

30 July 2003

The Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Mr Catchpole

Thank you for your letter dated 11 June 2003 inviting the Australian National Audit Office (ANAO) to make a submission to the Committee's Review of Aviation Security in Australia.

Our submission is attached. With respect to the Terms of Reference for the inquiry, our submission addresses Term of Reference (a) relating to the regulation of aviation security by the Department of Transport and Regional Services (DOTARS). As you would be aware, this was the scope of the ANAO audits titled *Aviation Security in Australia* –Report No. 16 1998–1999 and Report No. 26 2002–2003.

In order to assist the Committee with its inquiry we have recently conducted some limited work in the Aviation Security Policy Branch of DOTARS. This consisted of discussions with DOTARS officers and a review of some of the documentation relating to action taken to address the ANAO recommendations since the audit was tabled in January 2003. Bearing in mind that this work was not in the nature of a follow-up audit, nevertheless, the ANAO formed the impression that there was little evidence to demonstrate progress on the ground since the tabling of the audit.

DOTARS has advised that the following aviation security activities have impacted on progress with addressing the recommendations from Audit Report No 26:

- investigation of significant aviation security incidents including the attempted seizure of QANTAS flight 1737 between Melbourne and Launceston;
- consultation with the aviation industry and Commonwealth agencies to implement government decisions on access control and passenger and baggage screening; and
- integration of aviation security arrangements with the new National Counter-Terrorism Plan and associated structures recently announced by the Prime Minister.

We have not commented on the Terms of Reference (b) and (c) since the ANAO's mandate does not extend to private sector airlines or airports. Accordingly, these were not audited during the 1998 and 2003 audits. Instead the audit scope focused on DOTARS' management of its aviation security responsibilities. We have also not commented on the other Terms of Reference since we have not examined these issues.

If you require any further information or wish clarification on any aspects of our submission, please contact Mr Mike Lewis, Executive Director, on 6203 7683.

Yours sincerely

P. J. Barrett

ANAO SUBMISSION TO THE JCPAA PUBLIC INQUIRY INTO AVIATION SECURITY, 2003.

Introduction

1. The ANAO has audited *Aviation Security in Australia* twice: Report No. 16 1998–1999 (the 1998 audit) and Report No. 26 2002–2003 (the 2003 audit). The focus for both audits was the regulation of aviation security by the Department of Transport and Regional Services (DOTARS) and the effectiveness of the Department’s monitoring practices. Accordingly, our comments relate to the first Term of Reference.

The 2003 Audit

2. The audit examined DOTARS’ response to the events of 11 September 2001, and the extent to which DOTARS’ monitoring and compliance regime ensures that the aviation industry complies with its security obligations.

3. The audit looked at:

- the respective roles and responsibilities of the organisations involved in aviation security;
- the setting of security standards;
- DOTARS’ monitoring of airport, airline and cargo security;
- the action DOTARS takes in response to security breaches; and
- the evaluation of aviation security.

4. The audit also examined the extent to which DOTARS had implemented the relevant recommendations from the 1998 audit.

5. Broadly, the audit findings were that:

- DOTARS had responded well to the events of September 11 with a prompt escalation of aviation security measures and effective oversight of their implementation;
- the regulatory framework is comprehensive – the combination of standard security measures and additional security measures provide a sound foundation for managing aviation security;
- the monitoring regime is essentially sound, but the quality of monitoring in practice is variable;
- DOTARS could show greater leadership and the action taken in response to non-compliance could be improved – without this, repeat security breaches will continue to occur and it is difficult for a security culture to be encouraged among those who work in the industry;
- DOTARS could take a more strategic view of industry’s performance and could better evaluate the level of compliance by setting, monitoring and reviewing performance targets as well as using a wider range of management strategies to encourage industry to achieve them; and
- progress in implementing some of the recommendations from the 1998 audit report had been slow.

6. DOTARS agreed to the six recommendations in the audit report to:

- re-examine the resources allocated to, and the frequency of, its auditing of cargo handlers;
- better examine the root causes or processes where repeat breaches are detected;
- properly hold airports, airlines, contractors and their employees accountable for their security breaches;

- establish administrative procedures for introducing a ‘pyramid of enforcement’ to ensure industry compliance;
- enhance its management information system to track and acquit breaches; and
- establish achievable and measurable performance indicators.

