organisations to ensure that they are aware of the NICP and DIO also advertises the program in the *Indigenous National Times* and the *Courier Mail*.
- 2.43 During hearings, the Committee questioned each of the other AIC organisations about any extra efforts they make within their recruitment programmes to attract indigenous Australians, noting that while all organisations are doing well in recruiting nearly equal numbers of women³³, they are 'going backwards'³⁴ with regards to employing indigenous Australians.
- 2.44 DSD noted that it had offered 'one or two'³⁵ placements this year under the NICP but the offers have so far not been taken up by anyone.
- 2.45 ASIO told the Committee that, as a percentage of staff, the number of Aboriginal and Torres Strait Islanders employed by the agency has declined as the agency has grown.³⁶ Currently, ASIO employs four staff who identify as Aboriginal or Torres Strait Islanders.³⁷

32 *DIO Confidential Submission*.

33 At a private hearing one organisation noted that it has 66% females in its Senior Executive Service.

34 *Private hearing transcript*.

35 *Private hearing transcript*.

36 *ASIO Unclassified Submission*, page 53.

37 *ASIO Unclassified Submission*, page 52.

Training

- 2.46 Agencies continue to make training and development of staff a high priority and in most agencies training budgets have steadily increased, in some cases very substantially. Expenditure on training is discussed in Chapter 3.
- 2.47 All agencies demonstrated to the Committee in their submissions and at the hearings, that they place significant emphasis on staff training, constantly reviewing and refining their training programmes to provide their staff, both new and existing, with a range of training programmes appropriate to the duties staff need to perform. As well as specialist training, agencies are offering leadership training and professional and personal development to staff.
- 2.48 As a result of the expectations of rapid promotion and much more flexible career options of 'Generation Y' recruits, on-the-job training has largely given way within organisations to more formal systems of training to allow skills and knowledge to be acquired in a much shorter time frame.
- 2.49 Agencies outlined a range of improvements that they have made to their training programmes over the past twelve months. One agency told the Committee that 'an enhanced training effort is seen as crucial to growth of the organisation.'³⁸ Another noted that it now 'takes a strategic and coordinated approach to the management of the training and development needs of its people, and this is linked to its performance management development program.'³⁹
- 2.50 Several agencies noted that they are directing extra effort into leadership training. One agency told the Committee that leadership training represents approximately 20 per cent of the agency's total training effort, thus 'reflecting the importance' the agency places on leadership training at all levels of the organisation.⁴⁰
- 2.51 ASIO noted that in late 2006 it commissioned an external evaluation of its training and development strategies by 'experienced consultants with the overall purpose of assessing the strategic direction of training and development in ASIO'⁴¹. Once ASIO has compiled and assessed the findings of the evaluation, they will be implemented throughout 2007.

38 *Classified Submission.*

39 *Classified Submission.*

40 *Classified Submission.*

41 *ASIO Unclassified Submission, page 49.*

- 2.52 The Committee heard that, in addition to professional training, the Defence agencies are placing emphasis on ensuring that people are aware of what is acceptable and unacceptable behaviour in the workplace:

There is much more emphasis given on that in our training programs. There is mandatory training now for Defence equity issues and there is quite a campaign across the three Defence intelligence agencies to ensure staff undertake that training.⁴²

- 2.53 All the agencies participate to some degree in AIC training courses which provide training to AIC staff members and a foundation for whole-of-government intelligence efforts. Agencies also offer staff participation opportunities in Australian Public Service Commission courses and, in many cases, external courses offered by independent organisations or consultants.
- 2.54 The Committee is satisfied that agencies are making a huge effort to match their increasing staff numbers with appropriate training programmes in order to help retention rates and, more importantly, to ensure that the agency has a highly skilled workforce which is capable of meeting the high standards of each agency.

Language skills

- 2.55 Language skills are very relevant to most of the agencies. The growth of government requirements for intelligence from transnational organisations, including terrorist groups and proliferation networks, has dramatically increased the number of languages and dialects that intelligence gathering agencies require.⁴³ As one agency put it in their submission: 'language skills are central to [our] production of high quality intelligence'.⁴⁴ Another agency told the Committee that 'language skills are crucial to [our] analytical capacity'⁴⁵ and DSD tells visitors to its website that 'linguists play an essential role in signals intelligence'.⁴⁶
- 2.56 Some agencies seek to employ staff who possess language skills when they join, other agencies place more importance on other skills and provide language training once the person is recruited.

