

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 2009-2010*.
- 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 report *Review of Administration and Expenditure: Australian Intelligence Organisations, Number 8* 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 recommended that the Australian Government review the potential adverse effects of the efficiency dividend on the AIC having particular regard to the Joint Committee of Public Accounts and Audit report *The efficiency dividend and small agencies: Size does matter*.
- 3.4 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.

- 3.5 The Government responded to recommendation contained in its Administration and Expenditure No. 8 report, tabled on 21 June 2010, on 22 September 2011. Whilst the Committee understands that the 2010 Federal Election would have caused some delay in replying to its previous report, a delay of over 12 months is unacceptable.
- 3.6 The Committee reiterates its recommendation 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 In addition the Committee notes that this Government response contained elements of concern that the Committee will be discussing.

Submission from the ANAO

- 3.7 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 2009-10 financial statements of the intelligence agencies.
- 3.8 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.
- 3.9 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.

Budget Growth

Agencies other than ASIO

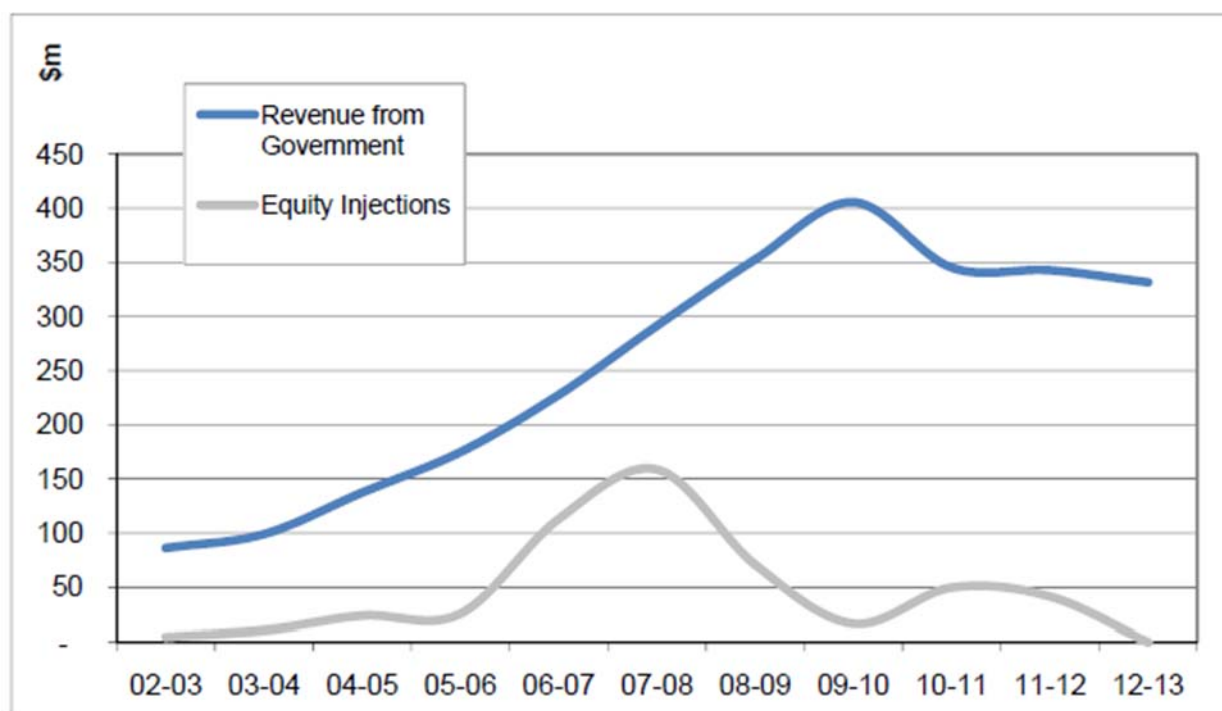
- 3.10 Of the agencies other than ASIO, two received a significant increase in their budget for 2009-10 with the other three receiving modest increases.

1 Parliamentary Joint Committee of Public Accounts and Audit, *The efficiency dividends and small agencies: Size does matter*, 4 December 2008.

ASIO²

- 3.11 Funding to ASIO in terms of total price of program expenses was \$368m, an increase of five per cent from the total cost in 2008–09 of \$352m. The estimated total cost for program expenses for 2010–11 is \$413m, an increase of twelve per cent from 2009–10.
- 3.12 Revenue from Government in 2009–10 increased 15 per cent to \$406m, while revenue from independent sources (such as for services rendered) was similar to the 2008–09 figure of \$10m.
- 3.13 This reporting period saw the last year of growth arising from the *Review of ASIO Resourcing*.
- 3.14 Separately, ASIO received an equity injection of \$16m for 2009–10, to fund telecommunications interception capabilities (\$2m) and capability enhancements (\$14m).
- 3.15 A further equity injection will be received in 2010–11 of \$89m. This provides funding for asset replacement (\$28m) and for ASIO's new building project (\$61m).

Figure 3.1 ASIO Revenue from Government, 2002 – 2013



Source: ASIO Unclassified Submission, page 19.

Recruitment costs

- 3.16 The costs to agencies for recruitment have been steadily increasing in line with increasing recruitment. Advertising and security clearance costs continue to account for a large portion of recruitment budgets.
- 3.17 During the reporting period, recruitment media planning, coupled with online media assisted ASIO to attract and source suitable applicants. ASIO's expenditure on recruitment advertising decreased from \$1.962m in 2008-09 to \$1.250m in 2009-10.³
- 3.18 As is expected 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. The Committee accepts that this is necessary to ensure the suitability of applicants to work in a National Security environment.

3 ASIO Unclassified Submission, No. 4, p. 47.

Training costs

- 3.19 Expenditure on training, both corporate and operational, comprises a significant portion of each agencies budget.
- 3.20 Each agency provided the Committee with its costs for training. In contrast to the period 2008-09, there have been very significant increases in training costs for 2009-10 in some cases.

Financial governance systems

- 3.21 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.
- 3.22 In 2009/10 ASIO's Audit and Evaluation Committee was chaired by the Deputy Director-General and includes a representative from the ANAO.
- 3.23 Submissions also listed a range of other resource management committees in place within agencies to manage and monitor expenditure.
- 3.24 In 2009-10 ASIO completed fourteen internal audits which were the subject of classified reporting to ASIO's Audit and Evaluation Committee. No loss of public monies was reported in these audits and recommendations for improvements with the exception of one, which was rejected on a sound operational basis and agreed to by the Committee and Internal Audit, have been accepted through the Audit and Evaluation Committee and responsible work areas.⁴

Fraud control and risk management

- 3.25 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:

4 ASIO Unclassified Submission, No. 4, p 29.

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.⁵

- 3.26 Agencies noted their compliance with this requirement in their submissions.

Conclusions

- 3.27 Together with assurances from the Australian National Audit Office, the Committee was satisfied, within the limits provided to it by the *Intelligence Services Act 2001*, that all the agencies are appropriately managing the expenditure of their organisations.

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