7. DOTARS advised that progress in implementing the recommendations from the 1998 audit report had been slow because the Aviation Security Policy Branch’s focus had been on drafting new legislation.

Follow-up work in DOTARS

8. In light of the Committee’s decision to conduct an inquiry, the ANAO recently undertook a short ‘desktop’ review, including consultation with staff in DOTARS, to ascertain progress being made by the Department in addressing the recommendations from the 2003 audit. This did not represent a full audit process of the nature associated with a follow-up audit.

9. Our comments are structured around the key elements identified in the 2003 audit. In this context, we have reflected the broad outcome of our discussions against each of the 2003 audit report recommendations. This was also useful information for planning any audit follow-up within the context of our audit program. As the Committee is aware, we have not included any follow-up in our program for 2003-04. Any decision in that respect will be largely determined by the Committee’s findings and recommendations following from its inquiry.

Security of Air Cargo (Recommendation No. 1)

10. The ANAO observed that although DOTARS manages a Regulated Agents Scheme, there was little monitoring or auditing of the agents who handle cargo, which is frequently transported on passenger-carrying aircraft. The ANAO recommended that DOTARS review the resources allocated to this function.

11. During 2003, DOTARS has recruited two additional staff to the cargo section, increasing the staff from two to four. However, DOTARS has also indicated (in its draft Aviation Division Business Plan for 2003–2004) that audits cannot be commenced without three additional staff, and there is no funding identified to resource these additional positions. The Department subsequently advised that the 2003-2004 Plan is currently being finalised and will include reference to new arrangements for cargo security, including additional resources and enhanced auditing arrangements. DOTARS also advised it is considering the option of integrating aviation cargo security into a more comprehensive approach to freight security.

Monitoring of Airlines and Airports (Recommendation No. 2)

12. The DOTARS audits that the ANAO observed, focused on the tangible outcomes of the security measures, such as whether staff had their Aviation Security Identification Cards (ASICs) displayed or were asking the security questions correctly when passengers checked in. However, where the display of ASICs was poor, or the asking of the security questions was routinely incorrect, the ANAO observed that DOTARS’ staff did not query the underlying processes to see if there were identifiable factors contributing to these breaches. Accordingly, the ANAO recommended a combination of outcome based ‘product’ checks to be supplemented with an examination of some underlying processes, or ‘systems’ checks. Recommendation No. 5 from the 1998 audit made a similar recommendation.

13. DOTARS has initiated steps towards implementing a systems-based auditing approach, such as consulting with agencies that conduct systems-based auditing as well as considering the training requirements and the management of the 'cultural change' that will be required from its inspectors. The ANAO was advised that systems-based audits should take effect from 1 July 2004.

Compliance (Recommendation No. 3)

14. The ANAO recommended that DOTARS examine management options to better hold airports and airlines who breach security requirements to account, as well as ensuring that airports and airlines hold their contractors and their employees to proper account. Put simply, the ANAO thought that DOTARS could show stronger leadership in ensuring that each organisation and individual involved in aviation security is held responsible for their actions if they breach security requirements. This is particularly important since security relies on everyone doing their part.

15. DOTARS advised the ANAO that a monitoring and compliance manual was being developed, together with further training and guidance. A first draft of the manual was due to be completed by the end of June 2003. It should be noted that Recommendation No. 8 from the 1998 audit recommended the development of such guidelines.

16. Additionally, a new *Aviation Transport Security Bill 2003* has been tabled in Parliament that is designed to enhance the aviation security framework and includes greater options for compliance action in the event of breach including a graduated range of penalties, including 'demerit' points. DOTARS' view is that its recent consultations with industry regarding the revised legislation have helped to remind industry of its obligations as well as serving to raise industry awareness of DOTARS' existing powers.

