
New South Wales Auditor-General's Report

Performance Audit

Government advertising

Department of Premier and Cabinet

Destination NSW

Sydney Opera House

Department of Trade and Investment, Regional Infrastructure
and Services



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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Government advertising: Department of Premier and Cabinet, Destination NSW, Sydney Opera House, Department of Trade and Investment, Regional Infrastructure and Services.**

A handwritten signature in black ink, reading 'A. T. Whitfield'.

A T Whitfield PSM
Acting Auditor-General
22 June 2015

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Executive summary

This audit assessed how well government advertising and other communication activities are being managed. Our report answers two questions:

- Did Destination NSW (DNSW) and the Sydney Opera House (SOH) carry out their government advertising activities, in relation to selected advertising campaigns, effectively, economically and efficiently, and in compliance with the *Government Advertising Act 2011* (the Act), the regulations, other applicable laws and the government advertising guidelines?
- Are advertising and communications activities managed in a way that is accountable, transparent and in compliance with relevant policies and guidelines?

We also determined whether the content or other circumstances of selected government advertising campaigns breached the prohibition on political advertising in the Act.

Our audit focused on the Department of Premier and Cabinet (DPC) and agencies in the Trade and Investment, Regional Infrastructure and Services (DTIRIS) cluster.

Audit conclusion

There were no breaches of the prohibition on political advertising

The Act prohibits government advertising being used for political purposes. Our examination of selected campaigns in both DNSW and SOH did not identify a breach of this prohibition.

DPC compliance monitoring and advice to agencies needs to improve

Government advertising requirements, and guidance to agencies, have improved since they were first introduced in 1984. Some of this improvement resulted from DPC implementing recommendations made by the Auditor-General in four previous performance audits.

The fact that agency advertising campaigns and programs have been approved, despite the non-compliances found in this review, indicates that there are a number of weaknesses in how the government advertising framework is applied.

DPC's role in monitoring implementation of government advertising requirements requires improvement. DPC does not have a monitoring program to systematically identify and follow-up non-compliance. In addition, it applies the requirements inconsistently and there is lack of clarity in its advice to agencies.

Agencies have not consistently complied with all government advertising requirements

We found areas of uncertainty and non-compliance with the government advertising requirements. Non-compliance included not submitting advertising campaigns for peer review and approval, not using the government central Media Agency Services (MAS) contract for media planning and buying, and not submitting campaign expenditure and outcome information at completion of each campaign.

Neither DNSW nor SOH complied with all government advertising requirements. DNSW appears to have arranged its advertising program to avoid the requirement to conduct a cost benefit analysis for any of its advertising campaigns. SOH has only submitted its advertising campaigns for peer review and approval since February 2014.

Advertising and communications activities are not managed in an accountable and transparent way

The agencies examined in this audit have not managed all their advertising and communications activities in an accountable and transparent way. Their relevant policies, procedures and practices were either not developed or were not consistent with government policies and requirements.

Deficiencies in agencies' management systems do not support timely and reliable reporting on advertising expenditure and outcomes.

DPC is required to monitor and report government advertising expenditure and outcomes to the Cabinet Standing Committee on Communication and Government Advertising (the Cabinet Standing Committee). However, the only reliable data it collects is media expenditure through the MAS contract it manages. DPC advised that it does not get all data on advertising expenditure required from agencies, and the data that it does get is inconsistent.

DPC found the total estimated government advertising expenditure to be 47 per cent more than media expenditure through the MAS contract. DPC also relies on incomplete data to report to the Cabinet Standing Committee on whether the government is meeting its commitment to reduce government advertising expenditure by 25 per cent by 30 June 2015. We conclude that the data reported to the Cabinet Standing Committee and the public on government advertising expenditure is unreliable.

Government and agency policies do not address all communications activities

This is the first time that we have examined other communications activities, such as the use of social media, sponsorships and partnerships.

Overall, whole of government and agency specific policies and procedures we examined do not adequately address the increasing use of digital and social media or the sponsorship and partnership arrangements agencies use as alternatives to traditional paid advertising campaigns. These gaps create the risk that the intent of government advertising principles are being eroded, and the use of public funds are not being managed in an accountable and transparent manner. We found that agencies had not complied with the government's social media policy, which requires social media content to be apolitical. For example, DNSW had posted political images on its social media accounts.