42 *Private hearing transcript.*

43 *Classified Submission.*

44 *Classified Submission.*

45 *Classified Submission.*

46 www.dsd.gov.au/employment/linguist/linguist.html

- 2.57 Some agencies pay a language proficiency allowance as a way of recognising staff language skills and/or encouraging language proficiency and maintenance.
- 2.58 During the 2006 Administration and Expenditure Review agencies explained in detail their strategies for augmenting and retaining their linguistic capability. Updates during the current hearings assured the Committee that those agencies which rely on linguistic capability continue to explore all avenues for attracting, recruiting, training and retaining highly skilled linguists. For example, ASIO told the Committee that it:
- ... continues to focus on developing and maintaining language capability across the range of ASIO's investigations and liaison functions with a number of programs and activities delivered to support this requirement.⁴⁷
- 2.59 ASIO noted that it plans to implement strategies to encourage the development and retention of language skills within the agency 'in accordance with the outcomes of the external evaluation of training and development'.⁴⁸
- 2.60 Agencies use various means to train staff in languages including using the Department of Foreign Affairs and Trade's Language Studies Unit, the Department of Defence language school and / or universities to meet their language tuition needs. Staff of some agencies also undertake in-country language training as budgets allow.
- 2.61 When recruiting linguists, agencies find that if the potential recruit has lived and worked for extended periods within the country of their language proficiency, conducting the necessary background checks for security clearances can be problematic.⁴⁹
- 2.62 There is, arguably, a real need for Australian schools and universities to produce many more students with linguistic ability to fill a range of positions in both business and government in this ever-globalising world. Until such home-grown linguists are produced in reasonable numbers, it is likely that the intelligence and security agencies will continue to struggle to reach their desired recruiting targets for people with suitable language skills whose background can be checked for security clearance purposes. However, the Committee is satisfied that those agencies which need linguists in their team are doing all they can to overcome the problems of

47 *ASIO Unclassified Submission*, page 50.

48 *ASIO Unclassified Submission*, page 51.

49 *Classified Submission*.

attracting and recruiting suitable linguists in adequate numbers at this time.

Separation rates

- 2.63 The Australian Public Service (APS) average separation rate for 2005-06 was 7.5 per cent. The separation rates that agencies experienced during that same period ranged from ASIO's low of 4.8 per cent⁵⁰ to as high as more than double the APS average. It was explained to the Committee by one of the agencies with a high separation rate that the rate is not of concern to the agency in question as it reflects agency policy which encourages secondments from other Commonwealth departments.⁵¹
- 2.64 The head of an agency which has a separation rate more than twice the APS average told the Committee that while he tries to do what he can to retain staff, he recognises that:
- The best people I have are the ones who have gone out of their comfort zone to other departments, agencies and other areas – sometimes even outside the intelligence area – and they have a better context of how government works, how policy works. ... amongst my senior staff, the best ones are the ones who have broadened, who have gone out and about and been tested in other areas.⁵²
- 2.65 The agencies which have higher than desired separation rates outlined to the Committee a range of retention strategies which they have put or are putting in place to address staff separation, including trying to remain competitive in terms of remuneration levels and conditions of employment for staff members. Most agencies use exit interviews to identify the significant factors that contribute to an individual's reasons for leaving so that they can address those reasons.⁵³
- 2.66 Those agencies with high separation rates demonstrated to the Committee that they put considerable effort into addressing the separation rate at the recruitment stage by making sure their recruits are the best possible fit for the agency. One agency has employed a new staff member to work specifically on strategic workforce planning. The agency anticipates that

50 *ASIO Unclassified Submission*, page 54.

51 *Classified Submission*.

52 *Private hearing transcript*.

53 *Classified Submission*.

its 'higher than desirable separation rate' will benefit from more focussed strategic workforce planning.⁵⁴

- 2.67 The Committee heard from ASIO that its separation rate has been decreasing steadily since mid-2002: from 9.90 per cent in June 2002 to 4.80 per cent as at December 2006. When staff leave, ASIO uses a separation interview process to identify underlying issues or trends relating to separation to 'facilitate the development of strategies to ensure they are addressed where appropriate'. Among the issues that ASIO has found to be the cause of staff separation, the most cited cause since June 2004 has been employment related including career change, promotion or increased remuneration at 34 per cent of total separations.⁵⁵
- 2.68 The Committee is satisfied that those agencies which have been experiencing rather high separation rates are actively pursuing ways of addressing the reasons staff have given for leaving the organisation in order to reduce their separation rates as much as possible.

Security issues

Security Clearances

- 2.69 The Committee heard that for most agencies, completing the security clearance process for new recruits within a reasonable timeframe continues to be a challenge. Growth is placing considerable strain on agencies' security vetting resources. One agency noted that both its demand for clearances for new employees has increased and so has the number of its current employees requiring re-evaluation. Similarly, ASIO noted in its submission that:

The number of revalidations and re-evaluations per year is growing exponentially, consistent with the growth in ASIO staff numbers since 2001.⁵⁶

- 2.70 However, since the previous review of administration and expenditure, at least two agencies have cleared their backlog of security clearances and in one case all the agency's security re-evaluations were also current. Both agencies took on new vetting staff as well as implementing other strategies to help with the security vetting process.

