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Attachment B – Unclassified Submission

Submission on the Australian National Audit Office's audit activity within Australian Intelligence Agencies

Performance Audits

Powers of the Auditor-General

1. The *Auditor-General Act 1997* authorises the Auditor-General to conduct performance audits, assurance reviews or audits of the performance measures of Commonwealth entities, Commonwealth companies and their subsidiaries. A performance audit is a review or examination of any aspect of the operations of an entity which is undertaken in accordance with the ANAO Auditing Standards. The ANAO's performance audits are tabled in the Parliament and identify areas where improvements can be made to aspects of public administration. Performance audits may make specific recommendations to assist public sector entities to improve performance. Performance audits may also involve multiple entities and examine common aspects of administration or the joint administration of a program or service.

2. The ANAO identifies subjects for audits through its planning processes and as part of developing the ANAO annual Audit Work Program. The audit program aims to provide broad coverage of areas of public administration while balancing identified priorities with the ANAO's capacity. Topics are identified based on consideration of potential benefits; the level of public and parliamentary interest in a topic; and risks to reputation and service delivery. The priorities of the Parliament, as determined through the Joint Committee on Public Accounts and Audit are a key consideration in this process. Performance audits can include consideration of:

- economy (minimising cost);
- efficiency (maximising the ratio of outputs to inputs);
- effectiveness (the extent to which intended outcomes were achieved); and
- legislative and policy compliance.

1. The annual Audit Work Program is published annually and can be accessed on the ANAO website at: <https://www.anao.gov.au/work-program/overview>.

2. At the date of this submission one recent performance audit was conducted within the Australian intelligence agencies, which was tabled in the Parliament in September 2021.

Auditor-General Report No.2 of 2021–22 Workforce Planning in the Australian Security Intelligence Organisation

3. This performance audit was tabled in the Parliament on 8 September 2021. The objective of the audit was to assess the effectiveness of ASIO's workforce planning to support key activities. To form a conclusion against this objective, the following high-level criteria were applied by the ANAO:

- is ASIO effectively developing workforce plans to support its key activities?
- is ASIO effectively implementing workforce plans?
- has recommendation 12 of the 2017 Independent Intelligence Review (IIR) been implemented to support Australian intelligence community workforce requirements?

4. The performance audit included the following conclusions:

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- ASIO’s workforce planning to support key activities is largely effective;
- ASIO’s development of workforce plans to support its key activities is largely effective. ASIO has established workforce planning documentation consistent with Australian Public Service Commission guidance, except for the consideration of risk. Workforce decisions are informed by the available data, however ASIO does not have a process to identify capabilities that inform enterprise workforce planning decisions and delivery of its key organisational activities;
- ASIO’s workforce planning implementation to support key activities is partially effective. ASIO has not established an approved implementation plan for workforce planning at the enterprise level. However, ASIO had commenced or implemented the majority of the actionable items in its Workforce Plan 2025. ASIO has not established monitoring and reporting on workforce planning progress or whether its intended outcomes are being achieved; and
- ASIO implemented Recommendation 12 of the 2017 IIR. Top Secret Positive Vetting cases and processing times were reduced, and a significantly reduced backlog of cases remained after the remediation had concluded.

5. The ANAO made 3 recommendations in the performance audit which were agreed by ASIO. These recommendations, including the ASO response, are included in the table below:

Table 1: Recommendations made in Report No.2 2021–22

Category	Description
1 Paragraph 2.19 of the report	<p>Recommendation: ASIO identify, document and manage risks and controls associated with its current workforce planning.</p> <p>ASIO response: Agreed. ASIO acknowledges the importance of managing risk and has implemented an Enterprise Risk Management Policy. ASIO has identified and documented enterprise risks, risk rating and controls in ASIO’s enterprise risk register and in division risk registers. Processes for managing risk are documented in ASIO’s enterprise-level policy for managing enterprise risk, supported by new risk appetite and risk tolerance statements. ASIO notes within its workforce planning approach the existing links to enterprise risk and associated controls could be strengthened and will address this area in the development of future Workforce Action Plans.</p>
2 Paragraph 2.37 of the report	<p>Recommendation: ASIO develop a process that captures the capabilities of its existing workforce to support enterprise workforce planning decision-making, and delivery of its key activities.</p> <p>ASIO response: Agreed. This recommendation aligns with ASIO’s future priorities as highlighted within ASIO’s Workforce Plan 2025.</p>
3 Paragraph 3.20 of the report	<p>Recommendation: ASIO establish and apply an approved implementation plan for its Workforce Plan 2025 and Workforce Action Plans to:</p> <ul style="list-style-type: none"> • document how actionable items will be assigned, prioritised, progressed, and measured; • establish monitoring and reporting arrangements on implementation progress to the appropriate oversight body; • evaluate the extent to which they are achieving their intended outcomes; and • provide data to inform adjustments in response to changes in organisational priorities, or future iterations of its workforce planning.

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Category	Description
	ASIO response: Agreed. ASIO recognises the importance of an established implementation plan to monitor and report on progress. Approval of the draft ASIO Workforce Planning Implementation Framework (provided to ANAO during this audit) will be sought and implemented.

3. A list of key messages and outcomes from this performance audit that may be relevant for other Australian intelligence agencies has been included in Table 2.

Table 2: Key messages arising from Auditor-General Report No.2 2021–22 Workforce Planning in the Australian Security Intelligence Organisation

Area	Key Message
Risk Management	Entities should undertake an enterprise-level risk assessment when developing and implementing strategic plans.
Program Implementation	Development of an effective implementation plan is important to ensure that workforce planning is executed within scope, timeframes and budget. Implementation plans should specify measurable and reasonable milestones and benchmarks, establish accountable roles and governance arrangements, and identify risks and controls.
Performance and impact measurement	Successful implementation of workforce planning is underpinned by effective monitoring, review and evaluation processes to inform the achievement of intended outcomes, adjustments that may be required, or maturity on the basis of meaningful data.

Source: Auditor-General Report No.2 of 2021–22 Workforce Planning in the Australian Security Intelligence Organisation

6. The full report can be accessed on the ANAO website at: <https://www.anao.gov.au/work/performance-audit/workforce-planning-the-australian-security-intelligence-organisation>.

Financial Statements Audits

Powers of the Auditor-General

7. The Auditor-General, and his delegates, are required by section 43 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) to examine the annual financial statements of all commonwealth entities and to report on them to the responsible Minister in accordance with that section. The *Auditor-General Act 1997* provides the Auditor-General powers to access information, records and documentation that are relevant to the annual financial statements in the conduct of these audits.

8. In accordance with the requirements of the ANAO Auditing Standards which incorporate the Australian Auditing Standards¹ written terms of engagement that outline responsibilities of Accountable Authorities for preparing the annual financial statements and confirming access to information required to complete the audit have been agreed with the Accountable Authority of each intelligence agency. The Accountable Authority of each of the entities has acknowledged that they provide the ANAO with:

- access to all information which the Accountable Authority is aware that is relevant to the preparation of the financial statements;
- additional information that the ANAO request for the purposes of the audit; and

¹ Issued by the Australian Auditing and Assurance Standards Board.

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- unrestricted access to persons within the agency from whom the ANAO determine it is necessary to obtain audit evidence.

9. In concluding on the evidence obtained in an audit, the ANAO seeks formal written representations from the Accountable Authority that they have adhered to the requirements of these terms and provided the ANAO with access to all information or persons that may be relevant to the conduct of the audit.

10. Consistent with responsibilities of the Auditor-General outlined in the *Auditor-General Act 1997*, the ANAO conducts the audits of the entities in accordance with the ANAO's Auditing Standards, which incorporate the Australian Auditing Standards, so as to provide reasonable assurance as to whether the financial statements are free from material misstatement. The auditing standards require the ANAO to obtain sufficient and appropriate audit evidence relating to the financial statements that would allow the issuance of our auditor's report that expresses an opinion on the financial statements. A financial statements audit involves performing procedures, which in the judgement of the auditor, will obtain sufficient and appropriate audit evidence about the amounts and disclosures in the financial statements. The procedures that the ANAO perform in each audit depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error.

