

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.

Submission from the ANAO

- 3.3 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 2006-07 financial statements of the intelligence agencies.
- 3.4 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.
- 3.5 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.
- 3.6 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

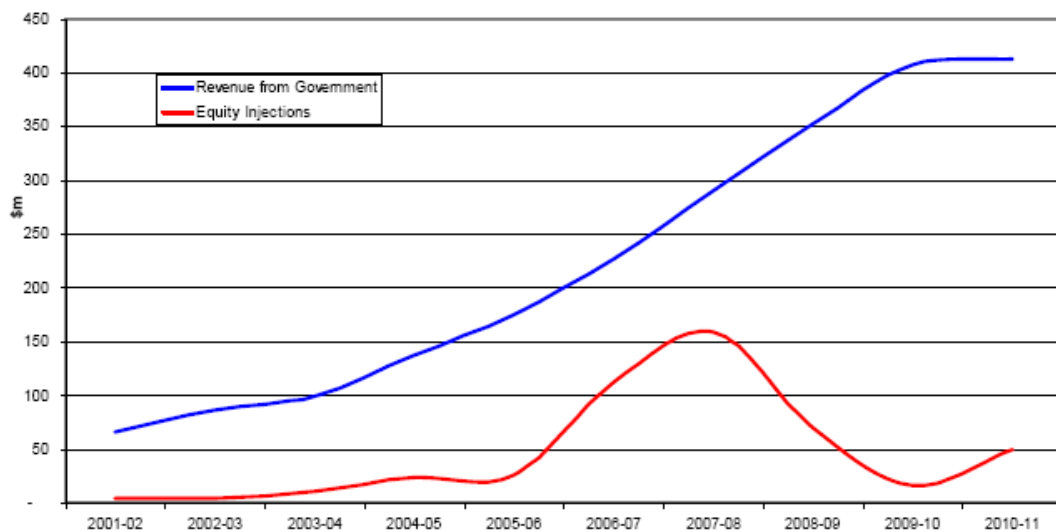
Auditing Standards and that they provided reasonable assurance that the agencies' financial statements are free from material misstatement.

Budget Growth

- 3.7 As mentioned in previous reports, 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. The Committee was satisfied that the agencies are taking measures to manage budget growth appropriately.
- 3.8 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 \$413 million by 2010-11 (see Figure 3.1). ASIO's equity injections, which cover allocations for new policy proposals, have also increased from \$4 million in 2001-02 to \$113 million in 2006-07.¹ 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.
- 3.9 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.
- 3.10 ASIO's operating surplus of \$3.4 million in 2006-07 reflected the easing of budgetary pressures on the Organisation through additional funding by Government in 2004-05.²

¹ ASIO *Unclassified Submission*, p 13.

² ASIO *Unclassified Submission*, p 14.

Figure 3.1 ASIO Revenue from Government, 2001-02 – 2010 - 11

Source ASIO Unclassified Submission, page 13.

- 3.11 According to ASIO, it's 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'.³
- 3.12 A major challenge facing ASIO is growth in employee numbers which has a twofold impact:
- Expenses flowing from workplace agreements increase faster than the appropriation indexation provided by Government; and
 - In order to allow employees the best possible tools to do their job, the investment needed in information technology infrastructure increases exponentially.⁴
- 3.13 The cost of the three Defence intelligence agencies (DIO, DSD, DIGO) to government for 2006-07 was around \$516 million.⁵ Australian troops are serving in many theatres around the world the most high profile of which are Iraq and Afghanistan and, whilst the amount of money given to these agencies can be justified on these grounds, the Committee has no way of knowing exactly how these funds are spent. The same statement could be made of ASIO and ASIS.

3 ASIO Unclassified Submission, p 11.

4 ASIO Unclassified Submission, p 15.

5 Classified transcript.

- 3.14 In making the above statement the Committee does not wish to suggest any adverse comment on the agencies in question. It is a comment on the significant difficulties placed on the Committee by the prohibitions on the Committee looking into operational matters which makes it difficult for the Committee to give a conclusive view of the agencies' expenditure. These prohibitions are contained in section 29(3)(b) and 29(3)(c) of the *Intelligence Services Act 2001* which states:

(3) The functions of the Committee do not include:

(b) reviewing the sources of information, other operational assistance or operational methods available to ASIO, ASIS, DIGO, DIO, DSD or ONA; or

(c) reviewing particular operations that have been, are being or are proposed to be undertaken by ASIO, ASIS, DIGO, DIO or DSD; . . .

Recruitment costs

- 3.15 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.
- 3.16 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.
- 3.17 ASIO's submission shows that its advertising costs increased from \$250,851 in 2001-02 to \$835,347 in 2004-05, \$2.044 million in 2005-06 then to \$2.126 million in 2007-08.⁶
- 3.18 The Committee heard that increasingly other agencies have also used much more aggressive advertising campaigns to attract graduates.
- 3.19 Security clearance costs continue to be a significant part of recruitment costs for agencies.

Training costs

- 3.20 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.

⁶ ASIO *Unclassified Submission*, p 34.

Expenditure on training comprises a significant portion of each agency budget.

- 3.21 Each agency provided the Committee with agency costs for training. 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 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

- 3.22 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.

- 3.23 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.⁷

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

Fraud control and risk management

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

⁷ ASIO *Unclassified Submission*, p 15.

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.⁸

- 3.26 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'.⁹ In 2006-07 ASIO completed eleven internal audits and one evaluation as part of its fraud control plan.¹⁰ 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.¹¹

Conclusion

- 3.27 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 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.
- 3.28 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 appropriately.

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

9 *Classified Submission*.

10 *ASIO Unclassified Submission*, p 22.

11 *ASIO Unclassified Submission*, p 22.

The Hon Arch Bevis MP
Chairman

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