54 *Classified Submission.*

55 *ASIO Unclassified Submission, page 55.*

56 *ASIO Unclassified Submission, page 63.*

- 2.71 Most agencies have further streamlined the process from start to finish since the last Administration and Expenditure review, one noting that the time taken from start to finish is now 'down by about a week and a half on this time last year'⁵⁷, another noting that it still foresees that it will take 'at least three and possibly four years before [we] really get on top of [it]'.⁵⁸

Breaches of security

- 2.72 While the number of 'security incidents' reported by some agencies appeared on the surface to be high, the Committee was assured that most of these occurred within TOP SECRET-accredited facilities and the likelihood of compromise to national security information is considered to be very low.⁵⁹ Where breaches occurred outside TOP SECRET-accredited facilities, the majority of incidents involved incorrect handling procedures. Full explanations were given to the Committee of the exact nature of these breaches and the Committee was satisfied that agencies are making an effort to reduce the number of breaches with on-going security awareness training.
- 2.73 Some agencies reported very low incidences of breaches of security and those which did occur were reported immediately and prompt action resulted in no compromise to classified information. Typical breaches were staff leaving safes unlocked within secure areas or not logging off computers when they leave for the day.
- 2.74 Only one agency experienced, in the reporting period, what it called 'a major security incident'⁶⁰. The Committee heard that this incident resulted in a review of the agency's standard procedures for delivery and handling of classified material externally.
- 2.75 ASIO reported that it has:
- ... a leading role in coordinating the development and implementation of best practice security policies and practices within the Australian Intelligence Community (AIC) and related policy departments by providing the secretariat for the Inter-Agency Security Forum (IASF) and its working groups - personnel security, physical and administrative security and information management security.

57 *Private hearing transcript.*

58 *Private hearing transcript.*

59 *Classified Submission.*

60 *Classified Submission.*

ASIO also takes a leading role in providing security awareness training in various training courses run by the AIC.⁶¹

- 2.76 In 2000, the Inspector-General of Intelligence and Security issued a report called *Improving Security within Government*. The Committee heard that recommendations from that report have informed the security policies and practices of the agencies.⁶²

Staff complaints

- 2.77 In their submissions, agencies reported very low numbers of staff complaints during the last financial year and beyond. In one case, one organisation has only had three complaints lodged through its staff complaints mechanisms since 1999. Other organisations which had previously had as many as ten in a year three or four years ago, have not received any so far this financial year. The Committee believes that these low numbers are impressive but is also mindful that staff with grievances may not feel inclined to vent those grievances through available mechanisms for any number of reasons not known to the Committee. Thus, the Committee requested that all agencies provide it with summaries from recent staff surveys as a way for the Committee to check staff satisfaction or dissatisfaction through survey results.⁶³
- 2.78 Across the AIC agencies, various mechanisms are used to monitor staff complaints, including: annual or periodic staff surveys allowing staff to register complaints if they wish; internal staff consultative committees; exit interviews; and suggestion boxes which can be used anonymously. Grievances lodged through complaint mechanisms about AIC agencies were, typically, about unacceptable behaviour, performance management, selection decisions, or loss of position due to restructure.
- 2.79 Regarding the agencies within Defence, all complaints of unacceptable behaviour involving Defence personnel or contracted staff are required to be reported to the Fairness & Resolution Branch within the Defence Personnel Executive. Relevant information is kept on the Defence Unacceptable Behaviour Database, although no names of individuals are recorded unless formal action is undertaken. Monthly reporting from this database is distributed to agency heads and agency equity coordinators for

61 *ASIO Unclassified Submission*, page 62.

62 *Classified Submission*.

63 Summaries of staff surveys have since been provided to the Committee by all agencies.

monitoring, while responsibility for resolution of the complaint remains with the complainant's manager.⁶⁴

- 2.80 In 2006 there was a small increase in the number of complaints received across the Intelligence and Security Group within Defence but not necessarily in each of the three Defence intelligence and security agencies. The Committee heard that the slight increase in total numbers may not reflect a greater incidence of unacceptable behaviour as much as reflecting a heightened awareness of unacceptable behaviour; confidence in management to deal with complaints; a healthy reporting culture; or a more reliable submission of reports to the Fairness and Resolution Branch.⁶⁵ All complaints within the Defence agencies were resolved.

Accommodation

- 2.81 The Committee found that as agencies experience rapid growth they are also experiencing pressure on existing accommodation and IT infrastructure. ASIO notes:

A new Central Office building is required in Canberra to accommodate an expanded ASIO co-located with an expanded ONA. Our offices in each State capital also will grow and each office has been, or will be, relocated to larger premises.⁶⁶

- 2.82 ASIO and ONA will move to the new purpose-built building in 2010-11. It will be located 'within Canberra's security precinct', between Constitution Avenue and Parkes Way, next to Anzac Park East. Meanwhile, the existing building in Russell is being 'reconfigured' to maximise use of the space pending the relocation.⁶⁷
- 2.83 ASIO's State offices have also become unsuitable and ASIO reports that 'significant progress has been made to deliver new accommodation nationally'.⁶⁸ Overseas, new ASIO posts 'were established in 2005-06 and arrangements are in place for further expansion in 2006-07. There has also been an increase in staffing at some existing posts'.⁶⁹

64 *Classified Submission.*

65 *Classified Submission.*

66 *ASIO Unclassified Submission*, page 58.

67 *ASIO Unclassified Submission*, page 60.

68 *ASIO Unclassified Submission*, page 60.

