

Review of administration and expenditure

Introduction

- 2.1 The Committee, on an annual basis, will review the administration and expenditure and annual financial statements of ASIO, ASIS and DSD. This power is provided for under subsection 29(1) of the *Intelligence Services Act 2001* (IS Act). This provision ensures that the agencies will be required to account for their administration and expenditure. Reviews will normally take place every year in May, soon after the presentation of the Portfolio Budget Statements (PBS). In addition, if the Committee considers it necessary, then it could at any time conduct a review of a specific aspect of the agencies' administration or expenditure.
- 2.2 In May 2002, the Committee conducted its first review of administration and expenditure. The review was conducted in private and the findings are presented in this chapter. Background and financial information is presented for each agency. Some of the key review issues are discussed in a general debate covering all three agencies.
- 2.3 The first part of this chapter provides an overview of the various parts of the Australian Intelligence Community (AIC) oversight system. The Inspector-General of Intelligence and Security (IGIS) plays an important role in this oversight. In addition, the Auditor-General audits the financial statements of ASIO and ASIS.
- 2.4 The final part of the report discusses the future work program of the Committee in relation to its review of administration and expenditure.

- 2.5 The Committee wishes to note that the review of the administration and expenditure of the three agencies is a new area of parliamentary scrutiny. The Committee expects that in future it will both develop and refine its framework for consideration of these issues in a way that preserves the integrity of the agencies, but allows the Committee to be confident that it has given proper attention to its statutory responsibilities.

Scrutiny and accountability of the AIC

The Inspector-General of Intelligence and Security

- 2.6 The office of the IGIS was established by the *Inspector-General of Intelligence and Security Act 1986*. The IGIS reviews the entire AIC which comprises:
- Australian Security Intelligence Organisation (ASIO);
 - Australian Secret Intelligence Service (ASIS);
 - Defence Signals Directorate (DSD);
 - Defence Imagery and Geospatial Organisation (DIGO);
 - Defence Intelligence Organisation (DIO); and
 - Office of National Assessment (ONA).
- 2.7 The IGIS conducts oversight and review 'to ensure that the agencies act legally and with propriety, comply with ministerial guidelines and directives and respect human rights.'¹ The IGIS conducts inquiries in response to a complaint or a reference from a Minister. In addition, the IGIS can 'also act independently to initiate inquiries and conducts regular inspections and monitoring of agency activities.'²
- 2.8 The IGIS has significant inspection powers which include 'requiring the attendance of witnesses, taking sworn evidence, copying and retention of documents and entry into an agency's premises.'³
- 2.9 The IGIS produces an Annual Report that includes details of complaints and referrals received during the reporting year. In addition, the report dedicates a separate section to each of the agencies which examines their performance relating to their obligation to act legally and with propriety and to comply with guidelines and directives.
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1 Inspector-General of Intelligence and Security, *Annual Report, 2000-2001*, Pirie Printers, Canberra, 2001, p. 1.

2 Inspector-General of Intelligence and Security, *Annual Report, 2000-2001*, 2001, p. 1.

3 Inspector-General of Intelligence and Security, *Annual Report, 2000-2001*, 2001, p. 1.

- 2.10 The role of the IGIS does not include conducting efficiency audits of the agencies. For example, the IGIS does not conduct audits of the agencies focusing on whether the agencies are using their resources and delivering programs efficiently and effectively.
- 2.11 In May 2002, the IGIS appeared as a witness before the Committee as part of its review of the administration and expenditure of the agencies.