Recommendations

Department of Premier and Cabinet should:

1. by December 2015, develop a monitoring program to ensure agency compliance with government advertising requirements
2. by December 2015, revise the government advertising requirements to ensure its advice to agencies is clear and consistent, and the compliance process is efficient
3. by December 2015, enforce the requirement for agencies to report on campaign expenditure and outcomes at their completion
4. by December 2015, publish an advertising cost reporting template to assist in consistent and reliable data collection across agencies
5. by December 2015, publish an advertising campaign evaluation template to assist agencies to report on campaign outcomes
6. by December 2015, improve transparency of reporting on the cost of government advertising campaigns by publishing both the approved advertising campaign budgets and the actual expenditure
7. by December 2015, publish a policy and guidelines for sponsorship and other similar arrangements
8. by December 2015, review and update government advertising requirements to ensure they reflect current advertising practices, and address the diverse range of advertising and communication activity, including digital media.

Sydney Opera House should:

9. by December 2015, ensure its marketing procurement practices are consistent with its procurement policies to better demonstrate value for money in procuring its advertising services
10. by December 2015, implement 6-monthly reviews of procurement practices to ensure staff are complying with them, particularly in relation to issuing free tickets in conjunction with procurement
11. by December 2015, use the government central MAS contract for media planning and buying
12. by December 2015, report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign
13. by December 2015, formalise its existing campaign management processes to set out minimum requirements for managing advertising campaigns
14. by December 2015, include procedures to ensure content complies with government advertising requirements, and internal processes align with the certification statement for government advertising campaigns. This would also facilitate consistent and complete documentation.

Destination NSW should:

15. immediately ensure that related advertising campaigns are not inappropriately split to avoid the threshold for cost benefit analysis
16. by December 2015, improve its policies to better demonstrate it achieves value for money in advertising and marketing arrangements
17. by December 2015, report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign
18. by December 2015, formalise existing campaign management processes to set out minimum requirements for managing advertising campaigns
19. by December 2015, include procedures to ensure content complies with government advertising requirements, and internal processes align with the certification statement of government advertising campaigns. This would also facilitate consistent and complete documentation
20. by June 2016, improve its management systems to support efficient and reliable tracking of its marketing programs and advertising campaigns.

The Trade and Investment, Regional Infrastructure and Services cluster agencies should:

21. by December 2015, use the government central MAS contract for media planning and buying
22. by December 2015, report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign
23. by December 2015, establish policies and procedures that set out minimum requirements for managing advertising campaigns to ensure they comply with government advertising requirements, and internal processes align with the certification statement for government advertising campaigns
24. by December 2015, establish policies and procedures to govern their digital media content to ensure it is accurate and appropriate prior to publishing
25. by June 2016, review their own policies and ensure they comply with ICAC guidelines and DPC policy, and address potential risks specific to their agency in relation to sponsorships and other similar arrangements.

Introduction

1. Government advertising in New South Wales

1.1 What is government advertising?

Government advertising is used to inform the community of government services and programs and any changes to them. It is also used to address social and health issues by influencing behaviours.

The *Government Advertising Act 2011* (the Act) defines government advertising campaigns as:

- the dissemination to members of the public of information about a government program, policy or initiative, or about any public health or safety or other matter, that:
 - is funded by, or on behalf of, a government agency, and
 - is disseminated under a commercial advertising distribution agreement by means of radio, television, the Internet, newspapers, billboards, cinemas or other media.

Government advertising campaigns may include one or more types of media and may be partly funded by industry or event partners. These campaigns may also be only one part of an agency's broader communications and marketing plan.

NSW Government advertising activities are governed by the requirements contained in the:

- *Government Advertising Act 2011*
- Government Advertising Regulation 2012
- NSW Government Advertising Guidelines (the Guidelines)
- NSW Government Advertising Handbook (the Handbook).

The NSW Government has set this regulatory framework to prohibit party-political material in government advertising, and to ensure that communications across all agencies are well coordinated, effectively managed and responsive to the public's diverse information needs.