69 *ASIO Unclassified Submission*, page 60.

- 2.84 Other agencies have undertaken refurbishment to maximise use of current spaces in the short term while seeking alternative temporary and/or long term accommodation.

Performance management and evaluation

- 2.85 The Committee heard that, at the organisational level, most of the agencies seek feedback on their performance from customers through periodic evaluation processes. One agency told the Committee that it has 'a robust performance evaluation regime to track how the Organisation is performing in meeting the needs of its customers'.⁷⁰ Performance tracking may entail interviews with clients and/or qualitative surveys which gather information which can be used to identify areas for improvement. At least one agency has a semi-annual program of visits to customers throughout Australia to understand their perspectives on the agency's performance.⁷¹

- 2.86 ASIO told the Committee that, at the individual level, its performance management framework is an:

... integrated system for staff evaluation which incorporates probation, performance appraisals and underperformance reviews. It is designed to link individual performance objectives to ASIO's business outcomes and compliance with the Organisation's values and security principles are key assessable elements of the framework.

...

An effective performance management framework contributed to the Organisation's wider recruitment and retention efforts, specifically by assisting line managers to manage proactively underperformance, recognise staff expertise and performance excellence and to encourage initiative, innovation and resourcefulness.⁷²

- 2.87 At the individual level, all agencies use some sort of personnel performance management schemes which may include: periodic work planning and feedback sessions with supervisors; performance agreements and on-going monitoring; and, periodic formal reviews. Several agencies

70 *Classified Submission.*

71 *Classified Submission.*

72 *ASIO Unclassified Submission, pages 56-57.*

use various methods to recognise and reward staff who are high performers.

Other issues

Review of Key Judgements

2.88 The Committee was told that ONA has recently introduced an internal system which reviews key judgements made during the previous six months to see what lessons can be learnt. Mindful of criticisms of ONA's assessments made regarding Iraq's weapons of mass destruction capability where the Flood Report found 'intelligence was thin, ambiguous and incomplete'⁷³, the Committee was interested to hear of this newly implemented system of self-assessment. The Director-General of ONA told the Committee that the agency wants to:

... encourage within the organisation a culture of questioning assumptions which ... is absolutely essential for an analytical organisation, to avoid complacency in judgements'.⁷⁴

2.89 The process requires branch heads to go through an intellectual process of looking back at what they have said in relation to how events unfolded. This process has been found to feed into the forward work program in suggesting areas which need attention. It also helps the agency to identify where there may be expertise gaps across the organisation.

National Security Hotline

2.90 The Committee noted that since its introduction in December 2002, the National Security Hotline (NSH) has provided ASIO with 'a significant increase in the volume of new leads coming to ASIO'.⁷⁵ In 2005-06 17,000 calls were referred to ASIO from the NSH and of those 6,500 required further investigation. At the time of the hearing, it appeared that the 2006-07 figures would not be as high as the previous year but, nevertheless, figures are substantial. ASIO told the Committee that dealing with the large numbers of leads from the NSH is resource intensive.

73 Flood, P. 'Report of the Inquiry into Australian Intelligence Agencies', Australian Government, July 2004, p.34.

74 *Private hearing transcript.*

75 *ASIO Unclassified Submission*, page 38.

- 2.91 The Committee was interested to know if ASIO has an evaluation method in place to check if the NSH is a value-for-money utilisation of resources. The Committee was satisfied by ASIO's responses to the questions.

AIC brochure

- 2.92 The Committee questioned ONA about the level of interest shown in the brochure *Australian Intelligence Community: Agencies, Functions, Accountability and Oversight*⁷⁶ which was published in October 2006 following a recommendation in the Flood Report.
- 2.93 The Director-General informed the Committee that a press conference was held to launch it and this attracted a 'bit of tongue-in-cheek media coverage'⁷⁷ but the Director-General believes that the brochure brought together in one document information which had previously been available only from many sources. The Director-General thinks it was useful to produce.

Whole-of-government business continuity measures

- 2.94 The Committee heard from all agencies that they have put in place procedures to comply with a 'recent push by government'⁷⁸ to ensure that in the event of disruption to normal operation, backup arrangements exist to enable each agency to continue to function.

Records management

- 2.95 At least one organisation is doing a broad review of record-keeping and information management systems to determine the thoroughness of records management including how material is handled electronically. The Committee heard that several agencies are concerned about the thoroughness of their record-keeping and information management systems. Agencies believe that this is a concern across the Public Service and AIC agencies are not necessarily worse than any other department, they may even be better but, nevertheless, it is something that agencies are thinking about.

76 Available at <http://www.ona.gov.au/publications/aic.htm>

77 *Private hearing transcript.*

78 *Private hearing transcript.*

Issues raised by the IGIS

- 2.96 The Committee met with the Inspector-General of Security and Intelligence to discuss any concerns he may have had about the administrative functions of the intelligence and security agencies.
- 2.97 The IGIS told the Committee that during the period under review, the number of complaints he received about the agencies remained at approximately the same level as for the previous period.
- 2.98 The IGIS found nothing of substantive concern regarding administration within the agencies. He did pick-up some small record-keeping and procedural concerns and these were promptly acted on and improved by the agencies concerned.

