

ACT Auditor-General's Office

Performance Audit Report

Credit Card Use, Hospitality and Sponsorship

February 2007



ACT AUDITOR-GENERAL'S OFFICE



PA06/11

The Speaker
ACT Legislative Assembly
London Circuit
CANBERRA ACT 2601

Dear Mr Speaker

I am pleased to forward to you a Performance Audit Report titled “Credit Card Use, Hospitality and Sponsorship”, conducted under the authority contained in the *Auditor-General Act 1996*.

I would appreciate if you could arrange for the tabling of the Report in the Legislative Assembly pursuant to Section 17(4) of the *Auditor-General Act 1996*.

Yours sincerely

Tu Pham
Auditor-General
21 February 2007

TABLE OF CONTENTS

LIST OF ABBREVIATIONS	1
1. REPORT SUMMARY AND AUDIT OPINION	2
INTRODUCTION	2
BACKGROUND	2
AUDIT OBJECTIVES	3
AUDIT APPROACH AND FOCUS	3
AUDIT OPINION	4
KEY FINDINGS	4
RECOMMENDATIONS AND RESPONSE TO THE REPORT	6
2. USE OF CORPORATE CREDIT CARDS	12
INTRODUCTION	12
BACKGROUND	12
KEY FINDINGS	12
EFFECTIVE ACCOUNTABILITY AND CONTROL FRAMEWORK	13
EFFECTIVENESS OF CONTROLS	14
CONCLUSION	18
3. HOSPITALITY AND ENTERTAINMENT	20
INTRODUCTION	20
BACKGROUND	20
KEY FINDINGS	20
EFFECTIVE CONTROL FRAMEWORK	21
EFFECTIVENESS OF CONTROLS AND APPROPRIATE USE	21
CONCLUSION	25
4. SPONSORSHIP	26
INTRODUCTION	26
BACKGROUND	26
KEY FINDINGS	26
EFFECTIVE CONTROL FRAMEWORK	27
EFFECTIVENESS OF CONTROLS	27
CONCLUSION	35
APPENDIX A – AUDIT CRITERIA, APPROACH AND METHODOLOGY	36

LIST OF ABBREVIATIONS

ACT	Australian Capital Territory
ACTTAB	ACTTAB Ltd
CIT	Canberra Institute of Technology
CFC	Cultural Facilities Corporation
DHCS	Department of Disability, Housing and Community Services
ESA	Emergency Services Agency
EPIC	Exhibition Park in Canberra
JACS	Department of Justice and Community Safety
OCYFS	Office for Children, Youth and Family Support
Treasury	Department of Treasury
UC	University of Canberra

1. REPORT SUMMARY AND AUDIT OPINION

INTRODUCTION

1.1 This report presents a summary of the results of a performance audit that reviewed the use of ACT Government corporate credit cards, and expenditure for hospitality and sponsorship purposes in selected agencies.

BACKGROUND

1.2 Expenditure by ACT Government agencies and entities on matters such as hospitality, entertainment and sponsorship, and use of corporate credit cards, although not material in a financial sense, can attract significant community interest and reflect the ethical culture of agencies.

1.3 The Auditor-General's Report No. 5 of 2006 titled *Rhodium Asset Solutions Limited* highlighted issues regarding a lack of controls over the discretionary expenditure in hospitality, entertainment and sponsorship. In the case of Rhodium, the absence of agency-specific policies and guidance contributed to widespread and unjustified use of credit cards, and questionable expenditure on hospitality, entertainment and sponsorships. There is a risk that similar conditions may exist in other entities.

1.4 The ACT Government Corporate Credit Card (ACTGCC) has been in use since early 1990. The Government has incorporated the use of the ACTGCC into its overall purchasing and accounts payable procedures.

1.5 Corporate credit cards provide agencies significant advantages if used properly, particularly resulting in the prompt payment of suppliers, less paperwork, administrative cost savings, improved cash management and greater convenience for purchasing officers. Generally, corporate credit cards can be used to make the purchasing process quicker, more convenient and less expensive.

1.6 Although corporate credit cards offer purchasing advantages, they also entail the risk of improper or unauthorised expenditure. Credit cards are a high-risk medium for procurement, and therefore deserving of additional scrutiny to ensure not only that appropriate controls are in place, but also that these controls are effective in preventing inappropriate and/or fraudulent use.

1.7 In 2005-06, expenditure on ACT Government Corporate Credit Cards was around \$3.5 million¹. This represents less than 0.5% of the Territory's operating

¹ Based on information provided by the ACT Government Corporate Credit Card provider, the Commonwealth Bank (refer chapter 2). The amount did not include expenditure incurred by a small number of agencies for using other credit card providers.

expenses of over \$770 million. Agencies often use credit cards for payments of hospitality and entertainment expenses.

1.8 Due to unavailability of reliable information from agencies, Audit cannot ascertain the amount of sponsorship expenditure incurred by all ACT public entities. However, Audit understands that overall sponsorship expenditure is not material.

AUDIT OBJECTIVES

1.9 The objective of this audit was to provide an independent opinion to the Legislative Assembly on whether agencies:

- have sound policies and guidelines to efficiently manage and account for credit card use, and hospitality and sponsorship expenses; and
- promote accountability and transparency in the management of credit card use and hospitality and sponsorship expenses, and achieve value for money for the Territory.

AUDIT APPROACH AND FOCUS

1.10 This performance audit was conducted under the authority contained in the *Auditor-General Act 1996*.

1.11 Audit selected and reviewed a sample of credit card, hospitality and sponsorship transactions for 2004-05 and 2005-06 in the following agencies:

- ACTTAB Ltd;
- CIT Solutions Pty Ltd;
- Cultural Facilities Corporation;
- Department of Disability, Housing and Community Services (specifically the Office for Children, Youth and Family Support; the Office has since been incorporated into the Department and is now known as Children, Youth and Family Support);
- Department of Justice and Community Safety (specifically the Emergency Services Agency);
- Exhibition Park in Canberra; and
- University of Canberra.

1.12 The audit focused on compliance with policies and procedures. Any departures from the policy and control framework were analysed and reported so that improvements can be made in the future. The audit also reviewed the effectiveness of agencies' administrative arrangements and practices for credit card use and payments of hospitality and sponsorship expenses.

1.13 Appendix A provides further details regarding audit criteria, approach and sampling methodology.

AUDIT OPINION

1.14 The audit opinions drawn against the audit objectives are set out below.

- Most audited agencies have adequate policies and guidelines and a satisfactory control framework in place to manage and account for credit card use and hospitality expenditure.
- Many audited agencies did not have specific policies and guidelines for effective management of sponsorships.
- The administration and management of the use of credit cards and payments of hospitality and sponsorship expenditure were satisfactory in the majority of cases examined during the audit.
- To improve accountability and transparency, and to achieve value for money, the management of credit card use and hospitality can be improved by:
 - keeping adequate documentation to support expenditure incurred on corporate credit cards, and acquitting and reconciling the credit card statements in a timely manner; and
 - obtaining prior approval and keeping adequate documentation to support hospitality expenditure, and exercising prudent judgment when considering hospitality expenditure.
- Accountability and transparency in the management of sponsorship expenditure should be strengthened through:
 - developing specific policies or guidelines for the assessment of sponsorship proposals, and the management and administration of sponsorship arrangements;
 - monitoring and evaluating sponsorships; and
 - improving disclosure in agencies' annual reports.

KEY FINDINGS

1.15 The audit opinion is supported by the following findings:

Use of Corporate Credit Cards

- All audited agencies have issued adequate policies and procedures in the use of corporate credit cards.
- Generally, agencies have satisfactory controls in place to ensure credit card transactions are conducted in accordance with their policies and procedures.
- However, Audit noted some common issues across agencies where practices could be improved. These include:

- purchases of goods and services were not always supported by valid tax invoices. For purchases of over \$55 inclusive of Goods and Services Tax (GST), agencies may not be entitled to claim a GST credit without a valid tax invoice, leading to a potential loss of revenue to the Territory;
- several agencies failed to undertake the acquittal and reconciliation process promptly. Delays can affect the preparation of business activity statements and accurate reporting of costs. There is a risk that loss or misuse of credit cards may not be detected and resolved promptly. Further, agencies incur additional credit charges due to late settlement of credit card accounts; and
- some instances were noted where there was inadequate information in the credit card documentation to clearly state the purpose of the purchases, i.e. whether they were for business or personal use.
- Two invoices (totalling \$322) at CIT Solutions related to the use of the credit card for personal expenses, which is not allowed by the company's policy. In each instance the private expenditure was disclosed by the cardholder and the amount reimbursed to CIT Solutions in a timely manner.
- The Emergency Services Agency needs to review and streamline its controls over the use of corporate credit cards. This includes:
 - monitoring card usage and cancelling some cards, as a significant number of credit cards issued by the Agency were not regularly used;
 - reviewing the effectiveness and efficiency of the administration of credit cards to maximise benefits such as reduced paperwork and administrative costs; and
 - ensuring cardholders are aware that credit cards should be used for official purposes only. Audit noted the payment of \$1 271 for two speeding fines for ACT Government vehicles, for which the responsible drivers(s) could not be identified; this was not in accordance with the Agency's credit card policy. The failure to identify the responsible driver(s) also indicates a breakdown in the system for managing official vehicles.