11. In planning a financial statement audit the ANAO undertakes a risk assessment of the overall risk of misstatement in the financial statements which includes consideration of the: operating environment, adoption and use of technology, changes in and complexity of the financial reporting framework and results of previous audits. In performing such a risk assessment, the ANAO also considers internal controls relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency internal control. Whilst this risk assessment may cause the ANAO to focus on certain aspects of the financial statements the ANAO considers at greater risk of misstatement the ANAO performs audit procedures on all material financial statements line items and disclosures.

Governance Arrangements at the Australian Intelligence Agencies

12. The purpose of a financial statements audit is to obtain sufficient and appropriate audit evidence that allows a conclusion to be formed that an agency's financial statements are free from material misstatement, the auditing standards require the ANAO to consider the design and implementation of certain elements of an agency's internal control framework relevant to the preparation of the financial statements and report deficiencies to the agency.

13. The ANAO may test the design and operating effectiveness of certain internal controls, including those relating to information technology (commonly related to the management of the financial management and human resources information systems), this is to provide assurance over the risk of misstatement – accordingly, the ANAO does not express an opinion on the effectiveness of internal controls. Where the ANAO identifies issues with the design or operating effectiveness of internal controls these may be reported to the Accountable Authority of an agency in accordance with the ANAO reporting policy (refer to paragraph 17 for further information).

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14. All intelligence agencies² have designed and implemented governance arrangements, a financial reporting regime and a system of internal control designed to provide reasonable assurance in the preparation of the annual financial statements. Key elements of the governance arrangements for each agency include:

- a number of management committees that meet regularly to evaluate the agency’s performance and financial results;
- a risk management and fraud control process that identifies risks and mitigation strategies;
- an internal audit function that provides the Accountable Authority with assurance on the effectiveness of internal controls; and
- accountable authority instructions and delegations drafted to provide officials guidance in relation to their responsibilities under the PGPA Act and Rules; and
- an audit and risk committee that meets at least quarterly and has independent members, including an independent chair.

Results of individual audits

15. Section 42 of the PGPA Act requires that all listed commonwealth entities prepare annual financial statements in accordance with the PGPA Financial Reporting Rules. Australian Security Intelligence Organisation (ASIO), Australian Signals Directorate (ASD), Australian Secret Intelligence Service (ASIS) and Office of National Intelligence (ONI) produced annual financial statements that were prepared in accordance with these requirements and were subject to audit by the ANAO. The Defence Intelligence Organisation (DIO) and Australian Geospatial Intelligence Organisation (AGO) were not listed entities for the purposes of the PGPA Act during 2020–21 and on this basis are not required to prepare separate financial statements as they are divisions within the Department of Defence (Defence). The financial performance and position of AGO and DIO is included in the Defence financial statements.

16. All entities produced financial statements and submitted them for audit by the ANAO. The ANAO issued an unmodified³ auditor’s report on each agency’s financial statements.

17. The ANAO may identify audit findings in the course of our audit in relation to systems of internal control or financial statement preparation. As audit findings are identified they are discussed with and reported to management of each agency for formal comment and remediation. The ANAO categorise issues based on our judgement of their severity, through the following classification scale:

Table 3: Categories of ANAO Audit Findings^a

Category	Description
Significant	Issues that pose a significant business or financial management risk to the entity; these include issues that could result in the material misstatement of the entity’s financial statements.
Moderate	Issues that pose moderate business or financial management risk to the entity; these may include prior year issues that have not been satisfactorily addressed.

² Governance arrangements for DIO and AGO reflect those implemented for the Department of Defence.

³ An unmodified auditor’s report is issued when an auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

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Category	Description
Minor	Issues that pose a low business or financial management risk to the entity; these may include accounting issues that, if not addressed, could pose a moderate risk in the future.