Conclusion

- 2.99 The Committee is satisfied that the administration of the six intelligence and security agencies is currently sound.
- 2.100 The Committee found that the agencies are mindful of the dangers of rapidly expanding at the expense of maintaining high standards of professionalism and each agency has put in place strategies to manage this risk.
- 2.101 At this time the Committee makes no recommendations regarding the administration of the intelligence and security agencies.

Expenditure

- 3.1 Since 2001, the rapid and significant growth of the intelligence agencies has been accompanied by substantially increased budgets.
- 3.2 The Committee has a statutory obligation to review the financial statements for all six AIC agencies. In past years, the Committee was told that it was not possible to separate figures for the Defence agencies from the Defence financial statements as a whole. Therefore, the Committee is grateful that Defence found a way to provide it with a '2005-2006 Financial Information Extract' for each of the Defence intelligence agencies. ASIO, ASIS and ONA publish their financial statements.
- 3.3 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.

Submission from the ANAO

- 3.4 The Committee relies to a large extent on the advice it receives from the Australian National Audit Office 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 enquiry, reporting on the results of the ANAO audits of the 2005-06 financial statements of the intelligence agencies.

- 3.5 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.
- 3.6 In ANAO's submission, the results of the audits for the Defence agencies as a group and the three other individual agencies were discussed. In each case, no issues of significance were raised by ANAO. Regarding the non-Defence agencies, two agencies received an unqualified audit report and ANAO identified only minor matters and opportunities for improvement in the case of the other agency. That agency accepted ANAO's comments in relation to the minor matters raised and advised of appropriate remedial action. ANAO reported it was satisfied with this result.
- 3.7 The Committee did not call the Auditor-General to give evidence at a hearing. It was satisfied that ANAO audits of the intelligence agencies for the period under review were conducted in accordance with the ANAO's Auditing Standards and that they provided reasonable assurance that the agencies' financial statements are free from material misstatement, albeit allowing that as with all audits, the ANAO must work with the 'inherent limitations of the internal control structure, the possibility of collusion to commit fraud, and the fact that most audit evidence is persuasive, rather than conclusive'.¹
- 3.8 The Committee accepts that, notwithstanding the limitations noted in the paragraph above, the ANAO found no specific issues of significance in the audits of any of the intelligence and security agencies.

Budget Growth

- 3.9 Growth has been significant over the last several years for most of the agencies, and for some it will continue for the next few years. All the agencies satisfied the Committee that they are mindful of the pitfalls of dealing with substantially increased budgets and each is taking measures to manage budget growth appropriately.
- 3.10 In ASIO's case, at 30 June 2001 it had 584 staff. By 30 June 2011, the agency will have grown to a projected 1,860 staff. Revenue from government is correspondingly increasing, from \$66 million in 2001-02 to \$227 million in 2006-07 and is expected to grow to \$393 million by 2009-10 (see Figure 3.1). ASIO's equity injections, which cover allocations for new policy proposals,

1 ANAO *classified Submission*.

have also increased from \$4 million in 2001-02 to \$113 million in 2006-07.² ASIO told the Committee that it has been very important for the organisation's ability to plan strategically for its current and projected growth that the Government has committed the increased funds up until 2010-2011. ASIO notes that the significant increase in its budget in 2006-07 was for:

... staffing and for ASIO to purchase equipment to support growth in the technical operations/surveillance area, for necessary enhancements to its information technology infrastructure and for expansion of its international liaison program.³

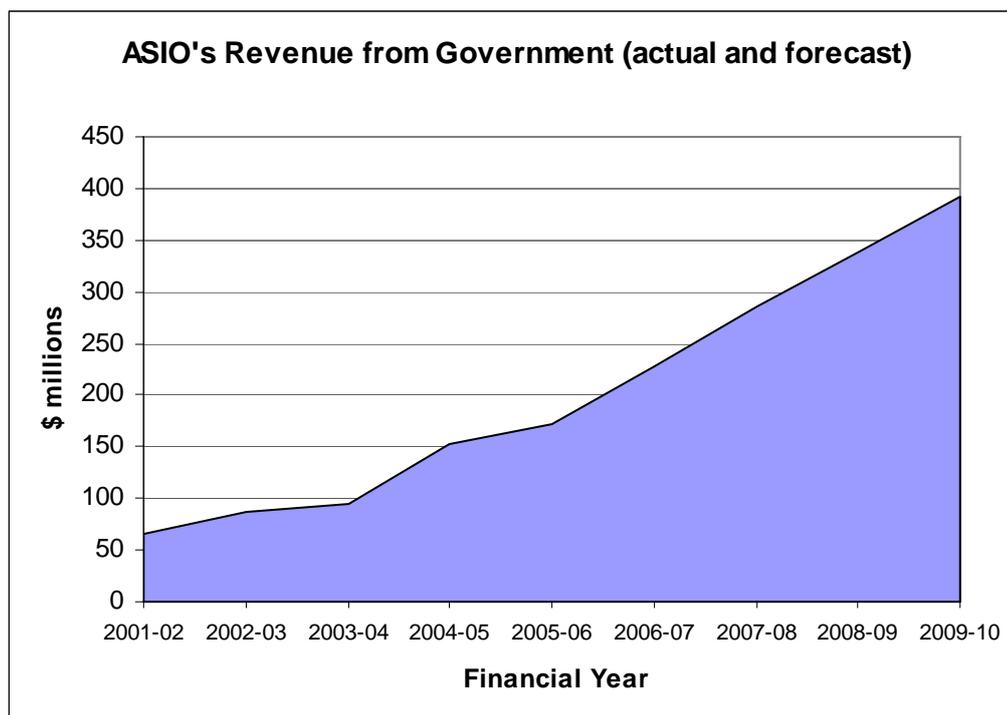
- 3.11 The committee heard that developments in technology and changing commercial practices across the board, particularly in connection with telecommunications, require the ongoing dedication of resources for research and development from all the agencies.
- 3.12 ASIO told the Committee that the operating deficits it recorded in 2001-02 to 2003-04 were largely due to the ongoing demand for analytical and collection resources and the recruitment and training of new staff. In contrast, ASIO's operating surplus of \$526,000 in 2004-05 reflected the easing of budgetary pressures on the Organisation through additional funding by Government in 2004-05. The 2005-06 financial year saw an operating surplus of \$11.8 million.⁴