Hospitality and Entertainment Expenses

- Most agencies had adequate policies and guidelines on the provision of hospitality, based on the model hospitality guidelines issued by Treasury.
- Most hospitality transactions were accounted for appropriately.
- Most hospitality expenditure was assessed as reasonable and appropriate.
- Prior approval for hospitality expenditure was not always obtained and details of guests and the purpose of the event were not always recorded.
- While most agencies specifically excluded gifts to staff, farewell gifts, and staff functions in their hospitality policies, these expenses were allowed by ACTTAB, a Territory-owned corporation.

Sponsorship

- The sponsorship arrangements examined by Audit were broadly consistent with agencies' strategic objectives. However, accountability and transparency in the management of sponsorship expenditure need to be improved.
- Many agencies did not have specific policies or guidelines for sponsorships.
- In most agencies, there was no evidence to support a formal consideration of the risks, costs and potential benefits of sponsorship.
- Written agreements were maintained for all sponsorship arrangements examined by Audit, with the exception of CIT Solutions' joint sponsorship of the ACT Brumbies Rugby Union.
- There was a lack of formal monitoring and evaluation of sponsored activities in a number of major sponsorships. In such circumstances it was difficult to assess value for money to the agency of the sponsorship arrangement.
- Agencies generally reported and accounted for sponsorship expenditure adequately for financial reporting purposes. However, to improve transparency, agencies could disclose more information on sponsorships in their annual reports, including where an agency sponsors another ACT Government agency.

RECOMMENDATIONS AND RESPONSE TO THE REPORT

1.16 The audit made nine recommendations to address the audit findings detailed in this report.

1.17 In accordance with section 18 of the *Auditor-General Act 1996*, a final draft of this report was provided to each of the audited agencies. The overall responses from the Chief Executives are shown below:

Response from the Chief Executive Officer of ACTTAB Limited

The Board believes [section 7 of the Territory-owned Corporations Act 1990] to be important in the context of the general view expressed by Audit that ACTTAB's policies should be consistent with those of other government departments and agencies.

As Audit is aware, section 7 of the Territory-owned Corporations Act 1990 defines the main objectives of a Territory-owned corporation being:

- (a) to operate at least efficiently as any comparable business; and*
- (b) to maximise the sustainable return to the Territory on its investment in the corporation in accordance with the performance targets in the latest statement of corporate intent of the corporation; and*

- (c) *to show a sense of social responsibility by having regard to the interests of the community in which it operates, and by trying to accommodate or encourage those interests; and*
- (d) *if its activities affect the environment – to operate in accordance with the object of ecologically sustainable development.*

Further, section 17A of the Act, which deals with the application of government policies to Territory-owned corporations, provides that:

After consulting with the directors of a Territory-owned corporation, the voting shareholders may tell the corporation in writing the general government policies (the applicable policies) that are to apply to the corporation.

I am advised that to date there has never been any consultation, nor notification in writing to the ACTTAB Board in respect of the application of government policies to ACTTAB. In my view, it might reasonably be argued that by inference, government policies are not applicable to TOC's unless specifically notified.

Response from the Chief Executive Officer of the Cultural Facilities Corporation:

The Cultural Facilities Corporation believes that its existing controls over corporate credit card use and hospitality are sound, and that this was confirmed during the course of this performance audit.

The Corporation will, however, review its existing controls over corporate credit card use and hospitality against the recommendations of this report, to examine whether any changes to these controls could improve its management of these matters.

Response from the Chief Executive of DHCS:

This Department supports and agrees to all the recommendations contained in the Report and does not provide any comment on those recommendations that are specific to a particular agency not being DHCS.

This agency has implemented a comprehensive control framework for the management of credit card usage, hospitality and sponsorship. The control framework for the use of credit cards outlined in the Report in paragraph 2.9 provides a good set of controls to minimise the risks associated with credit card usage. The additional controls in practice in DHCS are the:

- *timely acquittal of the monthly credit card statements by the cardholder and the appropriate delegate; and*
- *limiting the number of credit cards to the minimum required for effective business processes.*

Response from the Chief Minister's Department:

The Chief Minister's Department supports the audit findings relating to the importance of agencies having in place policies and guidelines to efficiently manage and account for credit card use and hospitality and sponsorship expenses.

In relation to Audit comments on the case-study on the Celebrate in the Park event the Department did provide a comprehensive evaluation report on the sponsorship arrangements (Celebrate in the Park - Evaluation Report 2005) quantifying where possible the benefits provided through the sponsorship arrangement.

The Department acknowledges that some sponsorship benefits are more difficult to quantify in financial terms, particularly the monetary value of corporate sponsorship aimed at increasing public awareness and recognition through the support of community events. The report's suggestion that all ACT Government related sponsorship decisions should be based on a "commercially sound" test is unattainable.

Annual reporting requirements are currently being reviewed to streamline annual reporting requirements, without reduction in accountability requirements. The auditor's recommendation will be considered in this review.

1.18 In addition, the Chief Executives provided responses to each recommendation, as shown below.

Recommendation 1 (chapter 2)

Agencies should ensure that controls over the use of corporate credit cards include:

- (a) all purchases are supported by valid tax invoices;
- (b) appropriate supporting documentation is submitted with the credit card statements, and statements are reconciled in a timely manner;
- (c) adequate information is provided in the supporting documentation to clearly identify the purpose of purchases so that an independent reviewer can determine if the expenditure is of a business or personal nature; and
- (d) the credit card expenditure is reviewed and approved by an appropriate delegate to ensure expenditure is legitimate, and for business purposes only.

Agencies' Response:

ACTTAB, CIT Solutions, CFC, DHCS, EPIC, JACS, UC: Agreed

Recommendation 2 (chapter 2)

The Emergency Services Agency should:

- reduce the number of corporate credit cards by reviewing their usage and cancelling any credit cards that are not regularly used;
- streamline the processes for authorisation, approval and acquittal of credit card expenditure; and

- review the system for managing official vehicles to ensure that responsible drivers can be identified and be responsible for paying traffic fines.

JACS Response: Agreed

A review of the number of corporate credit cards and the authorisation, approval and acquittal process for credit cards in the ESA is currently being undertaken. With regard to the management of official vehicles, a review of the process in this area has been undertaken to enable identification of responsible drivers in future.

Recommendation 3 (chapter 3)

Exhibition Park in Canberra and CIT Solutions should develop policies and guidelines for hospitality expenditure. An alternative approach for CIT Solutions is to formally adopt and implement the CIT policy on hospitality.

EPIC's Response: Agreed

EPIC's hospitality is controlled under the policies and guidelines laid out in Section 2.5 of the Chief Executive's Financial Instruction. Any expenditure is approved by the Chairman of the EPIC at its monthly meeting.

CIT Solutions Response: Agreed

CIT Solutions will adopt a policy substantively based on the CIT policy on hospitality.

Recommendation 4 (chapter 3)

- Agencies should maintain adequate documentation regarding the purpose of hospitality and sufficient details of guests to ensure an appropriate level of transparency and accountability.
- ACTTAB should revise its policy of not including the names of external guests in documentation.

Agencies' Response:

CFC, CIT Solutions, DHCS, EPIC, JACS: Agreed

UC: Agreed in principle

At present the University only requires the number of staff and guests to enable calculation of appropriate Fringe Benefit Tax. If the above recommendation was adopted it would entail the redesigning the current practices to record names of staff and guests if appropriate. However, this would not be practical for larger functions. The University holds significant public and diplomatic receptions with the expectation that staff attend.