Note a: Further information on the process for ANAO audit findings on the ANAO's website at: <https://www.anao.gov.au/financial-statement-audit-information>

18. There were no new significant audit issues identified in the audits of intelligence agencies in 2020–21 or 2019–20.

19. There were no moderate audit findings identified in the audit of intelligence agencies in 2020–21. There was one moderate audit finding first identified in 2019–20 in relation to the accounting for non-financial assets at ASD (which is further detailed below in the results of the ASD financial statements audit) which was remediated by ASD and is now considered to be resolved. There were no other moderate audit findings identified in the relation to the audits of security and intelligence entities in 2019–20.

20. There were minor findings identified in most intelligence agency audits and reported to the Accountable Authority for agency for remediation during 2020–21. The minor findings identified mainly related to: processing of employee entitlements, preparation of the financial statements and accounting and control of non-financial assets.

21. The Accountable Authority of each agency has advised the ANAO of appropriate remedial action that will be taken to address the underlying cause of each audit findings identified. The ANAO will examine the actions taken by each agency to remediate the issue/s identified in audit findings in the normal course of the 2021–22 financial statements audit.

Australian Secret Intelligence Service

22. ASIS's functions include obtaining and communicating intelligence about people and organisations; conducting counter intelligence activities; and other activities as directed by the Minister for Foreign Affairs.

23. The ANAO assessed the risk of material misstatement in ASIS' financial statements as moderate.

24. The Director-General signed the financial statements on 8 December 2021. The ANAO issued an unmodified audit report on ASIS' 2020–21 financial statements on 8 December 2021.

25. There were no significant or moderate audit findings identified in the 2020–21 or 2019–20 audits of ASIS's financial statements.

Australian Security Intelligence Organisation

26. ASIO's role is to identify and investigate threats to security both in Australia and overseas. It fulfils its role by collecting and assessing security intelligence. ASIO also provides assessments, reports and briefings for Government decision makers and client entities to help them manage risks and take appropriate steps to protect Australia, its people and its interests from threats to security whether they arise in or outside Australia.

27. The ANAO assessed the risk of material misstatement in ASIO's financial statements as moderate. The ANAO identified the following areas of audit focus, for which the ANAO performed more detailed audit procedures. The table below provides an overview of these risks.

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Table 4: Key areas of financial statements risk for ASIO

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Employee benefits expenses \$265.3 million employee leave provisions \$93.0 million	Accuracy and completeness of employee benefits	Moderate	<ul style="list-style-type: none"> complexity of entitlements payable to ASIO’s employees; and requirement for manual calculations to be performed due to limitations in the payroll system
Non-financial assets \$924.1 million Depreciation expenses \$142.0 million	Measurement and recognition of Non-Financial Assets, particularly assets under construction	Moderate	<ul style="list-style-type: none"> given the quantum of assets managed by ASIO; and complexity and judgement required to determine an appropriate fair value for ASIO’s non-financial assets.

Source: ANAO’s 2020–21 audit results

28. The Director-General of Security signed the financial statements on 25 August 2021. The ANAO issued an unmodified audit report on ASIO’s 2020–21 financial statements on 25 August 2021.

29. There were no significant or moderate audit findings identified in the 2020–21 or 2019–20 audits of ASIO’s financial statements.

Australian Signals Directorate

30. ASD’s role is to defend Australia from global threats and advance Australia’s national interests through the provision of foreign signals intelligence, cyber security and offensive cyber operations as directed by Government.

31. The ANAO assessed the risk of material misstatement in ASD’s financial statements as moderate. The ANAO identified the following areas of audit focus, for which the ANAO performed more detailed audit procedures. The table below provides an overview of these risks.

Table 5: Key areas of financial statements risk for ASD

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Non-financial assets \$793.6 million depreciation expenses \$164.8million	Measurement and recognition of Non-Financial Assets, particularly assets under construction	Moderate	<ul style="list-style-type: none"> judgement applied by ASD in determining whether or not expenditure on assets, particularly those under construction, should be capitalised or expensed in accordance with Australian accounting standards; valuation and impairment considerations for assets, particularly complex assets under construction, is subject to judgement by ASD; and moderate audit finding identified during the 2019–20 financial

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			statements audit relating to weaknesses in the asset capitalisation and monitoring process.
All financial statement line items	Completeness and accuracy of transactions made by ASD’s shared service provider (Department of Defence)	Moderate	<ul style="list-style-type: none"> significance of the reliance on the internal controls and IT processes that have been established by the shared service provider for transactional accounting.