The Australian National Audit Office

- 2.12 The Auditor-General's powers are provided for under the *Auditor-General Act 1997* (The Auditor-General Act). The Auditor-General has wide ranging powers to conduct statement and performance audits of agencies and Commonwealth authorities and subsidiaries.
- 2.13 In May 2002, representatives of the Australian National Audit Office (ANAO) appeared as witnesses before the Committee as part of its review of the administration and expenditure of the agencies. The ANAO indicated that it audits the financial statements of both ASIO and ASIS. Excluding the last two to three years, the ANAO was not given complete access to the financial statements and, consequently, audits were qualified. Now the ANAO has full access to the financial statements of ASIO and ASIS and the audit reports have been unqualified.
- 2.14 The ANAO noted that it has never audited the financial statements of DSD. This is because DSD's Budget information is incorporated into the Intelligence Output Group of the Department of Defence's Portfolio Budget Statements.
- 2.15 The Auditor-General Act provides for the Auditor-General to conduct performance audits of government agencies. During 2000-2001, 46 performance audits were completed against a target of 42. The performance audits focus on areas of administration across ministerial portfolios. The ANAO indicated that, during 1997, it participated in an evaluation of defence intelligence, which comprises the DIO and DSD. The evaluation was conducted as part of the review activities of the Inspector-General of Defence and overseen by an evaluation steering committee. The ANAO provided a summary of the evaluation in *Audit Activity Report, July to December 1997, Summary of Audit Outcomes, Audit Report No. 36*. DSD is also subject to internal scrutiny by the Department of Defence Inspector-General who can examine issues relating to fraud and propriety.

- 2.16 The Auditor-General Act provides certain restrictions on the inclusion of sensitive information in public reports. Section 37 provides for sensitive information not to be included in public reports if 'it would prejudice the security, defence or international relations of the Commonwealth.' In addition, the Attorney-General can issue a certificate to the Auditor-General stating that disclosure of information would be contrary to the public interest.
- 2.17 The ANAO indicated that the requirement not to include sensitive information in public reports is an impediment to conducting efficiency audits of ASIO, ASIS or DSD. Therefore, very few, if any Auditor-General performance audits have focused on the operation of these agencies.
- 2.18 The ANAO does conduct general performance audits or 'cross agency' performance audits. These audits review how a number of agencies perform in a certain area. For example, the ANAO conducted a general performance audit relating to internet security, and suggested potential audits relating to management of leave in the Australian Public Service, and management of internal investigations units.⁴ The ANAO indicated that, in 1999, ASIO was part of a general performance audit relating to the Sydney Olympic Games.

Overseas comparisons

- 2.19 In May 2002, members of the Committee attended the International Intelligence Review Agencies Conference in London. One of the agenda items was a comparative assessment of Inspector-General functions in the US, Canada, Australia, New Zealand, South Africa and the functions of the UK Intelligence and Security Committee (ISC). A table showing the various functions performed across the different jurisdictions is included in appendix C.
- 2.20 Rows four and five of the table focus on the detection of waste, fraud and abuse and the attention to promoting economy, efficiency and effectiveness. These functions do not exist in the Australian oversight system. These powers exist in the US and to a lesser extent in the UK.
- 2.21 The ISC, in its 1998-99 Annual Report, noted the appointment of an efficiency adviser to the agencies. The efficiency adviser is responsible for working with the agencies to develop their systems and improve efficiency. The ISC supported this initiative and requested that reports of the efficiency adviser be provided to them so that they could monitor implementation and question agencies on further efficiencies.⁵

4 Australian National Audit Office, *Audit Work Program 2001-2002*, July 2001, pp. 92-95.

5 Intelligence and Security Committee [British], *Annual Report 1998-99*, November 1999, p. 15.

Conclusions

- 2.22 Oversight of the Australian Intelligence Community (AIC) has improved incrementally. The Office of the Inspector General of Intelligence and Security (IGIS) was established in 1987. The first Parliamentary Committee was established in 1988. The system of oversight is effective, but improvements are possible.
- 2.23 Currently, the agencies are not subject to external efficiency audit. It is impractical for the Australian National Audit Office (ANAO) to conduct this role because of restrictions in the Auditor-General Act on the disclosure of sensitive information. However, the ANAO did indicate that ASIO was part of a general performance audit or cross agency audit in 1999. The ANAO may wish to consider whether there are further opportunities for including ASIO, ASIS and DSD in general performance audits.
- 2.24 The IGIS is not set up to conduct efficiency audits. Similarly, this Committee is not equipped to conduct performance audits.
- 2.25 The ISC, in its 1998-99 Annual Report, noted the appointment of an efficiency adviser to the agencies. The ISC considered this a positive initiative. The Committee suggests that this type of approach, if implemented in Australia, could provide a valuable enhancement to the oversight of the AIC.
- 2.26 The AIC Budget allocation is significant. Apart from the fact that these agencies are involved in secret intelligence collection, much of their corporate activities are similar to other agencies. For example, the AIC agencies must, like other agencies, manage their human resources efficiently and effectively. Similarly, they must have effective asset management and procurement systems. An external efficiency adviser could audit these and other functions of the agencies which could result in efficiency savings.
- 2.27 The Committee proposes the establishment of an external efficiency adviser to the AIC. The efficiency adviser would be empowered to conduct performance audits and make recommendations to improve program administration. The reports of the efficiency adviser should be referred to the Prime Minister, the responsible Ministers and a copy should be provided to the Committee.