Enforcement (Recommendation No. 4)

17. The ANAO found during the 2003 audit that DOTARS did not have a range of options for holding to account operators who had breached their security responsibilities. DOTARS' usual approach was to write a letter to management outlining the nature of the breaches detected during the audit. The operators were required to reply within 28 days, stating what action they had taken. However, the ANAO observed that the tone of the letters did not vary according to the seriousness of the breach, or when it was a frequently repeated breach. We considered that this had the potential to be interpreted by industry as a tacit acceptance that a certain level of breaches would be tolerated.

18. Accordingly, the ANAO recommended that DOTARS take a more strategic approach in addressing systemic issues and ensuring compliance, including an improved educative role as well as introducing a graded system of enforcement.

19. DOTARS advises that it has incorporated a graded 'pyramid of enforcement' into the revised legislation. This includes a proposal for a 'demerit' system, and this is generating considerable debate within the aviation industry. DOTARS further advises there are two current investigations underway as a result of the security breaches at Sydney Airport during late May 2003. Notably, the breaches are not being allowed to pass without detailed investigation and possibly the application of some form of penalty, depending upon the outcomes.

20. As stated in the previous section, DOTARS advised that its consultations with industry were assisting in drawing industry's attention to its current powers.

21. With respect to an educative role to complement the enforcement role, Recommendation No. 13 from the 1998 audit also recommended that DOTARS review its role in providing a security awareness educative role to industry. It is unclear what DOTARS' longer-term strategy is for adopting a more educative role with respect to aviation security.

Management Information System (Recommendation No. 5)

22. During the 2003 audit, the ANAO observed that although DOTARS tracked whether operators had responded to post-audit letters within the 28 days allowed, there was not a system for recording what actions operators and their contractors had taken, and whether the problems leading to the breaches had been rectified. Although inspectors keep notes, there was no evidence of a systematic approach to allow inspectors to aggregate the results of audits to help inform them where they should best focus their efforts.

23. The ANAO recommended that DOTARS improve its systems to better track and acquit security breaches. Supporting this recommendation were other suggestions that DOTARS should:

- better record the results of its scheduled and unscheduled monitoring;
- track repeat and cumulative breaches;
- ensure that breaches are remedied in a timely manner; and
- take a more strategic view to analysing the results of its audits and using these results to better plan subsequent audits as well as to better inform when a more rigorous approach should be adopted.

Recommendation No. 7 from the 1998 audit was also along these lines.

24. DOTARS has now budgeted \$1.4 million over 4 years to implement an Aviation Security Management Information System. The project has been scoped and work was scheduled to start from 1 July 2003. DOTARS is now beginning to address the data issues raised from both the 1998 and 2003 audits.

25. DOTARS also advised that consideration is being given to an overall Transport Security Information System, including Maritime Security monitoring – to commence on 1 July 2004 in line with International Maritime Organization requirements.

Performance Measurement (Recommendation No. 6)

26. During the 2003 audit, DOTARS staff advised the ANAO that industry performance had improved, especially since 11 September 2001. However, the Department was unable to produce any performance information to support these views.

27. ANAO recommended that DOTARS develop a set of specific and achievable performance measures to:

- help gauge the status of industry compliance;
- identify weak spots;
- facilitate the application of enforcement tools; and
- provide greater assurance to Parliament of the effectiveness of security measures.

Recommendation No. 2(e) from the 1998 audit also suggested the development of performance information.

28. DOTARS has recently collected information on the performance measures used by the Federal Aviation Administration in the United States of America and by the Civil Aviation Authority in New Zealand. During discussions with DOTARS senior staff, it was suggested that the matter of performance measures would be addressed once the 'building blocks' of new legislation and systems-based auditing were 'in place'. In practice, this would mean next year.

Overview comment

29. The ANAO notes that DOTARS intends to adopt a more robust role as the aviation industry regulator. We accept that it takes some time to develop an effective aviation security model and recent security incidents have put additional pressure on the Department. However, much of DOTARS' action is focused on new measures to be implemented from July 2004, as part of an evolving integrated transport security regime. The ANAO formed the impression that there was little evidence to demonstrate progress on the ground since the tabling of the audit. In the short term little appears to have changed to encourage increased compliance from the aviation industry.