

## 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'.<sup>1</sup>
- 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,

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1 *ANAO classified Submission.*

have also increased from \$4 million in 2001-02 to \$113 million in 2006-07.<sup>2</sup> 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.<sup>3</sup>

- 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.<sup>4</sup>

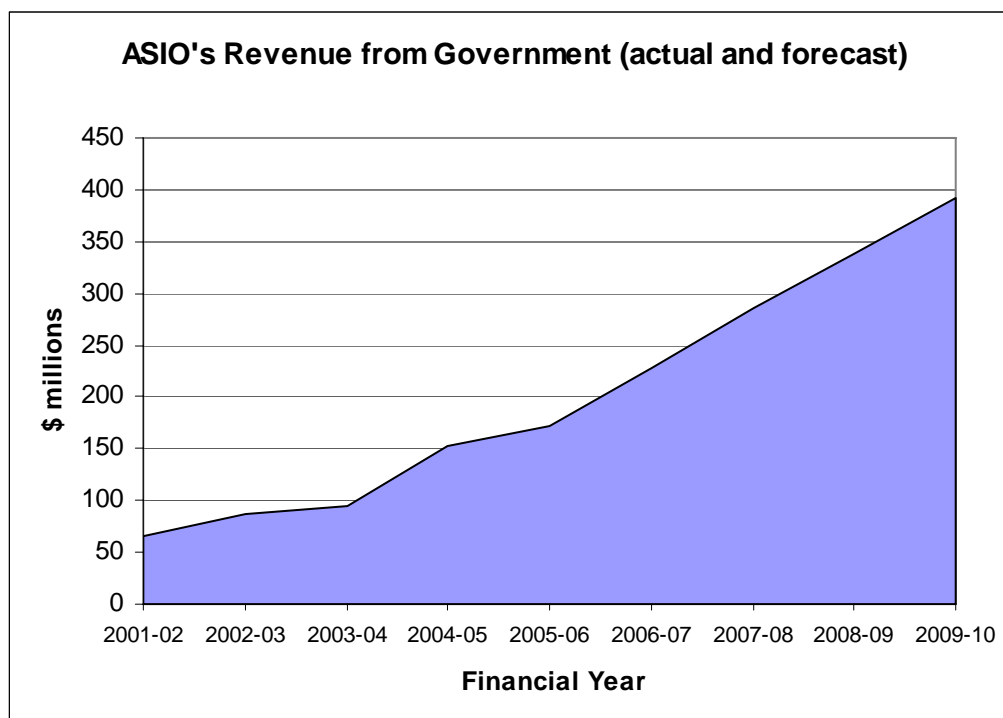
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<sup>2</sup> ASIO Unclassified Submission, page 3.

<sup>3</sup> ASIO Unclassified Submission, page 10.

<sup>4</sup> ASIO Unclassified Submission, page 10.

Figure 3.1 ASIO



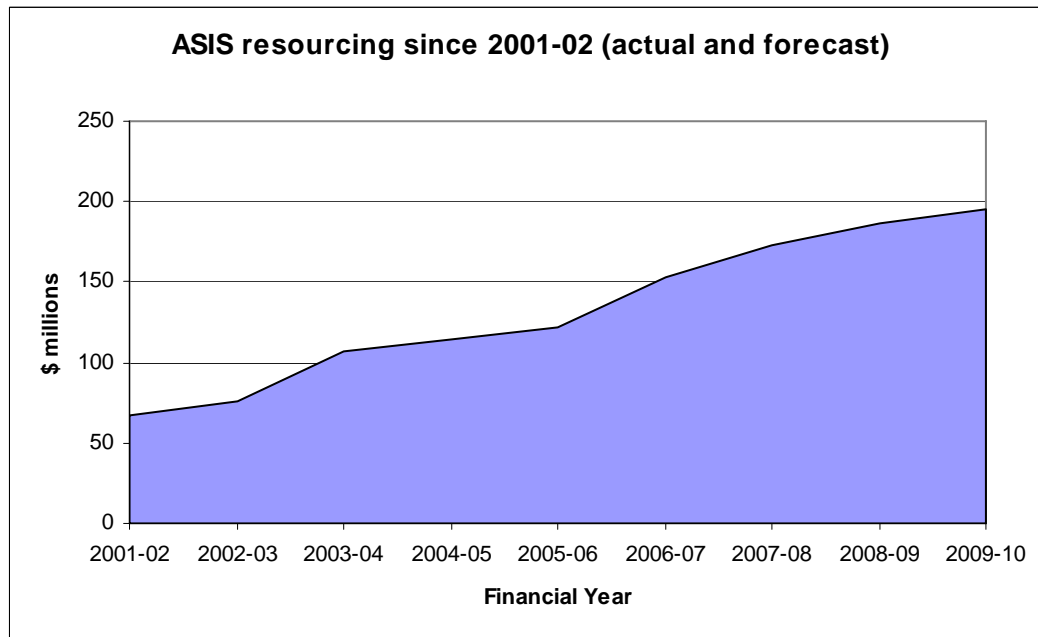
Source ASIO Unclassified Submission, page 9.