ACTTAB: Agreed in part

ACTTAB will review its policy of not including the names of all external guests in documentation provided it can be satisfied that the privacy of customers can be maintained.

Recommendation 5 (chapter 3)

Agencies should require prior approval to be obtained for hospitality expenditure and provide alternative procedures where prior approval is not practical.

Agencies' Response:

ACTTAB, CIT Solutions, CFC, DHCS, EPIC, JACS, UC: Agreed

Recommendation 6 (chapter 3)

ACTTAB should review its policies or guidelines to ensure that expenditure incurred in the provision of benefits to staff and hospitality expenditure is consistent with other government agencies, and in line with community expectations for a business operating with public money.

ACTTAB's response: Disagreed

As a Territory-owned Corporation (TOC) it is the responsibility of the appointed Board, subject to any directions issued by the voting shareholders, to determine the Corporation's policies consistent with its establishment of a TOC. As a commercial entity the ACTTAB Board believes it is appropriate that ACTTAB applies policies and guidelines relevant to and consistent with those applied within the commercial sector in which it operates. These of course may not always be consistent with policy applied in the public sector. In determining corporation policies, the ACTTAB Board pays due regard to its responsibilities and obligations to its shareholders and the ACT community.

Recommendation 7 (chapter 4)

Agencies that enter into sponsorship arrangements on a regular basis or incur a significant amount of sponsorship expenditure should have specific policies or guidelines in place. Such policies or guidelines should provide guidance on:

- authority levels and delegations for negotiating and approving sponsorships;
- documentation required for sponsorship arrangements, including consideration of the risks, costs and potential benefits to the agency of the proposed arrangement;
- the avoidance of conflicts of interest;
- objective evaluation criteria for the assessment of sponsorship proposals;

- a form of written agreement for all sponsorship arrangements; and
- a sponsorship management plan, including post-sponsorship evaluation.

Agencies' Response:

ACTTAB, CIT Solutions, JACS, EPIC, UC: Agreed

DHCS: Agreed

The materiality or level of expenditure should determine the extent of resources that go into the assessment and evaluation of a specific sponsorship arrangement. A link could also be made to the procurement thresholds regarding the extent of risk evaluation and potential costs and benefits. This would promote consistency between procurement and sponsorship and the use of existing procurement pro-forma documents.

Recommendation 8 (chapter 4)

Agencies should ensure sponsorship benefits can be reliably measured, and monitor and evaluate sponsorship outcomes.

Agencies' Response:

JACS, CIT Solutions, DHCS, EPIC, UC: Agreed

ACTTAB: Agreed in part

It is not always possible to readily or accurately assess the likely or projected benefits to be derived through an individual sponsorship. This is particularly so in the case of sponsorships associated with marketing where the ultimate objective is to maintain and increase the Corporation's brand awareness with the objective to increasing turnover and profit.

Recommendation 9 (chapter 4)

To promote accountability and transparency, agencies should disclose information on all major sponsorships in their annual reports, including the value of all major sponsorships, individually or in total.

Agencies' Response:

ACTTAB, CIT Solutions, DHCS, JACS, EPIC, UC: Agreed

2. USE OF CORPORATE CREDIT CARDS

INTRODUCTION

2.1 This chapter describes the use of corporate credit cards by selected ACT Government agencies.

BACKGROUND

2.2 With proper controls in place, corporate credit cards can be an efficient mode of payment, and deliver significant administrative cost savings for many agencies. The use of corporate credit cards has long been integrated into ACT Government purchasing and payment processes.

2.3 When used appropriately, corporate credit cards can:

- reduce the time spent on paper-based ordering and payments;
- reduce the number of individual payments made per month;
- provide a convenient mode of payment for staff while on official travel, or in situations where urgent payment is required;
- reduce the need to carry cash on premises; and
- provide an effective means to monitor expenditure.

2.4 However, the use of corporate credit cards can expose an agency to significant risks if not properly controlled. In the absence of adequate controls, there is a significant risk of inappropriate or unauthorised expenditure being incurred.

2.5 The Commonwealth Bank is the contracted provider of the ACT Government Corporate Credit Card (MasterCard). Audit notes that a few ACT public agencies, such as the Territory-owned corporations, use corporate credit cards from other credit card providers, such as the financial institutions where existing accounts are maintained. The number of credit cards and the amount of credit limit issued by other credit card providers were not significant.

2.6 In 2005-06, ACT Government departments and agencies had issued about 350 Commonwealth Bank MasterCards to staff, with a credit limit of \$9.2 million.

KEY FINDINGS

- All audited agencies have issued adequate policies and procedures in the use of corporate credit cards.
- Generally, agencies have satisfactory controls in place to ensure credit card transactions are conducted in accordance with their policies and procedures.

- However, Audit noted some common issues across agencies where practices could be improved. These include:
 - purchases of goods and services were not always supported by valid tax invoices. For purchase of over \$55 inclusive of Goods and Services Tax (GST), agencies may not be entitled to claim a GST credit without a valid tax invoice, leading to a potential loss of revenue to the Territory;
 - several agencies failed to undertake the acquittal and reconciliation process promptly. Delays can affect the preparation of business activity statements and accurate reporting of costs. There is a risk that loss or misuse of credit cards may not be detected and resolved promptly. Further, agencies incur additional credit charges due to late settlement of credit card accounts; and
 - some instances were noted where there was inadequate information in the credit card documentation to clearly state the purpose of the purchases, i.e. whether they were for business or personal use.
- Two invoices (totalling \$322) at CIT Solutions related to the use of the credit card for personal expenses, which is not allowed by the company's policy. In each instance the private expenditure was disclosed by the cardholder and the amount reimbursed to CIT Solutions in a timely manner.
- The Emergency Services Agency needs to review and streamline its controls over the use of corporate credit cards. This includes:
 - monitoring card usage and cancelling some cards, as a significant number of credit cards issued by the Agency were not regularly used;
 - reviewing the effectiveness and efficiency of the administration of credit cards to maximise benefits such as reduced paperwork and administrative costs; and
 - ensuring cardholders are aware that credit cards should be used for official purposes only. Audit noted the payment of \$1 271 for two speeding fines for ACT Government vehicles, for which the responsible drivers(s) could not be identified; this was not in accordance with the Agency's credit card policy. The failure to identify the responsible driver(s) also indicates a breakdown in the system for managing official vehicles.

EFFECTIVE ACCOUNTABILITY AND CONTROL FRAMEWORK

Risk management

2.7 The inherent risks associated with the use of corporate credit cards relate to improper or unauthorised purchases, payments for goods that may never have been received by the organisation, duplicate payments, and potential misuse of public funds for private benefit.

2.8 Corporate credit cards place greater responsibility on individual cardholders, rather than the traditional purchasing officer, to meet appropriate standards of accountability and transparency in purchasing and paying for goods and services. For this reason, agencies should put in place appropriate risk management strategies to mitigate the risks associated with corporate credit cards.

Control framework

2.9 To minimise the risks associated with the use of corporate credit cards, agencies should implement an effective control framework. As a minimum, the key controls over the credit card use should include:

- appropriate policies and procedural documents with specific guidance as to the nature of reasonable credit card use, especially relating to sensitive items such as travel and hospitality expenses;
- a clear understanding by the cardholder, executives, supervisor and credit card administrator of their responsibilities and accountabilities in relation to procurement with credit cards;
- an effective monitoring process to ensure that credit card purchases are supported by reliable documentation, and approval (acquittal and reconciliation of expenditure) procedures;
- prohibition on the use of credit cards for ‘non-official’ expenses; and
- monitoring of card usage, including revising credit limits where required and cancelling cards that are infrequently used.

EFFECTIVENESS OF CONTROLS

Policies and guidelines

2.10 Audit reviewed the audited agencies’ policies and procedural guidelines on the use of credit cards and noted that they are generally in line with the Better Practice Guide of the Model Chief Executive Financial Instructions issued by Department of Treasury (Treasury).² Most agencies had supplemented or adjusted the Better Practice Guide to suit their specific circumstances. Audit considers that all audited agencies have adequate policies and guidelines on the use of credit cards.

2.11 Essentially, agencies’ policies and procedures documents covered:

- the application process to obtain a corporate credit card;
- the scope, usage and conditions of use of the credit cards;
- the documentation required to substantiate the credit card purchases and payments; and
- security measures in the event of loss and theft of the credit card.

