

Expenditure

- 3.1 The Committee has a statutory obligation to review the financial statements for all six AIC agencies.
- 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 In December 2008 the Joint Committee of Public Accounts and Audit tabled its report *The efficiency dividend and small agencies: Size does matter*. The report looked at the effect of the efficiency dividend on small agencies.
- 3.4 The report *The efficiency dividend and small agencies: Size does matter* stated that:

. . . the Committee concludes that there is a definable group of agencies that are being placed in financial difficulty by the combined effect of the efficiency dividend, the indexation measures and the NPP¹ this group is defined by their smaller size and their technical, well-defined roles.²
- 3.5 Given this finding, and the fact that the Australian Intelligence Community consists of some smaller agencies with technically well

1 New Policy Proposal.

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

defined roles, this Committee questioned them on the impact of the efficiency dividend.

- 3.6 The Committee heard from the AIC's small agencies that they had previously been able to manage the impact of the efficiency dividend 'without any serious loss of performance.'³ However, this is changing with smaller AIC agencies reporting that if the efficiency dividend is increased the impact would be significant.
- 3.7 Nevertheless, the agencies assured the Committee that despite the impact of the efficiency dividend and irrespective of the funding they receive, they have been able, to date, to appropriately resource their additional functions following on from the Flood and Taylor reviews and have not experienced any degradation of capability. ASIO reported to the Committee that despite the dividend it is still on track to reach its 2010-11 growth target of 1,860 staff.⁴
- 3.8 It is 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 will continue to monitor the impact of the efficiency dividend on all the agencies, including any possible degradation of capability, and will look into this matter in its next review of administration and expenditure.

Submission from the ANAO

- 3.9 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 2007-08 financial statements of the intelligence agencies.
- 3.10 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.
- 3.11 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.

³ *Classified transcript.*

⁴ *ASIO Unclassified Submission, page 6.*

Budget Growth

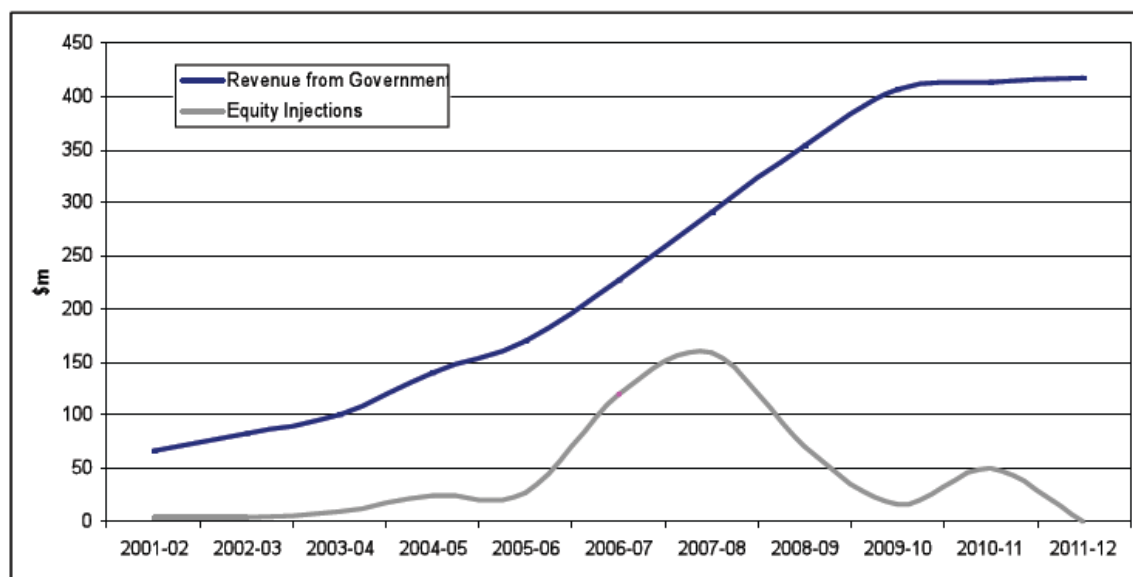
- 3.12 In the 2007-08 budget the Government allocated Defence an additional \$382.2m for strengthening Defence intelligence and security capabilities to better protect Australia and advance its national interests.⁵
- 3.13 Growth has been significant over the last several years for most of the agencies and, subject to the impact of the global financial crisis and subsequent budgetary constraints, current accounts suggest that this growth will continue. The Committee was satisfied that the agencies are taking measures to manage budget growth appropriately.
- 3.14 In ASIO's case, at 30 June 2001 it had 584 staff. By 30 June 2011, the agency will have grown to a projected 1,860 staff. Revenue from government is correspondingly increasing, from \$66 million in 2001-02 to \$291 million in 2007-08 and is expected to grow to \$417 million by 2011-12 (see figure 3.1 below). ASIO's equity injections peaked at \$159 million in 2007-08 with no equity injection planned in 2011-12.⁶
- 3.15 The Committee heard that developments in technology and changing commercial practices across the board, particularly in connection with telecommunications, require the ongoing dedication of resources for research and development from all the agencies.
- 3.16 ASIO's operating surplus of \$0.3 million in 2007-08 was consistent with the break-even result estimated in the 2008-09 Portfolio Budget Statement⁷.

