

Expenditure

- 3.1 The Committee has a statutory obligation to review the financial statements of all six AIC agencies. All agencies, except ASIO, provided the Committee with a copy of their financial statements. ASIO's financial statements are publicly available and the Committee sourced these from ASIO's *Report to Parliament 201-2012*.
- 3.2 As most of the evidence taken from the intelligence agencies at the hearings was of a classified nature, the following is a broad overview of the Committee's findings relating to the expenditure of the agencies.

The efficiency dividend

- 3.3 During its inquiry for the *Review of administration and expenditure: Australian Intelligence Organisations, Number 7* it became clear to the Committee that issues relating to the efficiency dividend and its impact on agencies outside of the AIC apply equally to smaller agencies within the AIC. The Committee advised that it would continue to monitor the impact of the efficiency dividend on all the agencies.
- 3.4 In its report *Review of administration and expenditure: Australian Intelligence Organisations, Number 8* the Committee made the following recommendation:

The Committee recommends that the Australian Government review the potential adverse effects of the efficiency dividend on the Australian Intelligence Community having particular regard to

the Joint Committee of Public Accounts and Audit report *The efficiency dividend and small agencies: Size does matter*.¹

- 3.5 In its report *Review of administration and expenditure: Australian Intelligence Organisations, Number 9*, tabled on 18 June 2012, the Committee made the following comment:

The concerns raised during the Committee's *Review of Administration and Expenditure: Australian Intelligence Organisations, Number 8* were specifically raised in the evidence the Committee took for the current review. This is extremely concerning to the Committee. The Committee will continue to monitor the impact of the Efficiency Dividend on the Australian Intelligence Community.²

- 3.6 In relation to the efficiency dividend three out of the six agencies made comment on the impact it would have on their budgets and capability.

- 3.7 The Director-General of ASIO told the Committee that, in relation to the Taylor Review target for staff, he did not:

. . . believe we can reach the target without further funding. That four per cent efficiency dividend is gone forever from our budget. I do not believe we can reach that target until we get access to new funding, which may be a year or so or longer depending on the economy down the track.³

- 3.8 ONA stated that:

The impact of efficiency dividends on small agencies can be disproportionate, ONA has been able to meet the increased annual efficiency dividend. However, the additional 2.5% one-off efficiency dividend will put much greater strain on ONA's capacity to do its job, eroding gains that flowed to ONA from the Flood Report.⁴

1 Parliamentary Joint Committee on Intelligence and Security, *Review of Administration and Expenditure No. 8 – Australian Intelligence Agencies* Parliamentary Paper No. 14/2010; Tabled 21 June 2010, p. 46.

2 Parliamentary Joint Committee on Intelligence and Security, *Review of Administration and Expenditure No. 9 – Australian Intelligence Agencies* Parliamentary Paper No.:156/2012; Tabled 18 June 2012, p. 29.

3 *Classified Transcript*, 23 March 2012, p. 15.

4 *ONA Classified Submission*, No. 8, p. 21.

- 3.9 In addition the Director-General of ONA, Mr Allan Gyngell, told the Committee that the 'new efficiency dividend will certainly impede our ability to provide the coverage which we have provided in the past.'⁵
- 3.10 Another agency mentioned the efficiency dividend in conjunction with other budgetary impacts. This is dealt with below.

Other impacts on agency budgets

- 3.11 One agency told the Committee that an increasingly difficult fiscal environment had seen its budget shrink in real terms. This had come about because of:
- a requirement to self-fund ongoing operational activity to counter people-smuggling;
 - other new policy proposals;
 - the efficiency dividend;
 - Government mandated portfolio savings commitments; and,
 - the rising cost of operational activity.
- 3.12 ASIO told the Committee that:

... like everyone else we are under very tight budget pressures at the moment, as you would expect, and we are addressing that by our internal reform program, which is designed to give efficiencies as well as developing capability, but we are also taking stronger measures. We do not want to let staff go if we can avoid it, but we have postponed reaching the final staffing objective set by the Taylor review five or six years ago, which was 1,860.⁶

...

So they are hard times for all parts of the government at the present time, and the intelligence community is not immune from that, but I am hoping that the measures we have taken will enable us to operate within budget without any significant loss of operating efficiency.⁷

5 *Classified Transcript*, 23 March 2012, p. 26.

6 *Classified Transcript*, 23 March 2012, p. 2-3.

7 *Classified Transcript*, 23 March 2012, p. 3.

3.13 Evidence from one agency raised concerns that they were not being adequately resourced to undertake the full task for which they are responsible. The agency told the Committee that they were:

... in the process of receiving, additional funding for a specific area of activity, and that has lessened the financial pressure on us quite considerably.⁸

Submission from the ANAO

3.14 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 2010-11 financial statements of the intelligence agencies.

3.15 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.

3.16 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 confirmed that issues previously raised for two of the individual agencies had been resolved.⁹

Budget Growth

Agencies other than ASIO

3.17 Of the agencies other than ASIO, one received an increase in their budget for 2010-11 with the other three having their budgets decreased.

ASIO

3.18 Funding to ASIO in terms of total price of program expenses was \$353 million, a decrease of \$62 million (15 percent) from 2009-2010.¹⁰

8 *Classified Transcript*, 23 March 2012, p. 32.