² ACT Department of Treasury’s Better Practice Guide – Chief Executive Financial Instructions, Chapter 2.9 Credit Cards, refer<www.treasury.act.gov.au/accounting/html/guidelines.htm#c>

2.12 Audit notes that the audited agencies have clearly stated in their policies and procedures documents that corporate credit cards should only be used for business purpose, and that access to cash advances is prohibited.

Cardholder agreements and acknowledgement

2.13 A requirement for a cardholder to sign an agreement upon receipt of a corporate credit card is an important control for ensuring appropriate use of credit cards.

2.14 Audit found that all the audited agencies had required their employees who had been issued with a credit card to sign a cardholder agreement. These agreements are evidence that the cardholders acknowledge that they are fully aware of their responsibilities and the conditions of credit card use, including the credit card limit and transaction limit.

Compliance with policies and procedures and appropriate use

2.15 Audit examined a sample of the credit card payments across the audited agencies (1 610 transactions in total) and found that the audited agencies had generally complied with their policies and procedures in the use of credit cards.

2.16 Other than a small number of exceptions found (which are discussed below), the audited agencies generally had satisfactory controls to ensure that:

- the need for a new credit card was identified and approved by an appropriate delegate before it was issued ;
- the use of credit cards was within the approved credit limit;
- the credit card statements were promptly acquitted and reconciled by cardholders;
- purchases were supported by valid documentation and tax invoices;
- expenditure on credit cards was reviewed by an appropriate delegate and accounted for correctly;
- payment of credit card statements was made within the settlement period to avoid credit charges; and
- all credit cards were properly secured.

Enhancement of controls over credit card use

2.17 Overall, Audit's examination found that the audited agencies had satisfactory controls over the use of corporate credit cards. However, Audit did note some common issues across agencies where practices could be improved.

2.18 Audit found that 63 (4%) of the 1 610 transactions tested in the audited agencies were not supported by valid tax invoices. In some instances, transaction

receipts were obtained and kept; however, these receipts do not provide sufficient information to identify the purpose of goods or services purchased. To claim a GST credit for purchases more than \$55 (including GST), the Australian Taxation Office (ATO) requires a valid tax invoice³. Without a valid tax invoice, the agency may not be entitled to claim a GST credit, leading to loss of revenue to the Territory.

2.19 Although overall the incidence of non-compliance was low, Audit noted that the rate of non-compliance in certain agencies was significant. The breakdown in internal controls implicit in this observation is of concern. The absence of sufficient documentation exposes the agencies to increased risks of misuse of funds and potential loss of Territory revenue.

2.20 A key control to ensuring the appropriate use of credit cards is the monthly reconciliation of the credit card statements to the tax invoices and receipts provided by merchants to the cardholder. The reconciliation should check that credit cards are only used for business purposes and that purchased goods and services have been received.

2.21 To be effective, the reconciliation process needs to be done promptly. While most of the cardholders generally perform the acquittal and reconciliation processes within the required timeframe, several agencies had failed to undertake the acquittal and reconciliation process promptly. For example, instances were noted at ACTTAB that statements were not reconciled for up to two months.

2.22 Delays in submitting appropriate supporting documentation with reconciled statements by the cardholders can affect the preparation of business activity statements and accurate reporting of costs. Loss or misuse of credit cards may not be detected and resolved promptly. Further, agencies incur additional credit charges due to late settlement of credit card accounts.

2.23 Audit noted that most cardholders had provided adequate documentation to support the 'business use' of corporate credit cards. However, there was a lack of comprehensive information in the supporting documentation to clearly state the business related purpose of some 'unusual' purchases. While such documentation could be obtained from other sources following audit's enquiry, it was not readily available. For example, in the case of the purchase of an airline ticket for a client of the Office for Children, Youth and Family Support (OCYFS), the supporting documentation should clearly demonstrate the exceptional circumstances applying to this type of transaction. Audit considers this could be done in such a manner to satisfy Departmental policy without disclosing the identity of the client.

2.24 To enhance accountability and transparency, agencies should improve the credit card documentation to clearly state the business-related purpose of purchases.

³ ATO's Fact Sheet NAT 12358-02.2006
<refer www.ato.gov.au/content/downloads/gstnat12358022006.pdf>

2.25 While the majority of the purchases examined by Audit indicated that corporate credit cards had been used for business purposes, there were several transactions of either personal or non-official expenditure (discussed in the following paragraphs) that had not been identified during the independent review undertaken by the appropriate delegate. This suggests that the independent review processes performed by some audited agencies might not be working effectively. In view of the above, Audit considers that agencies should reinforce the importance of independent verification of the appropriateness of purchases.

Recommendation 1

Agencies should ensure that controls over the use of corporate credit cards include:

- (a) all purchases are supported by valid tax invoices;
- (b) appropriate supporting documentation is submitted with the credit card statements, and statements are reconciled in a timely manner;
- (c) adequate information is provided in the supporting documentation to clearly identify the purpose of purchases so that an independent reviewer can determine if the expenditure is of a business or personal nature; and
- (d) the credit card expenditure is reviewed and approved by an appropriate delegate to ensure expenditure is legitimate, and for business purposes only.

Other issues

2.26 In addition to the issues commonly experienced by audited agencies, the following issues were noted in specific agencies:

CIT Solutions Pty Ltd

- Audit found two invoices for hotel accommodation that included amounts for ‘massage and health club’ and the purchase of a personal item at an art and craft shop (total value \$322). In each instance the private expenditure was disclosed by the cardholder and the amount reimbursed to CIT Solutions in a timely manner. However, the company’s policy does not allow using the corporate credit card for private expenditure.
- The use of corporate credit cards for personal expenditure identified at CIT Solutions may expose the organisation to a risk of being criticised by the community for using public funds for private purposes. CIT Solutions advised that remedial actions have been undertaken to ensure the cardholders are complying with the agreed conditions of use.

Emergency Services Agency

- The Emergency Services Agency (ESA) had issued thirty-nine credit cards. About one-third of the credit cards were not regularly used.
- Audit noted that a significant amount of paperwork was required in the use of corporate credit cards. In addition to reconciling and obtaining approval for

the monthly credit card statement, cardholders are required to complete and obtain authorisation for a 'Government Credit Card Purchase Request Form' (even if using a credit card in their own name), and an invoice cover sheet for each transaction on the statement. Audit considers that it is inefficient to have onerous administrative processes in place to administer the credit card use and that ESA may not be benefiting from the use of credit cards, such as less paperwork, reduced administrative costs and greater convenience.

- Audit noted the payment of \$1 270 for two speeding fines for ACT government vehicles, for which the responsible driver(s) could not be identified.

2.27 The matters identified above suggest that the ESA can streamline its administration of corporate credit cards by reducing the number of cards and improving the authorisation, approval and acquittal processes. Furthermore, the payment of two speeding fines for government vehicles by use of corporate credit card and the failure to identify the responsible driver(s) indicates a breakdown in the system for managing official vehicles. A sound system should be able to identify the responsible driver(s) of official vehicles at all times, and thereby allocate such fines to the driver(s). The payment of such traffic fines, except under special circumstances, is a misuse of public money.

Recommendation 2

The Emergency Services Agency should:

- reduce the number of corporate credit cards by reviewing their usage and cancelling any credit cards that are not regularly used;
- streamline the processes for authorisation, approval and acquittal of credit card expenditure; and
- review the system for managing official vehicles to ensure that responsible drivers can be identified and be responsible for paying traffic fines.

2.28 The Department of Justice and Community Safety advised that remedial actions have been undertaken to address these matters.

CONCLUSION

2.29 In summary, Audit considers that audited agencies have put in place appropriate policies and procedures to manage their use of corporate credit cards. The review of credit card transactions demonstrated that controls over the use of corporate credit cards were generally satisfactory, with some instances of non-compliance with their policies and procedures. Breaches typically arose from failure to provide valid tax invoices and to clearly state or justify the business nature of purchases.

2.30 The ACT community expects Government departments and agencies and their employees, operating with public money, to exercise due care and high standards of probity and integrity. The use of corporate credit cards inherently relies on individual cardholders to act responsibly and manage public money with proper

regard for probity and accountability. Accountability for corporate credit card use is a significant issue, which in turn requires proper documentation and appropriate review.

2.31 In view of the above, agencies should ensure that cardholders understand and comply with controls over the use of corporate credit cards.

3. HOSPITALITY AND ENTERTAINMENT

INTRODUCTION

3.1 This chapter discusses expenditure incurred by selected ACT Government agencies for hospitality and entertainment purposes.