- 2.28 The next issue relates to where the efficiency adviser should be located within Government. It is essential that the efficiency adviser has status and is given full recognition by the AIC. Therefore, the most appropriate location for the efficiency adviser would be within the office of the IGIS. The efficiency adviser would be responsible to the IGIS for developing an annual efficiency audit program. The efficiency adviser and the IGIS should consult with the Committee in developing the audit program. Additional funding should be found for the position of the efficiency adviser. Funding for the position should not come from the existing IGIS Budget. The IGIS, in implementing this recommendation, should consult with the ANAO.
- 2.29 The Committee notes that, unlike ASIO and ASIS, DSD is not required to prepare individual annual financial statements for audit by ANAO. The Committee, which is required by its legislation to review the annual financial statements of all three agencies, receives detailed financial information from DSD about its operations. The Committee believes that oversight of DSD could be enhanced by establishing a formal audit function for ANAO.
- 2.30 The Committee proposes that separate financial statements be produced for DSD so that they can be audited by the ANAO and reviewed by the Committee. The Committee accepts that these financial statements might have to be classified. The Department of Defence, in implementing this recommendation, should consult with the ANAO.

Recommendation 1

- 2.31 **That the Prime Minister create a position of efficiency adviser in the Office of the Inspector-General of Intelligence and Security. The efficiency adviser will:**
- **conduct performance audits of the Australian Intelligence Community; and**
 - **report the findings of performance audits to the Prime Minister, the responsible Minister and the Committee.**

Recommendation 2

- 2.32 **That the Department of Defence ensure that annual financial statements are available for DSD so that they can be audited by the Australian National Audit Office and reviewed by the Committee as required by paragraph 29(1)(a) of the *Intelligence Services Act 2001*.**

Australian Security Intelligence Organisation

Background

- 2.33 ASIO is the Commonwealth's domestic security intelligence organisation. It is responsible for protecting Australia and its people from espionage, sabotage, politically motivated violence, the promotion of communal violence, attacks on our defence system and acts of foreign interference. ASIO derives its authority from the *Australian Security Intelligence Organisation Act 1979*.
- 2.34 ASIO's Central Office is in Canberra, and there is a local office in each mainland state and territory capital. For 2002-03, ASIO's estimated average staff level is 595. Information about ASIO can be found at its website at: <http://www.asio.gov.au/>

Expenditure

- 2.35 ASIO's Budget appropriation for 2002-03 is \$81,087 million. The total revenue from other sources is \$1,701 million. The total price of ASIO's outputs is \$82,788 million. In addition, ASIO will receive an equity injection of \$4,692 million.

Outcome and Output group

2.36 ASIO's outcome is 'A secure Australia for people and property, for government business and national infrastructure, and for special events of national and international significance.' This outcome comprises one output group which, in turn, is divided into four sub-outputs which comprise:

- security intelligence analysis and advice;
- protective security advice;
- security intelligence investigation and capability; and
- foreign intelligence.

Trends in appropriations

2.37 ASIO's trends in appropriations are shown in Table 2.1.

Table 2.1 ASIO's trends in appropriations

	Estimated actual 2001-02 (\$million)	Budget estimate 2002-03 (\$million)	Variation (\$million)	% Variation
Budget appropriations	64,996	81,087	16,091	+24.8%
Revenue from other sources	4,504	1,701	(2,803)	-62.2%
Total revenue	69,500	82,788	13,288	+19.1%
Total expenses	70,090	80,066	9,976	+14.2%
Capital use charge	2,110	2,722	0,612	+29%
Surplus or (deficit) after capital use charge	(2,700)	-		

(Source: 2002-03, AG's PBS, page 473. Percentage variation added)