² ASIO Unclassified Submission, page 3.

³ ASIO Unclassified Submission, page 10.

⁴ ASIO Unclassified Submission, page 10.

Figure 3.1 ASIO



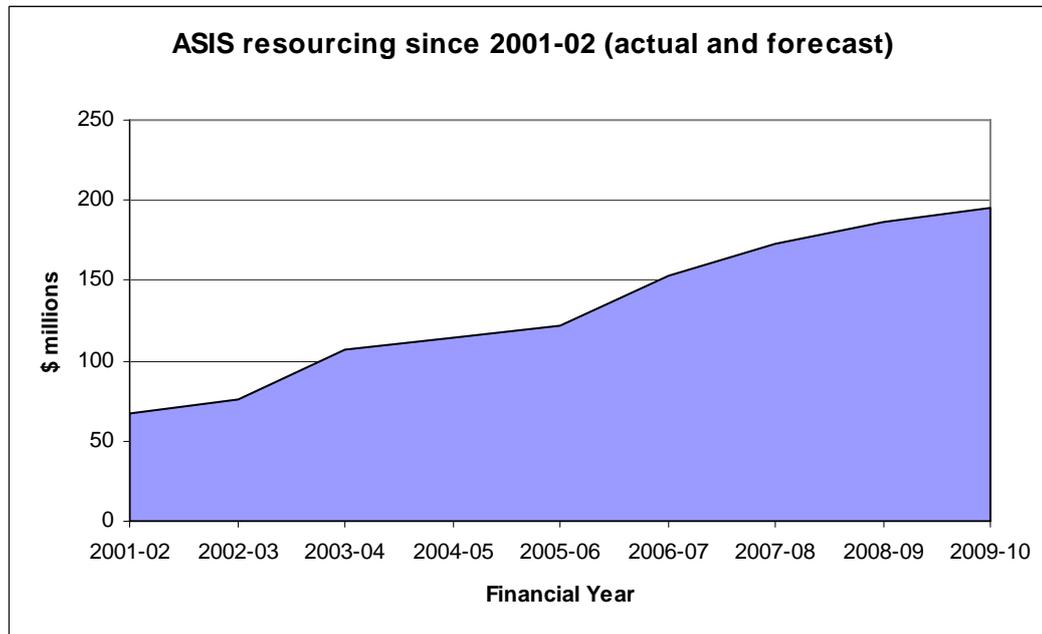
Source ASIO Unclassified Submission, page 9.

- 3.13 According to ASIO, its substantially increased budget has positioned it well to deliver the significant growth which was identified as necessary by the Taylor Review. Over the past financial year it has established 'a solid budget and project management framework, including a financial reporting platform to support and monitor project delivery, and provide early identification of potential budgetary issues before they become problematic'.⁵
- 3.14 ASIO told the Committee that the challenge it faces in managing its budget into the future is 'the cost of employee-related expenses from negotiated workplace agreements' which are, according to ASIO, 'an essential element of remaining an attractive employer able to recruit and retain the high-calibre staff'⁶ that ASIO requires.
- 3.15 The growth in the budgets of ASIS and ONA since 2001 is illustrated in Figures 3.2 and 3.3 below.

⁵ ASIO Unclassified Submission, page 11.