BACKGROUND

3.2 During 2004-05 and 2005-06, the seven audited agencies spent approximately \$1million⁴ on hospitality. Although not material in amount, hospitality expenditure has a significant risk of misuse if not properly controlled. Often this risk is higher at the more senior levels in organisations, meaning it can be difficult for the controls to be applied effectively, given the potential for management override of controls. Also, there is often little, if any, public information available about the amount spent on hospitality and whether hospitality expenditure is justified.

3.3 Potential risks associated with hospitality expenditure include:

- inappropriate, excessive or extravagant expenditure;
- expenditure not being relevant to the operation of the organisation or not effective in achieving benefits for the organisation;
- weak controls on management of expenditure; and
- expenditure not being accounted for appropriately.

3.4 Treasury has issued model hospitality guidelines in the Model Chief Executive Financial Instructions⁵, which can be used by agencies in developing their own policies or guidelines.

KEY FINDINGS

- Most agencies had adequate policies and guidelines on the provision of hospitality, based on the model hospitality guidelines issued by Treasury.
- Most hospitality transactions were accounted for appropriately.
- Most hospitality expenditure was assessed as reasonable and appropriate.
- Prior approval for hospitality expenditure was not always obtained and details of guests and the purpose of the event were not always recorded.

⁴ This figure includes some amounts for meeting expenses and catering for training courses provided by the agencies.

⁵ Department of Treasury, *Model Chief Executive Financial Instructions: Chapter 2.5 - Official Hospitality*, 23 September 2003.

- While most agencies specifically excluded gifts to staff, farewell gifts, and staff functions in their hospitality policies, these expenses were allowed by ACTTAB, a Territory-owned corporation.

EFFECTIVE CONTROL FRAMEWORK

Policy and Procedures

3.5 Most agencies, except for CIT Solutions and Exhibition Park in Canberra (EPIC), had adequate policies and guidelines on the provision of hospitality, promulgating the model hospitality guidelines issued by ACT Treasury. Most agencies' policies or guidelines provided adequate guidance on the provision of hospitality and clearly indicated the responsibilities and accountabilities of the officers hosting hospitality events.

3.6 Notwithstanding the lack of an agency-specific policy, CIT Solutions advised that it followed the policy of its parent entity, Canberra Institute of Technology (CIT). Audit considers that, while it is appropriate for CIT Solutions to adopt CIT policy, this approach needs to be formally recognised and the policy properly communicated to staff. EPIC advised that it had not seen the need to develop a policy on hospitality, as significant expenditure was not incurred.

3.7 Audit considers that the lack of specific policies or guidelines on hospitality could lead to inconsistent practices being applied, exposing both individuals and the agency to risks. It is therefore important for agencies to have adequate hospitality policies and guidelines in place, which are specific to the agency's operations or business, even though the likely expenditure is not significant.

Recommendation 3

Exhibition Park in Canberra and CIT Solutions should develop policies and guidelines for hospitality expenditure. An alternative approach for CIT Solutions is to formally adopt and implement the CIT policy on hospitality.

EFFECTIVENESS OF CONTROLS AND APPROPRIATE USE

Compliance with Policies and Guidelines

3.8 Overall, agencies generally complied with their policies or guidelines on hospitality. Expenditure was properly approved by the Chief Executive or the appropriate delegate. Most transactions tested were supported by valid receipts and invoices, and accounted for appropriately.

Details of internal and external guests

3.9 Audit noted a common issue across agencies was that details of internal and external guests were not consistently and sufficiently kept (such as the name of the guest, the name of the organisation represented, and the purpose of the event).

3.10 As illustrated in the following Example 3.1, the lack of adequate documentation to readily indicate the purpose of the expenses and the details of attendees may mean the agency cannot demonstrate that the hospitality expenditure is for business purpose and provides benefits to the agency.

Example 3.1 - ACTTAB

During sample testing in ACTTAB, Audit noted two instances of payment for lunches totalling \$432 (by credit card) in which the only recorded attendees were the CEO and Chairman. Details of any external parties attending the lunches were not recorded on the receipts or purchase orders presented to Audit.

In other instances, it was not clear whether the other attendees were related parties or external guests, as the name of the organisation represented was not recorded on the receipts or purchase orders presented to Audit.

ACTTAB submitted supplementary documentation, such as extracts from the CEO's diary, as evidence of attendees at selected hospitality functions. ACTTAB advised that, in order to maintain privacy, it has a policy of not routinely including the names of high profile and VIP customers partaking of hospitality in relevant documents.

Audit comments

Due to the lack of information included in documentation on the purpose of the hospitality and entertainment, along with the names and affiliations of those attending, Audit cannot determine whether these transactions were appropriate, reasonable and provided benefits to the agency.

Recommendation 4

- Agencies should maintain adequate documentation regarding the purpose of hospitality and sufficient details of guests to ensure an appropriate level of transparency and accountability.
- ACTTAB should revise its policy of not including the names of external guests in documentation.

Prior approval

3.11 Audit noted many instances across agencies where approval was only obtained after the event occurred.

3.12 Audit noted that the need to obtain prior approval was not addressed in the policies of some agencies. Audit considers that the practice of obtaining prior approval can help minimise the risk of inappropriate or excessive expenditure.

Recommendation 5

Agencies should require prior approval to be obtained for hospitality expenditure and provide alternative procedures where prior approval is not practical.

Appropriate Use

3.13 In general, the better practices being adopted by most government agencies based on Treasury's model hospitality guidelines do not allow the use of public money for non-business related expenses, such as staff lunches or working meals which are not normally necessary for the conduct of agency's regular business.

3.14 Audit assessed most hospitality expenditure examined as reasonable and appropriate. In most cases, attendance at functions involving official hospitality was focused on relevant stakeholders, e.g. key clients, potential clients, international visitors and senior officials, and restricted to minimal number of internal staff. The amount of expenditure appeared to generally align with the level of importance of the internal or external guests and the potential benefits to the agencies. Audit was unable to assess some transactions as reasonable and appropriate, due to the lack of supporting documentation.

Provision of hospitality in Territory-owned corporations – ACTTAB

3.15 ACTTAB was established in 1964 to provide a legal form of off-course wagering in the Territory, consistent with similar initiatives in other Australian jurisdictions. It became a Territory-owned corporation on 1 July 1996, subject to the provisions of the *Betting (ACTTAB Limited) Act 1964* and the *Territory-owned Corporations Act 1990*.⁶

3.16 ACTTAB's policy allowed hospitality to be incurred for staff rewards or incentives, and functions such as Christmas lunches and retirements to departing staff. Such practice was not observed in other audited agencies. Audit also notes that Treasury's model hospitality guidelines indicate that 'the use of official funds for the purchases of gifts for ACT officers is not permitted, e.g. at Christmas, birthdays or when officers leave'. However, the chief executives may, at their discretion, approve the purchase of gifts for staff incentives/rewards.⁷

3.17 ACTTAB advised that:

unlike other public sector agencies the opportunities for management to gather staff together at a single location during working hours for any purpose is near impossible given the nature of its operations. The annual staff Christmas party, at which staff are off duty and the cost of which is met

⁶ ACTTAB 2006 Annual Report: http://www.acttab.com.au/acttab/annual_report/annual_report.pdf (accessed 30 November 2006).

⁷ Department of Treasury, *Model Chief Executive Financial Instructions: Chapter 2.5 - Official Hospitality*, p 4.

by ACTTAB, is considered by the ACTTAB Board to be an important and significant event for the organisation, as well as a sound investment in its people. It affords the executive the opportunity to address the entire organisation, reflecting on the past years performance and future directions, as well as recognising outstanding individual performances and achievements.

Example 3.2 - ACTTAB

It has been a long-standing practice for ACTTAB to pay for staff functions. During a year, these functions include Melbourne Cup, Black Opal, Canberra Cup, Christmas parties, end of year functions, as well as staff retirement functions. For example, ACTTAB spent approximately \$7 800 (including \$1 300 on live music and \$900 on prizes and gifts for staff) and \$7 300 for the 2004 and 2005 end-of-year functions respectively. The average function cost per staff was \$80 for 2004 and \$69 for 2005.⁸

From time to time, gifts, such as department store gift vouchers and movie tickets, were also given as incentives or rewards for staff, and farewell presents were given to departing staff. For example, a barbecue with a value of \$450 was given to a departing staff member.