The key government advertising requirements were in place as policies before the Act commenced, in October 2012, and continue to apply. These include:

- a peer review of advertising campaigns likely to cost more than \$50,000
- Cabinet Standing Committee on Communications and Government Advertising (Cabinet Standing Committee) approval for advertising programs with a budget greater than \$1 million
- a cost benefit analysis conducted for advertising campaigns if the cost is likely to exceed \$1 million
- the agency head signing an advertising compliance certificate
- a prohibition on using government advertising for political purposes.

In addition, the Act introduced a mechanism to recover costs from a political party for a breach of the prohibition on political advertising in section 6.

Exhibit 1: Inappropriate use of publicly funded advertising

The Act prohibits a government advertising campaign from:

- being designed to influence support for a political party
- including material that contains the name, or gives prominence to the voice or image of a Minister, any other member of Parliament or a candidate for an election to Parliament
- including material with the name, logo or any slogan of a political party.

Therefore, an advertisement cannot make references to the name of the Premier or governing party when describing the government, for example: the “Smith Government”.

Further, the following are not permitted in respect of a government advertising campaign:

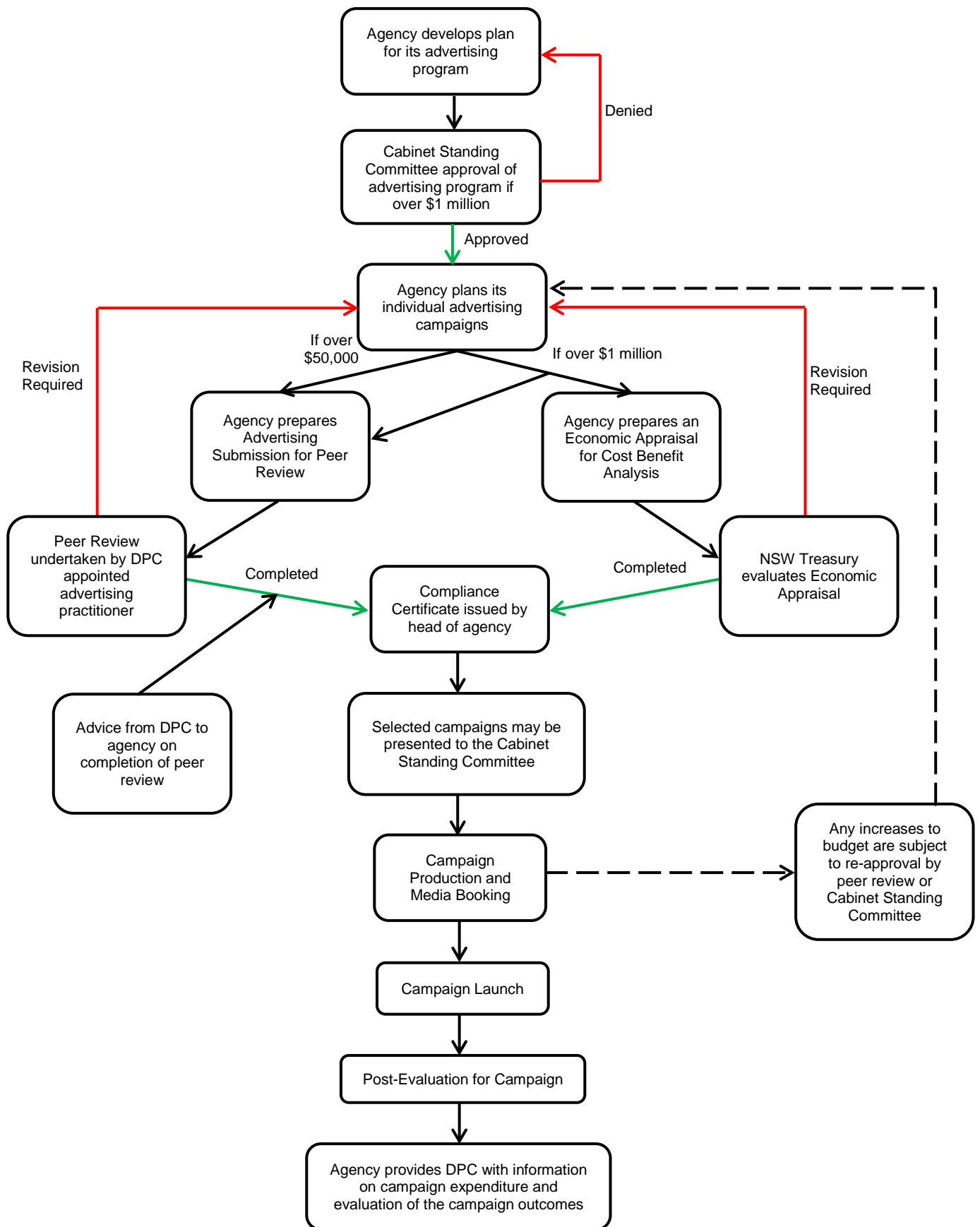
- the method or medium of advertising is excessive or extravagant in relation to the objective being pursued
- a group (such as a community campaign group or organisation) is being disparaged or held up to ridicule.