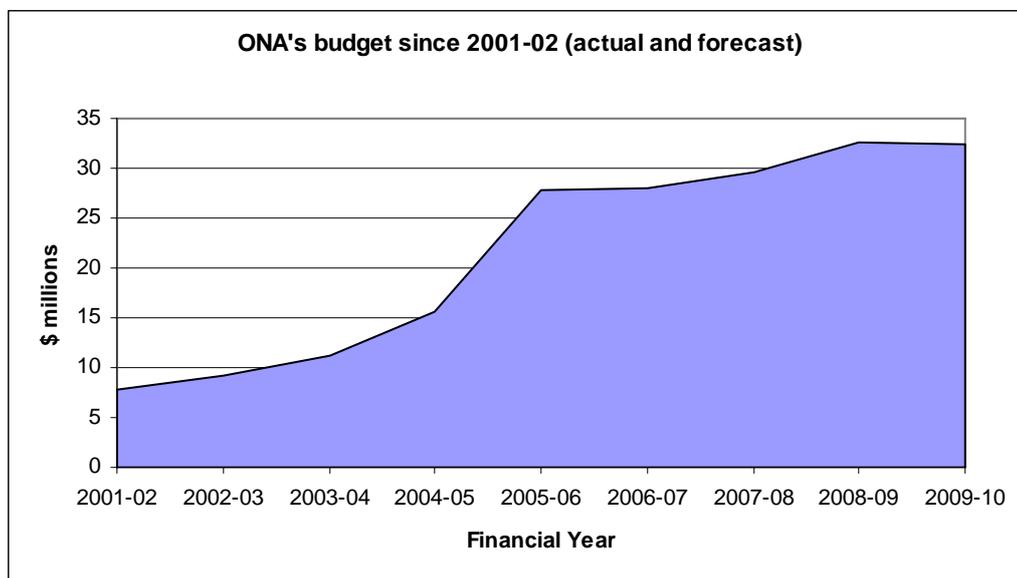
⁶ ASIO Unclassified Submission, page 11.

Figure 3.2 ASIS



Source <http://www.dfat.gov.au/dept/budget/>

Figure 3.3 ONA



Source <http://www.pmc.gov.au/accountability/budget/>

Recruitment costs

- 3.16 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.

- 3.17 For most agencies, as a percentage of the total increase in recruitment costs, the cost of advertising has risen significantly in the last few years. This reflects expanded recruiting campaigns which have increased the agencies' reach for potential recruits.
- 3.18 ASIO's submission shows that its advertising costs increased from \$250,851 in 2001-02 to \$835,347 in 2004-05 then to \$2.044 million in 2005-06.⁷ The Committee questioned ASIO at some length about this substantial increase in its advertising costs over six years. ASIO told the Committee that it has been developing a range of advertising strategies with the help of various recruitment and advertising agencies to develop inventive advertising campaigns 'aimed at appealing to those who may not normally consider a career with ASIO'.⁸ ASIO has also been working on the development of an organisational 'brand'.
- 3.19 The Committee heard that increasingly other agencies have also used much more aggressive advertising campaigns to attract graduates.
- 3.20 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 'but necessary to ensure the suitability of applicants to work in a sensitive environment'.⁹

Training costs

- 3.21 All agencies are investing heavily in training new staff. As mentioned in Chapter 2, training and development of staff is a high priority for agencies. Expenditure on training comprises a significant portion of each agency budget.
- 3.22 Each agency provided the Committee with agency costs for training, both actuals and forecasts. Clearly, the agencies which have grown the most, are also experiencing the greater increases in their training budgets. In some cases, there have been very significant increases in training costs over the past several years, however, in those agencies which have not grown so rapidly, the Committee noted a steady but not so significant increase in training expenditure. Several agencies forecast that the 2006-07 financial

⁷ ASIO *Unclassified Submission*, page 46.

⁸ ASIO *Unclassified Submission*, page 45.

⁹ ASIO *Unclassified Submission*, page 46.

year will be the point where training expenses begin to level out while other agencies foresee a continuing steady increase in their training budget to at least 2008-09.

Financial governance systems

3.23 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 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.

3.24 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.¹⁰

3.25 Submissions also listed a range of other resource management committees in place within agencies to manage and monitor expenditure.

3.26 Several agencies told the Committee that they have revised their own practices where necessary to take account of regulatory changes to the *Financial Management and Accountability Act 1977* (FMA Act).

Fraud control and risk management

3.27 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.¹¹

¹⁰ ASIO *Unclassified Submission*, page 11.

¹¹ *Financial Management and Accountability Act 1977*, Part 7 – Special responsibilities of Chief Executives, Section 45 Fraud control plan.

- 3.28 Agencies noted their compliance with this requirement in submissions. One noted it has 'implemented fraud risk assessments and fraud control plans consistent with Commonwealth fraud reporting requirements'.¹² Another noted it has updated its 'Fraud Risk Assessment and Control Plans in 2005-06 to contain policy and procedures on responsibility for fraud control, and reporting of, and investigation into, identified fraud'.¹³ ASIO's Corporate Plan 2007-2017 'sets the broad framework for how ASIO does its business, measures its performance and achieves outcomes'.¹⁴
- 3.29 The Committee heard from each agency of strategies in place to combat fraud using a range of internal reviews, audits and evaluations overseen by internal audit committees. In 2005-06 ASIO, for example, completed nine internal audits and one evaluation as part of its fraud control plan.¹⁵ ASIO told the Committee that its fraud prevention strategies:
- ... include a program on ethics and accountability which all staff are required to attend at least once every three years. The program includes a substantial component covering ASIO's approach to fraud control and its expectations of staff.¹⁶
- 3.30 Risk management and business continuity plans are monitored by the internal Audit Committees. All agencies have access to back-up facilities in the event that they should be denied access to current office accommodation.