Audit comments

Audit noted that such expenditure was consistent with the guidelines issued to the CEO by the Chairman in August 2005. However, Audit also notes that such practice is not allowed in most other public sector agencies and therefore may not be in line with community expectations for a Government business operating with public money. Indeed, the use of official funds for the purchase of gifts for ACT officers, for example at Christmas, birthdays or when officers leave, is specifically prohibited under Treasury's model hospitality guidelines.

3.18 Following the Auditor-General's Report on Rhodium Asset Solutions Limited (Report No. 5 of 2006), the ACTTAB Board reviewed its hospitality guidelines and replaced the guidelines with a hospitality policy. In the policy, the Board reiterates its expectation for the Executive to exercise prudent judgment when incurring hospitality expenditure to ensure that it is proportional to the potential benefits accrued to the agency. The policy also requires more detailed monthly reporting of hospitality expenditure to the Board.

3.19 ACTTAB advised that:

Where an Executive Manager incurs hospitality expenditure in excess of \$500.00, or in the case of the Chief Executive, \$2000.00, in respect of any individual event or occurrence, then that expenditure is to be reported to the Board... The Executive will provide specific details of the expenditure including the amount, attendees and benefit to the Corporation.

⁸ ACTTAB employed 98 Full Time Equivalent (FTE) and casual staff in 2004-05 and 106 FTE and casual staff in 2005-06 (excluding Agents and staff employed by Agents).

3.20 ACTTAB further advised that:

As a Territory-owned Corporation (TOC), ACTTAB operates as a commercial business in a national market, competing with other totalisators, bookmakers and betting exchanges to maintain and grow its market share. In order to achieve that objective and maximise its return to the shareholders and ultimately the Territory, it is operated along general business principles and practices applied within the private sector and consistent with its establishment as a TOC. These of course may not always be in accord with policies and procedures applying generally in the public sector.

3.21 Audit recognises the need for Territory-owned corporations to operate in a commercial manner. Nevertheless, in addressing the commercial imperatives of growing business to maximise shareholders' returns, public corporations should ensure that their practices are in line with community expectations for a Government business operating with public money.

Recommendation 6

ACTTAB should review its policies or guidelines to ensure that expenditure incurred in the provision of benefits to staff and hospitality expenditure is consistent with other government agencies, and in line with community expectations for a business operating with public money.

3.22 As a general observation, Audit noted that the absence of a specified limit on business-related hospitality expenses, such as lunches, creates risk of excessive expenditure. In the transactions examined, Audit found that there were instances where lunches were valued in excess of \$100 per head, and excessive tips or gratuities were paid when senior executives used credit cards at restaurants. Accordingly, it may be desirable for government agencies to specify the types of expenditure and limits on that expenditure.

CONCLUSION

3.23 Overall, agencies generally complied with their policies and guidelines on hospitality. Expenditure was properly approved by the appropriate delegate and most transactions were supported by valid receipts and invoices, and accounted for appropriately.

3.24 However, if not properly controlled, inappropriate or excessive hospitality expenditure can damage community confidence in the governance and accountability framework of an agency, notwithstanding that the amounts involved may not be material. Prior approval for hospitality expenditure should be obtained from an appropriate delegate, and sufficient documentation of guests and the purpose of the hospitality event should be kept. Over and above these management controls, agencies should exercise prudent judgment to ensure that hospitality expenditure is justified and obtains genuine benefits for the Territory.

4. SPONSORSHIP

INTRODUCTION

4.1 This chapter discusses expenditure incurred by selected ACT Government agencies for sponsorship purposes.

BACKGROUND

4.2 For the purpose of this Audit, sponsorship is defined as a commercial arrangement involving the purchase of the right to associate the sponsor's name, products or services with the sponsored organisation's activities, in exchange for a cash or in-kind contribution. It does not include donations, which do not involve the direct supply of services or specified deliverables; or grants, which are provided to a recipient for a specified purpose other than the right to association.⁹

4.3 The audit considered the sponsorship of organisations by ACT Government agencies. It did not directly consider the receipt of sponsorship by ACT Government agencies.

KEY FINDINGS

- The sponsorship arrangements examined by Audit were broadly consistent with agencies' strategic objectives. However, accountability and transparency in the management of sponsorship expenditure need to be improved.
- Many agencies did not have specific policies or guidelines for sponsorships.
- In most agencies, there was no evidence to support a formal consideration of the risks, costs and potential benefits of sponsorship.
- Written agreements were maintained for all sponsorship arrangements examined by Audit, with the exception of CIT Solutions' joint sponsorship of the ACT Brumbies Rugby Union.
- There was a lack of formal monitoring and evaluation of sponsored activities in a number of major sponsorships. In such circumstances it was difficult to assess value for money to the agency of the sponsorship arrangement.
- Agencies generally reported and accounted for sponsorship expenditure adequately for financial reporting purposes. However, to improve transparency, agencies could disclose more information on sponsorships in their annual reports, including where an agency sponsors another ACT Government agency.

⁹ Queensland Crime and Misconduct Commission, *Building Capacity Series: Sponsorship management - Achieving mutually beneficial outcomes*, September 2006 (Issue Number 9), p. 1.

EFFECTIVE CONTROL FRAMEWORK

4.4 Agencies that enter into sponsorship arrangements should have an effective control framework in place to ensure the efficient and effective management of sponsorships and that value for money is obtained.

4.5 In particular, agencies that enter into sponsorship arrangements on a regular basis, or incur a significant amount of sponsorship expenditure, should have specific policies or guidelines in place. At a minimum, agencies' sponsorship management policies or guidelines should define sponsorship and indicate the level of importance that the organisation places on sponsorship and its alignment with the agency's strategic objectives. This clarifies the boundaries within which sponsorship activities take place in the agency.¹⁰

4.6 As sponsorship involves contractual obligations and is subject to delegate approval, the same integrity and probity requirements should be applied as for purchasing.¹¹ As such, an agency's sponsorship policy should consider the need to comply with relevant legislation, Government policies and ethical principles, including the *Government Procurement Act 2001* and related Guidelines and Circulars, the *Public Sector Management Act 1994*, the Public Sector Management Standards, and the ACT Public Service Code of Ethics or the agency's code of conduct.

4.7 In addition to specific policies or guidelines, an effective control framework for sponsorships includes:

- formal consideration of the risks and potential benefits of sponsorship;
- efficient and effective administrative processes (including adequate documentation);
- adequate monitoring and review of sponsorship outcomes; and
- appropriate reporting and accounting for sponsorships.

EFFECTIVENESS OF CONTROLS

Policies and guidelines

4.8 Of the seven agencies in which the audit was conducted, two agencies had specific policies or guidelines for sponsorship in place at the time of the audit. In one agency, there was an adequate sponsorship policy in place; however, it was apparent that some key staff members were unaware of its existence.

4.9 Of the five agencies with no specific policies or guidelines in place, two agencies did not incur any sponsorship expenditure in 2004-05 and 2005-06.

¹⁰ ANAO, *Better Practice Guide – Management of Corporate Sponsorship*, April 1997, p. 4.

¹¹ Queensland Crime and Misconduct Commission, *Building Capacity Series: Sponsorship management - Achieving mutually beneficial outcomes*, September 2006 (Issue Number 9), p. 2.

4.10 In the remaining three agencies, sponsorship proposals were assessed on a case-by-case basis by the General Manager or the Chief Executive Officer (CEO), or in one case, by the relevant division. The assessment of sponsorship proposals on a case-by-case basis without appropriate guidelines could lead to inconsistent practices being applied.

Recommendation 7

Agencies that enter into sponsorship arrangements on a regular basis or incur a significant amount of sponsorship expenditure should have specific policies or guidelines in place. Such policies or guidelines should provide guidance on:

- authority levels and delegations for negotiating and approving sponsorships;
- documentation required for sponsorship arrangements, including consideration of the risks, costs and potential benefits to the agency of the proposed arrangement;
- the avoidance of conflicts of interest;
- objective evaluation criteria for the assessment of sponsorship proposals;
- a form of written agreement for all sponsorship arrangements; and
- a sponsorship management plan, including post-sponsorship evaluation.

4.11 The lack of specific policies or guidelines on sponsorship may increase agencies' exposure to a number of risks. The following section describes the major risks associated with sponsorships.