Summary of measures disclosed in the 2002-03 Budget

2.38 Three additional measures were announced in the 2002-03 Budget. The measures and the values are shown in Table 2.2 below:

Table 2.2 ASIO 2002-2003 – Summary of additional measures

Measure	Budget appropriation (\$'000)
Increased funding to intelligence agencies	6,000
E-security national agenda	1,351
Enhanced technical capacity	9,629
Total	16,980

(Source: 2002-03, AG's PBS, page 465)

ASIO Annual Report 2000-2001

2.39 Of the three agencies, ASIO is the only one to produce a public annual report. In addition, ASIO produces a classified annual report which is provided to the Attorney-General, the Prime Minister, members of the National Security Committee of Cabinet, the Leader of the Opposition and members of the Secretaries Committee on National Security. The Committee does not receive a copy of the classified report.

2.40 The Annual Report contains output performance information for each output group, general management and accountability information and annual financial statements. Some of the key observations made in the 2000-2001 Annual Report include:

- **the counter terrorism environment:** 'Since September 11 the majority of ASIO's investigative and analytical resources have been directed to investigations relating to the attacks' (p. 7);
- **human resource management:** 'The separation rate rose to 11.5% from 9.9% in 1999-00. We are seeking to improve our understanding of why people join and leave ASIO through improved exit interview processes.' (p. 5). 'ASIO began preparations for an internal and voluntary trial of the polygraph to assist in determining its potential, future utility as a personnel security tool. The trial was one of the recommendations in the *Blick Report*.' (p. 30);
- **personnel security checking:** 'We fell short in our performance against all benchmarks. 55.4 % of requests were incomplete after 12 weeks, against a benchmark of one percent. (p. 28).;

- **protective security advice:** 'Demand for ASIO's protective security advice is growing as departments and agencies seek advice on the implementation of measures required by the new Protective Security Manual, and as intelligence agencies adopt recommendations from the *Blick Report* to improve standards of physical security. To meet these demands, ASIO will employ additional contract staff funded from cost recovery.' (p. 32);
- **corporate governance:** 'Corporate governance is exercised through a Corporate Executive that supports the Director-General in managing and setting the strategic direction for ASIO. An Audit and Evaluation Committee and other corporate committees which review security, intelligence, human resource and information management issues support the Corporate Executive.' (p. 45)

Australian Secret Intelligence Service

Background

- 2.41 ASIS was established by executive decision in 1952. ASIS was closely modelled on its British counterpart, the Secret Intelligence Service.
- 2.42 The Samuels and Codd review of 1995 reported that ASIS's functions have remained essentially unchanged since its establishment. These functions 'embrace the collection and distribution of secret foreign intelligence, associated counter-intelligence activities, and liaison with similar organisations.'⁶
- 2.43 ASIS's functions have been tied to Directives which focus on the requirements of Government. Samuels and Codd reported, in 1995, that the 'present Directive lays down that ASIS shall accept the guidance on targets and priorities issued from time to time by the Security Committee of Cabinet, or under arrangements approved by that Committee.'⁷ Samuels and Codd stated:

⁶ Commission of Inquiry into the Australian Secret Intelligence Service, *Report on the Australian Secret Intelligence Service*, Public Edition, March 1995, pp. 1-2.

⁷ Commission of Inquiry into the Australian Secret Intelligence Service, *Report on the Australian Secret Intelligence Service*, p. 2.

Until now, the Directive has been the backbone of the control and accountability framework for ASIS. It has defined, and governed, the key relationships which make up that framework. It prescribes the functions of ASIS, the roles and responsibilities of the Minister and the Director-General, the relationships between ASIS and other agencies, the main aspects of the administration of the Service, and the appointment and terms of conditions of the Director-General and members of ASIS. It is the source of legal authority for everything ASIS does.⁸

- 2.44 Samuels and Codd concluded that it was no longer appropriate that the Directive be the sole authority for the existence of ASIS. Their view was that a legislative base should provide the foundation for ASIS. However, Samuels and Codd did acknowledge that the Directive should continue 'to deal with those matters which should remain secret, which are too detailed for legislation or which are likely to require frequent amendment.'⁹
- 2.45 In 2001, ASIS achieved a legislative base through the IS Act. In particular, section 6 sets out the functions of ASIS.
- 2.46 General information about ASIS is available through its website at: <http://www.asis.gov.au/>

Expenditure

- 2.47 The total appropriation for ASIS in 2002-03 is \$57,381 million. Revenue from other sources amounted to \$14,860 million. This includes resources received free of charge from and revenue for goods and services provided to agencies such as the Department of Foreign Affairs and Trade (DFAT), ANAO and other Commonwealth entities.
- 2.48 Therefore, the total price of running ASIS in 2002-03 is \$72,241 million.