⁵ Australian Bureau of Statistics, *Yearbook Australia 2008*, 7 February 2008, www.abs.gov.au

⁶ *ASIO Unclassified Submission*, page 13.

⁷ *ASIO Unclassified Submission*, page 14.

Figure 3.1 ASIO Revenue from Government, 2001-02 – 2011 - 12



Source ASIO Unclassified Submission, page 14.

3.17 According to ASIO, it's substantially increased budget has positioned it well to deliver the significant growth identified as necessary by the Taylor Review. The increase in funding is to allow ASIO to:

... purchase equipment to support growth in the technical operations/surveillance area, to recruit and train new staff, for necessary enhancements to ASIO's IT infrastructure and for expansion of its international liaison program.⁸

3.18 One agency made the point that 80% of their budget is 'directly or indirectly linked to operational activity.' This illustrates the significant difficulties caused by the prohibitions on the Committee looking into operational matters. These prohibitions are contained in section 29(3)(b) and 29(3)(c) of the *Intelligence Services Act 2001* which states:

(3) The functions of the Committee do not include:

(b) reviewing the sources of information, other operational assistance or operational methods available to ASIO, ASIS, DIGO, DIO, DSD or ONA; or

(c) reviewing particular operations that have been, are being or are proposed to be undertaken by ASIO, ASIS, DIGO, DIO or DSD; ...

8 ASIO Unclassified Submission, page 15.

- 3.19 The Committee has previously commented on⁹ these prohibitions and it again notes that they make it difficult for the Committee to give a conclusive view of the agencies' expenditure.

Recruitment costs

- 3.20 The costs to agencies for recruitment have been steadily increasing in line with increasing recruitment. The cost of advertising and obtaining security clearances continues to account for a large portion of recruitment budgets.
- 3.21 For most agencies, as a percentage of the total increase in recruitment costs, the cost of advertising has risen significantly in the last few years. This reflects expanded recruiting campaigns which have increased the agencies' reach for potential recruits.
- 3.22 ASIO's submission shows that its advertising costs increased slightly from \$2.126 million in 2006-2007 to \$2.192 million in 2007-08.¹⁰
- 3.23 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 fully accepts that this is necessary to ensure the suitability of applicants to work in a National Security environment.

Training costs

- 3.24 Expenditure on training comprises a significant portion of each agencies budget.
- 3.25 Each agency provided the Committee with agency costs for training. In some cases, there have been very significant increases in training costs over the past several years, however, in those agencies which have not grown so rapidly, the Committee noted a steady but not so significant increase in training expenditure.

Financial governance systems

- 3.26 Each agency has its own internal audit committee. The functions of internal audit committees and the key issues that they addressed in the

9 See Parliamentary Joint Committee on Intelligence and Security, *Review of the Administration and Expenditure of the Australian Intelligence Community No. 6*, 7 September 2009.

10 ASIO *Unclassified Submission*, page 37.

period under review were set out in 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.

Fraud control and risk management

3.27 Section 45 of the 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.¹¹

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

3.29 During 2007–08 an internal review of ASIO’s Audit and Evaluation Committee was conducted in accordance with the ANAO *Better Practice Guide, Public Service Audit Committees*. This resulted in the adoption of a new charter for the Committee. ASIO’s internal audit function was also benchmarked against the ANAO *Better Practice Guide, Public Sector Internal Audit*, resulting in a new Internal Audit Mandate.¹²

3.30 In 2007–08, ASIO completed 13 internal audits and one evaluation in relation to recruiting. These were the subject of (classified) reporting to ASIO’s Audit and Evaluation Committee. Recommendations to address any administrative or procedural shortcomings arising from these audits were implemented or addressed. No loss of monies was reported.¹³

Conclusion

3.31 Together with assurances from the Australian National Audit Office, the Committee was satisfied, within the limits of the *Intelligence Services Act*

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

12 *ASIO Unclassified Submission, page 23.*

13 *ASIO Unclassified Submission, page 23.*

2001, that all the agencies are currently managing the expenditure of their organisations.

The Hon Arch Bevis MP
Chairman

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