Consideration of risks and potential benefits

4.12 The exchange of rights and obligations between the sponsor and the sponsored organisation in a sponsorship arrangement entails, to some extent, a transfer of the risks and benefits associated with the sponsored activities. In particular, the sponsor accepts the risks of being associated with an undesirable sponsorship outcome, along with the potential benefits of being associated with a positive sponsorship outcome.

4.13 The potential benefits to the sponsor generally involve promoting the public profile of an agency or its activities to a wider or different audience than through normal advertising. This may include opportunities to use the sponsored activities to entertain clients or potential clients. The association of the sponsor with the sponsored activities can also increase the loyalty of its stakeholders, including its staff and clients.¹²

¹² ANAO, *Better Practice Guide – Management of Corporate Sponsorship*, April 1997, pp. 2-3.

4.14 The major risks for a sponsor to consider in its management of sponsorships include:

- being associated with an undesirable sponsorship outcome;
- the potential for adverse publicity for the sponsor, and possibly the Government, by being associated with an inappropriate activity, individual or organisation;
- perceptions of improper or unethical conduct (including actual or perceived conflicts of interest and the acceptance of personal benefits);
- sponsorship benefits are not realised;
- inappropriate reporting and accounting; and
- not obtaining value for money.

4.15 Agencies should formally consider the risks and potential benefits of sponsorship when assessing a sponsorship proposal. These could be considered in a business case seeking approval for the expenditure from the appropriate delegate.

4.16 Of the five agencies that incurred sponsorship expenditure in 2004-05 and 2005-06, only one was able to provide documentation to support a formal consideration of the risks and potential benefits.

4.17 Audit found that sponsored activities were consistent with the agencies' strategic objectives, such as enhancing agencies' branding, or creating economic opportunity. There was no evidence of any actual or perceived conflict of interest in the sponsorships examined by Audit.

Administration

4.18 In the sample examined, prior approval for sponsorship expenditure was generally obtained from the Board, the CEO or an appropriate delegate. In one instance, the submission seeking approval for the expenditure could not be located.

4.19 Agencies should maintain adequate records of sponsorship. Agencies may not be able to justify their sponsorship expenditure or manage sponsorships effectively if adequate records of sponsorship arrangements are not maintained.

4.20 At a minimum, this includes a sponsorship agreement in writing between the agency and the sponsored organisation, which specifies details of the sponsored activities, including the benefits to the sponsor and the value of the sponsorship. An exchange of letters may be sufficient for a minor sponsorship, while a formal contract supported by legal and financial opinions may be required for a more complex

arrangement.¹³ Sponsorship agreements could also consider arrangements for the return of contributions, should the sponsored activities be cancelled or terminated.

4.21 Audit examined a number of sponsorships and found that the audited agencies had maintained sponsorship agreements or similar. However, in one instance, the agency was unable to provide a copy of the sponsorship agreement and a copy had to be requested from a co-sponsor.

Monitoring and review

4.22 Agencies should monitor and review the costs and benefits of individual sponsorship arrangements on a regular basis to ensure the effective management of sponsorships and to ensure that value for money, including intended benefits, is obtained.

4.23 Formal monitoring and evaluation of major sponsored activities should be undertaken. Agencies should consider requiring sponsored organisations to provide information on sponsorship outcomes, such as progress updates and a final evaluation report at the conclusion of the sponsored activities. Sponsorship outcomes should be evaluated against an agreed set of performance criteria.¹⁴

4.24 The lack of adequate monitoring and review of sponsorship outcomes leads to a risk of making incorrect decisions on whether to continue sponsorships, and whether to accept or reject similar sponsorship proposals in the future.

4.25 Audit observed that there was a lack of formal monitoring and evaluation of sponsored activities in a number of sponsorships. In the case of CIT Solutions' joint sponsorship of the Brumbies, the principal benefit of the sponsorship arrangement was attendance at a number of networking events with key clients and potential clients; however, actual attendance at those events was not documented.

4.26 For small sponsorships, for example, DHCS's \$3 000 sponsorship of a child services conference, the extent of monitoring and evaluation of the intended benefits should be commensurate with agencies' commitment. When agencies have no intention to formally evaluate the benefits, such arrangements may be better classified as a grant or donation instead of sponsorship.

4.27 In one instance, a major sponsorship was discontinued; however, there was no documentation to support this decision.

4.28 The most significant sponsorship examined by Audit (i.e. ACTTAB's sponsorship of the 'Celebrate in the Park' event) is discussed in Example 4.1 below.

¹³ Queensland Crime and Misconduct Commission, *Building Capacity Series: Sponsorship management - Achieving mutually beneficial outcomes*, September 2006 (Issue Number 9), p. 5.

¹⁴ Queensland Crime and Misconduct Commission, *Building Capacity Series: Sponsorship management - Achieving mutually beneficial outcomes*, September 2006 (Issue Number 9), p. 2.

Example 4.1 – Sponsorship of the ‘Celebrate in the Park’ event by ACTTAB

‘Celebrate Canberra’ is an annual ten-day festival managed by the Chief Minister’s Department (CMD). ‘Celebrate in the Park’ is one of the festival events for the local community.

In its draft Statement of Corporate Intent for 2004-05, the Board of ACTTAB (a Territory-owned corporation) indicated to its Shareholders (being the Chief Minister and the Treasurer) an interest in ‘applying some of its funds to support a suitable community building activity over a number of years’. The aim was to ‘target a major activity that would position ACTTAB positively to a broad cross-section of the Canberra community’.

At the Annual General Meeting in November 2004, the ACTTAB Board sought in-principle agreement from its Shareholders for the sponsorship of the ‘Celebrate in the Park’ event, advising that:

Building ACTTAB’s visibility as a good corporate citizen within the Canberra community is part of [our] strategy to strengthen brand awareness and customer loyalty. The Canberra Day celebrations would provide the ideal sponsorship vehicle around which ACTTAB could position itself more visibly within the community.

The Shareholders agreed in-principle to the proposal, while expressing a concern that the sponsorship would decrease the dividends paid to the Government.

In December 2004, CMD submitted a formal sponsorship proposal to ACTTAB. The benefits to ACTTAB would include:

- branding and logo recognition on all promotional material for the marketing campaign (including print, website, television and radio advertising, and venue signage opportunities);
- ‘VIP passes’ to selected events for the purpose of corporate hospitality and entertainment; and
- a range of other publicity opportunities.

The five-year proposal sought a contribution of \$250 000 in 2005, with incremental increases in the sponsorship each year to \$350 000 in 2009.

The ACTTAB Board considered the proposal and approved the sponsorship subject to additional conditions, including a requirement for the CMD to provide a report on the event and the sponsorship benefits delivered each year. In May 2005, CMD provided an evaluation report for the 2005 ‘Celebrate in the Park’ event.

Audit comments

Audit acknowledges that it is appropriately a matter for the Board to make a decision on this sponsorship to improve ACTTAB’s visibility as a corporate citizen, and to strengthen brand awareness and customer loyalty. However, it is not clear to Audit how these intended benefits would lead to more concrete results such as increased turnover or whether “value for money” has been achieved. On the other hand, such sponsorship was a reduction in dividends to the Government, which could use such funds for other budget priorities.

4.29 In accordance with ACTTAB's Sponsorship Guidelines, prior approval for the expenditure was obtained from the ACTTAB Board. When approving the proposal, the Board considered the risks, cost and potential benefits of the sponsorship in the context of ACTTAB's marketing strategy, which aims to build ACTTAB's visibility as a good corporate citizen and increase customer loyalty. Adequate records of the sponsorship were maintained. In addition, Audit notes that ACTTAB has adequately reviewed the evaluation reports produced by the Chief Minister's Department for the sponsorship.

4.30 However, these evaluation reports are limited in scope and do not quantitatively evaluate benefits from the sponsorship. Audit considers that, in accordance with better practice, agencies should consider whether sponsorships benefits can be reliably measured as part of the decision-making process.

4.31 ACTTAB advised that:

Sections 19 to 21 of the Territory-owned Corporations Act, which deals with the content, modification and involvement of the voting shareholders in approving statements of corporate intent, provide specific guidance and direction to TOC's in regard to the preparation of those documents.

This sponsorship is referenced in ACTTAB's Statement of Corporate Intent 2006-2007, and the ACTTAB Board is comforted by the absence of any adverse comments emanating from the voting shareholders in respect of that initiative.