Output groups

- 2.49 Output 1 is 'Secret intelligence'. The total price of the output 1 is \$65,971 million and the output appropriation is \$51,727.
- 2.50 Output 2 is 'Other services'. The total price of output 2 is \$6,270 million and the output appropriation is \$5,654.

⁸ Commission of Inquiry into the Australian Secret Intelligence Service, *Report on the Australian Secret Intelligence Service*, pp. 69-70.

⁹ Commission of Inquiry into the Australian Secret Intelligence Service, *Report on the Australian Secret Intelligence Service*, p. 70.

Trends in appropriations

2.51 The price of running ASIS has increased from approximately \$50 million in 2000-01 to just over \$72 million in 2002-03. Table 2.3 shows trends in appropriations for ASIS.

Table 2.3 ASIS's – Trends in appropriations

	Estimated actual 2001-02 (\$million)	Budget estimate 2002-03 (\$million)	Variation (\$million)	% Variation
Budget appropriations	54,304	57,381	3,077	+5.7%
Revenue from other sources	12,430	14,860	2,430	+19.5
Total resourcing	66,734	72,241	5,507	+8.3%

(Source: 2002-03, DFAT PBS, page 192. Percentage variation added)

Defence Signals Directorate

Background

2.52 The functions of DSD as discussed in section 7 of the IS Act are 'to obtain intelligence about the capabilities, intentions or activities of people or organisations outside Australia in the form of electromagnetic energy, whether guided or unguided or both, or in the form of electrical, magnetic or acoustic energy, for the purpose of meeting the requirements of the Government, and in particular the requirements of the Defence Force, for such intelligence'. The DSD website states:

DSD's purpose is to support Australian Government decision-makers and the Australian Defence Force with high-quality foreign signals intelligence products and services. DSD makes Government and Defence policy more certain and more effective by providing the policy Departments and assessment agencies with important information that is not available from open sources. DSD also directly contributes to the military effectiveness of the ADF, and provides a range of information security services to ensure that their sensitive electronic information systems are not susceptible to unauthorised access, compromise or disruption.¹⁰

¹⁰ DSD website: <http://www.dsd.gov.au/background2.html>

- 2.53 Further information about DSD can be found at its website at:
<http://www.dsd.gov.au/dsd/index.html>

Expenditure

- 2.54 DSD has a legislative basis, as provided for by the IS Act, but is not a separate statutory body. As a result, budget information about DSD is included in the Department of Defence Portfolio Budget Statement. Output 6 covers Defence Intelligence.
- 2.55 The total appropriation for Defence Intelligence which comprises DSD, DIGO and DIO in 2002-03 is \$442 million.

Strategic initiatives

- 2.56 The Portfolio Budget Statement (PBS) reported that 'Defence will commence a number of significant initiatives to enhance intelligence capabilities across the next decade. These include substantial and sustained investment in enhanced signals intelligence and imagery collection capabilities, enhanced geospatial information systems and improved intelligence processing and dissemination.'¹¹

Trends in appropriations

- 2.57 The price of running Defence Intelligence has increased from approximately \$397 million in 2000-01 to \$442 million in 2002-03.

Table 2.4 DSD's trends in appropriations

	Projected result 2001-02 (\$million)	Budget estimate 2002-03 (\$million)	Variation (\$million)	% Variation
Budget appropriations	397	442	45	+11.3%

(Source: 2002-03, Defence PBS, page 55. Percentage variation added)

Significant variation

- 2.58 The PBS states that 'the budgeted price of intelligence will increase by \$45m to \$442m representing an increase of 11.3% from the 2001-02 projected result. The variation of 11.3% relates mainly to the enhancement of intelligence capabilities including the costs associated with previously agreed communications projects (\$44m in 2002-03 representing an increase of \$34m from the 2001-02 funding) and E-security (\$2m).