Source: ANAO’s 2020–21 audit results

32. The Director-General signed the financial statements on 23 September 2021. The ANAO issued an unmodified audit report on ASD’s 2020–21 financial statements on 23 September 2021.

33. There were no significant or moderate audit findings identified in the 2020–21 audit of ASD’s financial statements. A moderate audit finding from the 2019–20 audit of ASD has been resolved during 2020–21 (refer below).

Asset capitalisation and monitoring process

34. The ANAO’s 2019–20 audit identified weaknesses in ASD’s asset management and accounting framework relating to assets under construction. At 30 June 2020 a material proportion of the asset under construction balance was identified as being completed and in service, however, the necessary accounting process to transfer these assets to the asset register had not occurred. As a result, a manual process to estimate the impact of depreciation of these assets was required to correctly account for these assets in the financial statements. The ANAO considers the timely transfer of assets under construction to the asset register a key control that supports: the accuracy of the financial statements, internal and external budget processes and is an important element of the internal control framework supporting the custody of assets managed by ASD.

35. In addressing the audit finding and the ANAO’s recommendations, ASD has:

- updated policies and procedures for project managers and asset custodians that explain accounting responsibilities and supported these procedures through the provision of training;
- reviewed the balance of assets under construction, identified completed and in service assets to be transferred to the asset register and updated the asset register with these details; and
- implemented revised monthly accounting processes to review and confirm with project managers that assets under construction does not contain completed assets that otherwise require addition to the asset register.

36. As ASD have addressed the ANAO’s recommendations this audit finding has been resolved.

Office of National Intelligence

37. ONI’s role is to advance Australia’s national interests through increased government awareness of international developments affecting Australia and integration, coordination and evaluation of Australia’s national intelligence capabilities.

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38. The ANAO assessed the risk of material misstatement in ONI’s financial statements as low. The ANAO identified the following areas of audit focus, for which the ANAO performed more detailed audit procedures. The table below provides an overview of these risks.

Table 6: Key areas of financial statements risk for ONI

Relevant financial statement item	Key area of risk	Audit risk rating	Factors contributing to the risk assessment
Employee benefits expenses employee leave provisions	Accuracy of employee benefits provisions	Low	<ul style="list-style-type: none"> judgement applied in calculation of employee leave provisions.
Non-financial assets	Completeness and valuation of non-financial assets	Low	<ul style="list-style-type: none"> judgement applied in valuing the balance of non-financial assets; impact of timely asset accounting on the preparation of the financial statements.
Grants expenses	Measurement of administered grants	Low	<ul style="list-style-type: none"> new National Intelligence Security Discovery Research Grant program in 2020–21; and preparation of administered financial statements by ONI for these items for the first time.

Source: ANAO’s 2020–21 audit results

39. The Director-General of National Intelligence signed the financial statements on 30 September 2021. The ANAO issued an unmodified audit report on ASD’s 2020–21 financial statements on 30 September 2021.

40. There were no significant or moderate audit findings identified in the 2020–21 or 2019–20 audits of ONI’s financial statements.

Defence Intelligence Organisation, Australian Geospatial Intelligence Organisation

41. As DIO and AGO are divisions within Defence the related financial transactions for these agencies are included within the Defence financial statements and are considered as part of the ANAO’s Defence financial statements audit. In developing the audit strategy for the Defence audit there were no specific risks of material misstatement (and requiring more detailed audit testing) identified relating to these agencies. Whilst no audit procedures were specifically undertaken to target risks of misstatement relating to DIO and AGO individual transactions relating to these agencies may have been selected at random in the wider sample based audit testing applied in the Defence audit – these transactions are not separately identified or selected due to them being related to DIO and AGO.

42. The ANAO issued an unmodified audit report on Defence’s 2020–21 financial statements on 30 September 2021.

43. Whilst the ANAO identified audit findings in the financial statements audit of Defence and reported them to the Accountable Authority, there were no significant or moderate audit findings identified specifically related to the operations or financial management of DIO and AGO.