- 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'.<sup>5</sup>
- 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'<sup>6</sup> 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.

<sup>5</sup> ASIO Unclassified Submission, page 11.

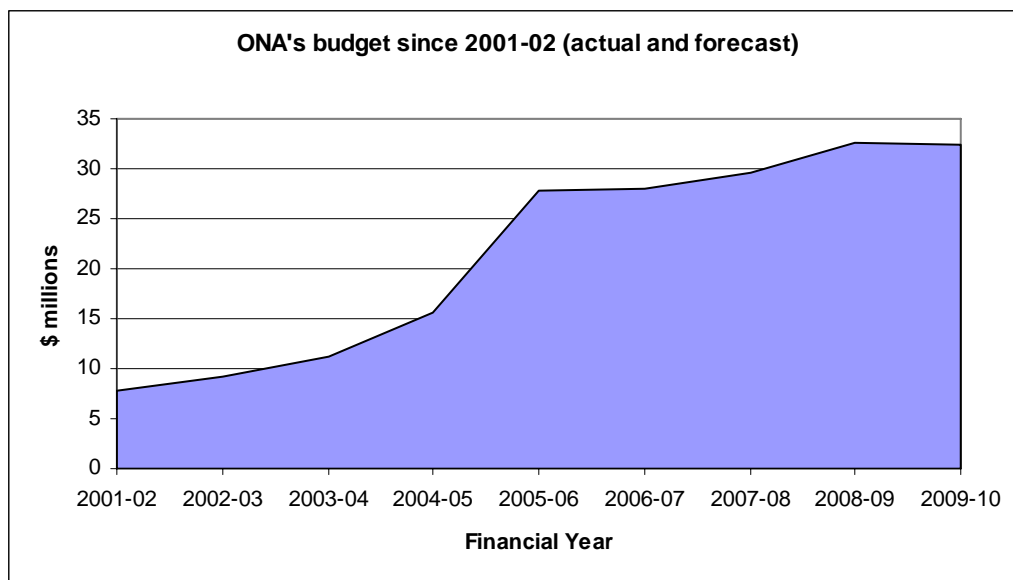
<sup>6</sup> ASIO Unclassified Submission, page 11.

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.<sup>7</sup> 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'.<sup>8</sup> 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'.<sup>9</sup>

## 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

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<sup>7</sup> ASIO *Unclassified Submission*, page 46.

<sup>8</sup> ASIO *Unclassified Submission*, page 45.

<sup>9</sup> 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.<sup>10</sup>
- 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.<sup>11</sup>

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<sup>10</sup> ASIO *Unclassified Submission*, page 11.

<sup>11</sup> *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'.<sup>12</sup> 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'.<sup>13</sup> ASIO's Corporate Plan 2007-2017 'sets the broad framework for how ASIO does its business, measures its performance and achieves outcomes'.<sup>14</sup>
- 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.<sup>15</sup> 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.<sup>16</sup>
- 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.

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<sup>12</sup> *Classified Submission.*

<sup>13</sup> *Classified Submission.*

<sup>14</sup> *ASIO Unclassified Submission, page 17.*

<sup>15</sup> *ASIO Unclassified Submission, page 17.*

<sup>16</sup> *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'.<sup>17</sup> 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**

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17 *Private hearing transcript.*