4.32 ACTTAB has further commented that:

- *it is ACTTAB's view that strengthening brand awareness will result in increased retail turnover;*
- *with increasing competition from corporate bookmakers and betting exchanges, able to access ACTTAB's existing and future customer base, brand name and association are becoming increasingly more important to the Corporation in strategically maintaining and growing market share; and*
- *while not readily determinable, the benefits far outweigh non-involvement.*

Recommendation 8

Agencies should ensure sponsorship benefits can be reliably measured, and monitor and evaluate sponsorship outcomes.

Reporting and accounting

4.33 Appropriate reporting and accounting promotes accountability and transparency in sponsorship arrangements. Agencies should consider how they will

report their sponsorships in their annual reports and the level of disclosure required in their annual financial reports.¹⁵

4.34 Cash or in-kind sponsorships meet the definition of expenses and should be reported in accordance with applicable accounting concepts and standards. Audit considers that, in most circumstances, the value of in-kind sponsorships can be measured reliably.

4.35 Given that sponsorship expenditure is often not material or significant to the agency, it is often not disclosed as a separate line item in the agency's annual financial reports. To promote accountability and transparency, agencies should consider disclosing information on all major sponsorships in their annual reports. If an agency is reluctant to disclose a sponsorship arrangement, this could be an indication that it would not withstand public scrutiny and is either inappropriate or does not represent value for money.

4.36 Agencies generally reported and accounted for sponsorship expenditure appropriately. Audit notes that it is sometimes difficult for agencies to distinguish sponsorships from donations or grants, and to account for expenditure appropriately. In one instance, Audit noted that a contribution from the Department of Disability, Housing and Community Services (DHCS) to the ACT Children's Week Committee should have been classified as a grant as opposed to sponsorship, as there was no indication of any obligation on the Committee to associate DHCS with its activities as a direct result of the contribution.

4.37 The sponsorship of ACT Government agencies by other ACT Government agencies, such as Territory-owned corporations, could raise issues of accountability and transparency. In the absence of additional disclosures, such sponsorship arrangements can distort the financial performance of certain events of both the sponsor and the sponsored agency. Table 4.1 below provides some examples of ACT Government events that were sponsored by other ACT Government agencies in 2005-06.

Table 4.1: Examples of ACT Government events sponsored by government agencies

Sponsored Event	2005-06 Amount	Sponsors (ACT Government Agencies)
Celebrate in the Park (Canberra Day)	\$275,000	ACTTAB
Christmas in the City	\$25,000	ActewAGL
New Year's in the City	\$5,000 \$4,000	ActewAGL LDA
Live in Canberra campaign	\$10,000 (each)	ACTTAB, Land Development Agency, Healthpact and Rhodium

Source: Chief Minister's Department

¹⁵ ANAO, *Better Practice Guide – Management of Corporate Sponsorship*, April 1997, p. 15.

4.38 Where a Territory-owned corporation sponsors an ACT Government agency, this represents off-budget funding for activities of the sponsored agency and may obscure the true costs of the event to Government. This is illustrated in Example 4.1 above, where it was noted that ACTTAB's sponsorship of the 'Celebrate in the Park' event would decrease the dividends paid to the Government.

4.39 Given the commercial nature of sponsorships, and the need to achieve mutually beneficial outcomes, Audit considers that sponsorship arrangements between ACT Government agencies should be conducted at arm's length. Audit recognises that sponsorships are often initiated and developed through 'networking' and negotiation; nevertheless, government agencies should seek sponsorship from the private sector in the first instance, and ACT Government businesses should only provide sponsorship to other agencies if such a decision is commercially sound.

4.40 ACTTAB disclosed its sponsorship of the Celebrate in the Park event in its annual report for 2005-06; however, it did not disclose the value of the sponsorship. Similarly, in its annual report for 2005-06, CMD disclosed that it 'sources corporate sponsorship for a range of high-quality events' (including the Celebrate Canberra festival); however, it did not disclose the value of the sponsorship, the proportion of total funding that was sourced from sponsorship, or the source of the sponsorship.¹⁶

4.41 In the case of the 'Live in Canberra' campaign, the \$10 000 sponsorship each from various government agencies, including Healthpact and Rhodium, may suggest such a decision was to support a government initiative without significant regard for the benefits to the individual agency. As a result, the full cost of this government initiative may be under-reported by the responsible agency, as details of this type of sponsorship are not always publicly reported by the sponsored agencies.

4.42 Audit considers that agencies should be as open and transparent as possible regarding sponsorships, including where an agency is sponsoring another ACT Government agency. This includes disclosing the value of all major sponsorships, individually or in total.

Recommendation 9

To promote accountability and transparency, agencies should disclose information on all major sponsorships in their annual reports, including the value of all major sponsorships, individually or in total.

¹⁶ In CMD's 2005-06 Annual Report, the Celebrate Canberra festival was reported as a key achievement in Output 1.4 Communication (p. 26). However, no sponsorship amount was disclosed.

CONCLUSION

4.43 Although sponsorship expenditure is often not material in amount, the nature of sponsorships exposes agencies to a number of risks. It is important that agencies have an effective control framework for sponsorship expenditure. Audit considers that agencies should have formal arrangements in place to promote accountability and transparency, and to ensure that sponsorship expenditure is justified.

APPENDIX A – AUDIT CRITERIA, APPROACH AND METHODOLOGY

AUDIT CRITERIA

The audit used the following criteria to guide the conduct of the audit and to enable the objectives of the audit to be achieved:

Credit card use and payments of hospitality and entertainment expenses

- Agencies should have effective internal control structures, procedures and practices to support sound accountability and control framework for the effective management of credit card use, and payments of hospitality and entertainment expenses, including:
 - risk management;
 - comprehensive policies and procedures, including clarity in responsibilities and accountabilities for both card holders and administrators in respect of credit card use. All hospitality expenditure is to be approved prior to the event and for official purposes;
 - effective administrative framework to ensure that procurement activities by use of credit cards; and payments of hospitality and entertainment expenses, are managed effectively and efficiently in accordance with the approved policies and procedures and organisational requirements;
 - adequate internal control and review procedures to provide assurance that all credit card expenditure should be for a clear business purpose and be reconciled against receipts and supplier's invoice, or other appropriate external supporting documentation. Credit card should not be used for personal expenditure, or for obtaining cash advances;
 - expenditure on hospitality and entertainment should be managed effectively in achieving agency's desired outcomes, and in accordance with sound business practices; and
 - accurate and up-to-date accounting records in respect of the nature of expenditure.

Accountability framework for sponsorships

- Agencies should have appropriate structures, procedures and practices to support sound accountability framework for the effective management of sponsorships.
- Agencies should maintain an effective accountability and control framework, including:

- a sponsorship policy and related guidelines, which outline the criteria for developing and assessing sponsorship arrangements;
- formal assessment of the purpose, benefits and risks for each sponsorship proposal;
- sponsorship proposal must be seen to enhance agencies' branding, if they are to create economic opportunity;
- sponsorship agreements must be for a specific period and purpose and protect the rights of the agencies;
- agencies' staff must not be individually benefit as a result of sponsorship and must not take, or seek to take, improper advantage of individual position to obtain a benefit for themselves, their family or any other person or organisation;
- sponsorship expenditure should be properly authorised and accounted for; and
- adequate internal review and formal monitoring and evaluation of sponsorship activities.

AUDIT APPROACH

The audit approach consisted of:

- reviewing relevant literature and work undertaken on this subject by other jurisdictions with the intention of finding better practices;
- identifying those documents that set out the policies and procedures to be followed when assessing agencies' operations and processes. This involved identifying the governance and accountability framework and related policy and procedures, researching documents and discussion with the relevant agency staff;
- identifying procedures and controls used to give effect to the policies and guidelines and to ensure compliance;
- determining whether all the relevant administrative requirements, policies and guidelines had been adequately fulfilled;
- briefings, interviews, and correspondence with relevant agency staff; and
- preparation and finalisation of a report to the ACT Legislative Assembly.

Methodology

More than 1 610 procurement transactions (and supporting documentation) in relation to purchases by use of credit cards, and 116 transactions relating to payments of hospitality and entertainment, from the audited agencies during 2004-05 and 2005-06 were examined using the audit's test program. A sample of sponsorships was also selected from the audited agencies for detailed examination.

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Report No. 3 / 2004	Revenue Estimates in Budget Papers 2002-03
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Details of reports published prior to 2002-2003 can be obtained from the ACT Auditor-General's Office or the ACT Auditor-General's homepage: <http://www.audit.act.gov.au>.

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