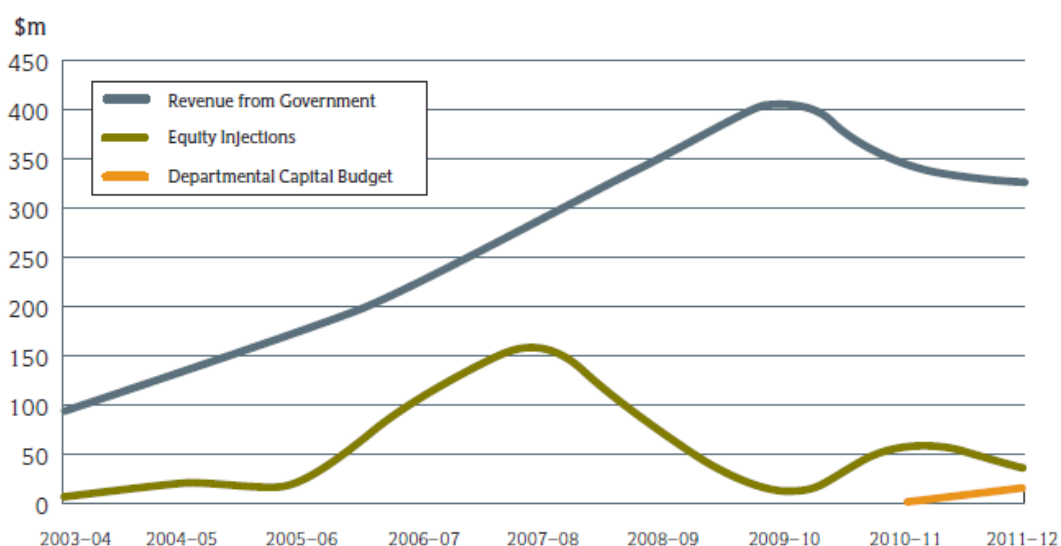
9 *ANAO Classified Submission*, No. 9, pp. 3-4.

10 *ASIO Unclassified Submission*, No. 2, p. 27.

- 3.19 Revenue from Government in 2010–11 decreased \$61 million (15 per cent) to \$345 million, from \$406 million in 2009–2010.¹¹
- 3.20 Separately, ASIO received an equity injection of \$61 million towards the ASIO New Building Project.¹²
- 3.21 Two similar capital appropriations are expected in 2011–2012 – an equity injection of \$42 million towards the ASIO New Building Project, and a departmental capital budget of \$19 million for asset replacement.¹³

Figure 3.1 ASIO Revenue from Government, 2003–04 to 2011–12

Figure 1: Revenue from Government: 2003–04 to 2011–12



Source ASIO Unclassified Submission, No. 2, p. 27.

- 3.22 Agencies did not specifically provide the Committee with exact expenditure on recruitment during the reporting period. However the Committee notes that some agencies have significantly increased the number of recruitment rounds they have undertaken in 2010–11 compared with 2009–10. Clearly this increased level of recruitment activity comes with an associated increase in expenditure.
- 3.23 One of the costs particularly associated with recruitment in the intelligence area is that of vetting of staff. Within ASIO three-quarters of the people who are applying for work who get to the vetting stage are

11 ASIO Unclassified Submission, No. 2, p. 27.

12 ASIO Unclassified Submission, No. 2, p. 27.

13 ASIO Unclassified Submission, No. 2, p. 27.

found unsuitable. The Director-General described this as 'unremarkable' and explained to the Committee that:

That has been our statistic. Because we are trying to make sure that we are putting our best efforts into getting people through the door, since we are being very targeted in how we are recruiting intelligence professionals in some of the more point-end skills and techs, this is why we are focusing much more on that upfront work, so that we have a higher degree of confidence that, once people go into the vetting pipeline, we are likely to get them out the other end.¹⁴

- 3.24 This focus on making sure the right people are found for work in ASIO is echoed in evidence given by other agencies and it is heartening to the Committee to see that, although this may involve a larger up-front cost, the end result is a recruitment process that has provided an agency with better long term employees.

Training costs

- 3.25 Expenditure on training, both corporate and operational, comprises a significant portion of each agency's budget.
- 3.26 Four agencies provided the Committee with their costs for training. In contrast to the period 2009-10, there have been very modest decreases in training costs for 2010-11 in some cases.

Financial governance systems

- 3.27 Each agency has its own internal audit committee. The functions of internal audit committees and the key issues that they addressed in the period under review were set out in the submissions. Typically, such committees comprise the Director or Director-General; one or two Assistant Directors or Assistant Directors-General; Chief Finance Officer and/or Director of Finance; and a representative from the ANAO with other staff members invited as required. Audit Committees generally meet quarterly, or more frequently if required.
- 3.28 Submissions also listed a range of other resource management committees in place within agencies to manage and monitor expenditure.

14 *Classified Transcript*, 23 March 2012, pp. 8-9.

Fraud control and risk management

3.29 Section 45 of the *Financial Management and Accountability Act 1997* (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.¹⁵

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

3.31 During the reporting period and, following the release in March 2011 of the revised version of the Fraud Control Guidelines (2011) by the Attorney-General's Department, ASIO updated both the ASIO Fraud Risk Assessment and the ASIO Fraud Control Plan (2011–13).¹⁶

3.32 ASIO reported to the Committee that during:

... 2010–11, seven incidents of alleged fraud were reported within or against ASIO, with one found to be actual fraud, involving an external contact in private industry who misrepresented their association with the Organisation to derive improper personal benefits. All of these incidents have been dealt with in accordance with the ASIO Fraud Control Plan.¹⁷

Conclusions

3.33 Noting the evidence from the Australian National Audit Office and within the constraints imposed by the *Intelligence Services Act 2001*, the Committee was satisfied that all the agencies are appropriately managing the expenditure of their organisations.

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

16 *ASIO Unclassified Submission*, No. 2, p. 37.

17 *ASIO Unclassified Submission*, No. 2, p. 37.

The Hon Anthony Byrne MP

Chairman