Conclusion

- 3.31 Due to the high standard of submissions and the evidence given at the hearings, the Committee has increased its knowledge of the financial and expenditure side of the agencies' operations. The Committee found nothing in the evidence given to give it concern about the existing financial management within any of the agencies. Agencies were open about the challenge they have faced and continue to face – handling considerably increased budgets in conjunction with, in most cases, rapidly increasing staff numbers.

¹² *Classified Submission.*

¹³ *Classified Submission.*

¹⁴ *ASIO Unclassified Submission, page 17.*

¹⁵ *ASIO Unclassified Submission, page 17.*

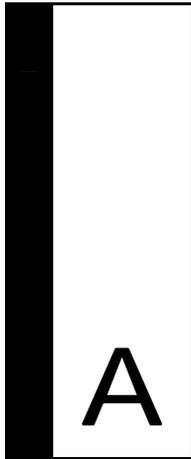
¹⁶ *ASIO Unclassified Submission, page 17.*

- 3.32 The Committee noted that there is a feeling among several of the agencies which have had large budget increases over the last few years that they will not seek more funding in the near future in order to allow current growth to settle and to 'avoid running into serious risk management issues'.¹⁷ For other agencies, they foresee needing larger budgets in the future to cope with the consequences of growth and increased expectations of Government and/or clients.
- 3.33 Together with assurances from the Australian National Audit Office, the Committee was satisfied that all the agencies are currently managing the expenditure of their organisations appropriately.
- 3.34 At this time the Committee makes no recommendations regarding the expenditure of the intelligence and security agencies.

The Hon David Jull MP
Chairman

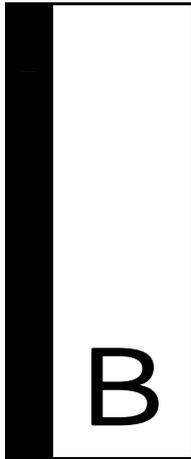
21 June 2007

17 *Private hearing transcript.*



Appendix A – List of Submissions

1. Australian Secret Intelligence Service (Classified SECRET)
2. Office of National Assessments (Classified RESTRICTED)
- 2a. Office of National Assessments
(Supplementary Submission - Classified CONFIDENTIAL)
3. Australian Security Intelligence Organisation
- 3a. Australian Security Intelligence Organisation
(Supplementary Submission - Classified SECRET)
- 3b. Australian Security Intelligence Organisation
(Answers to Questions on Notice - Classified SECRET)
4. Australian National Audit Office (Classified SECRET)
5. Defence Intelligence Agencies (Classified CONFIDENTIAL)
 - Defence Signals Directorate
 - Defence Intelligence Organisation
 - Defence Imagery and Geospatial Organisation
- 5a. Defence Intelligence Organisation
(Supplementary Submission – Classified CONFIDENTIAL)
- 5b. Defence Signals Directorate
(Supplementary Submission – Classified CONFIDENTIAL)



Appendix B – Witnesses appearing at Private Hearings

Friday 23 March 2007 – Canberra

Australian Security Intelligence Organisation

Mr Paul O’Sullivan, Director-General of Security

Monday 2 April 2007 – Canberra

Office of National Assessments

Mr Peter Varghese, Director-General

Department of Defence – Intelligence and Security

Mr Stephen Merchant, Deputy Secretary

Defence Signals Directorate

Mr Clive Lines, Acting Director

Mr Cameron Ashe, Assistant Secretary – Executive Branch

Defence Intelligence Organisation

MajGen Maurie McNarn, Director

Defence Imagery and Geospatial Organisation

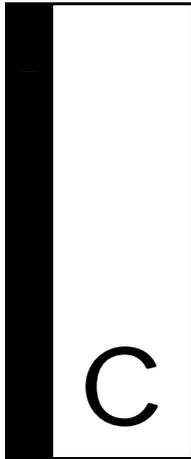
Mr Ian McKenzie, Director

Mr Graham McCloy, Director - Policy, Plans and Compliance

Tuesday 3 April 2007 – Canberra

Australian Secret Intelligence Service

Mr David Irvine, Director-General



Appendix C – Recommendations made in the 2006 review

Recommendation 1

That the Government provide the Committee with separate financial statements for DSD, DIGO and DIO to enable the Committee to fulfil its statutory obligations regarding oversight of the administration and expenditure of the intelligence and security agencies.

Recommendation 2

The Committee recommends:

- that the Government identify methods to address the security clearance backlog of the agencies; and
- that the agencies be required to report every year on the backlog and the methods being used to address it in their Annual Reports.

Recommendation 3

The Committee recommends that the Government enquire into the feasibility of establishing a combined facility for basic training in intelligence either in an existing academic institution or as a separate college.