Discussion issues

2.59 The objective of the first review of administration and expenditure of the agencies was to cover a range of issues and, therefore, enhance the knowledge of the Committee. Future annual review of administration and expenditure, conducted in May of most years, will have this as an objective. Through this process, the Committee can more effectively identify issues for focused examination in specific reviews of particular aspects of administration and expenditure.

2.60 The discussion with the agencies ranged across the following topics:

Corporate Governance

- structure and effectiveness of corporate governance; and
- internal reporting and use of management committees:
 - ⇒ **internal audit committee:** the annual work program, selection of audits and implementation of internal audit recommendations;
 - ⇒ **risk management committee:** the role and operation of risk management committees; and
 - ⇒ **internal reporting and accountability mechanisms.**

Human Resource Management

- the adequacy of recruitment, training and retention; and
- personnel security: clearance processes and implementation of the recommendations of the *Inquiry into Security Issues* (the *Blick Report*).

IT and Communications

- status and discussion of any major developments or planned purchases.

Asset Management

- asset management practices; and
- planning for capital purchases.

Legislative compliance

- compliance with legislation and privacy rules.

- 2.61 The agencies are not, generally, subject to external efficiency audits. This matter and a possible remedy was discussed earlier in this chapter. In the current situation where there is no external efficiency auditing, the role of internal audit has increased significance. The ANAO reported that because the agencies are reasonably small, it may not always be possible for them to keep up with modern developments. However, the ANAO considered that the internal audit programs had proved effective in recent times. The ANAO indicated that it regularly met with ASIS's internal audit committee.
- 2.62 The IGIS discussed a range of matters relating to the adequacy of personnel security and matters arising from his report *Inquiry into Security Issues* (the *Blick Report*).
- 2.63 Human resource management by the agencies was a significant challenge. The agencies require highly specialised staff and recruitment, training and retention was high on the agenda of the agencies. ASIO reported in its 2000-2001 Annual Report that it had 67 separations in 2000-2001 out of a workforce of 584 staff. This represented a separation rate of 11.5% which was up from 9.9% last financial year and 6.5% in 1998-99. ASIO stated:
- The increased attrition rate is of concern. The reasons behind separations varied from promotion opportunities to lifestyle choices to dissatisfaction with ASIO's corporate direction. The skills of ASIO officers are in increasing demand and it will be important to seek to reduce the separation rate. To some extent, however, it is possible that the higher turnover rate may also reflect changing attitudes to work and careers in Australian society generally.¹²
- 2.64 ASIO, in its Corporate Plan 2002-2006, indicated that a key business focus for 2002-2006 would be 'competing for the best people.'
- 2.65 The corporate governance of the agencies is a critical aspect influencing the operational aspect of the agencies' performance. Corporate governance is the process by which the agencies direct, control and account for their actions. In relation to ASIO, corporate governance is exercised through a corporate executive that supports the Director-General in managing and setting the strategic direction for ASIO. The corporate executive is supported by five subcommittees comprised of the:
- audit and evaluation committee;
 - security committee;
 - intelligence coordination committee;

12 Australian Security Intelligence Organisation, *Annual Report 2000-2001*, p. 53.

- information management committee; and
- human resource committee.¹³

Future program of work

- 2.66 The first review of the agencies has provided the Committee with a general account of agency administration and expenditure. This provides a base from which to target specific areas for more detailed scrutiny. During the next 12 months, certain areas of agency administration will be identified as possible areas of review. In particular, the Committee will scrutinise, in more detail, agency administration of internal security. In addition, the Committee will seek an update on the content and effect of rules to protect the privacy of Australians which are referred to in section 15 of the IS Act.
- 2.67 The annual review of administration and expenditure will, as practice, take place in May, soon after the release of the Portfolio Budget Statements. During the next review in May 2003, the Committee will focus on the following issues:
- recruitment, training, rotational opportunities between agencies and retention of staff;
 - the level and adequacy of public reporting; and
 - the adequacy of internal audit and risk management strategies.