Source: Department of Premier and Cabinet 2014.

The Guidelines provide further details on some of the requirements, such as the cost benefit analysis and peer review.

The Handbook reflects the requirements of the Act and Guidelines, and explains the key responsibilities of government agencies and DPC.

Exhibit 2: Government advertising campaign process as at June 2014



Source: Audit Office research 2015.

1.2 Other communication activities

Agencies are increasingly using other communication and marketing activities, in addition to traditional paid advertising campaigns. These include:

- maintaining their own websites, including social media and mobile phone applications
- sponsorships and promotional partnerships
- publications
- events and exhibitions
- media releases and announcements
- information programs and education campaigns.

These activities are not subject to government advertising requirements as defined in the Act. Notwithstanding this, we expect agencies to conduct these activities in accordance with the same principles of accuracy, appropriateness (apolitical), need, and cost-efficiency.

Other policies and guidelines on advertising and communications, which may apply, include:

- Economic Appraisal Guidelines - Economic appraisal guidance for government advertising
- NSW Government Social Media Policy and Guidelines
- NSW Government Web Guidelines
- NSW NOW and NSW Government Branding Style Guide
- Independent Commission Against Corruption (ICAC) Sponsorship in the public sector guidelines
- ICAC Direct negotiation guidelines.

1.3 Responsibility for advertising and communications

Department of Premier and Cabinet

DPC coordinates and oversees government advertising. It is responsible for monitoring implementation of advertising in accordance with government advertising requirements. It does this by:

- managing the peer review process
- supporting the Secretariat of the Cabinet Standing Committee
- providing guidance on advertising processes and policies
- monitoring and reporting on expenditure to ensure that government agencies adhere to government advertising cost saving initiatives
- reporting on advertising expenditure and evaluation results to the Cabinet Standing Committee.

Government agencies

Government agencies are accountable for complying with government advertising and other relevant requirements when developing and implementing their government advertising campaigns and communication activities.

The agency head must, prior to a government advertising campaign being disseminated, certify that the campaign:

- complies with the Act, Regulations and Guidelines
- contains accurate information
- is necessary to achieve a public purpose and is supported by analysis and research
- is an efficient and cost-effective means of achieving the public purpose.

Importance of accountability systems

Given the significant amount of public money spent on government advertising and communications, strong accountability mechanisms are required to assure both Parliament and the community that agencies are using this money effectively, efficiently and economically. The discretionary nature of expenditure on advertising and communications also requires high levels of accountability.

Agencies should have accountability systems in place to demonstrate probity, appropriateness and accountability in all communication activities. The NSW Ombudsman's Office developed a good accountability system model for agencies to adopt.

Exhibit 3: The importance of accountability systems

Proper accountability enhances public confidence in government.

To be properly accountable, agencies should ensure that their policies and processes are as clear and transparent as possible and that they keep comprehensive records of their activities.

Agencies should have appropriate internal governance structures, systems and practices in place to ensure that:

- staff are held properly responsible and accountable for their conduct, performance and use of public resources
- compliance with applicable procedures and practices is effectively recorded and monitored
- activities are carried out in ways which are legal, fair, reasonable and professional.

Public officials make and keep full and accurate records of their official activities. Good record keeping assists in improving accountability and provides for transparent decision-making. Records must be maintained as evidence of business activities and transactions. This evidence, which comprises the corporate memory of the agency and its narrative history:

- enables the agency and its staff to meet legislative and regulatory requirements
- protects the interests of the agency and the rights of staff and members of the public
- supports better performance of business activities throughout the agency by documenting organisational activities, development achievements and facilitating consistency, continuity and productivity in management and administration
- provides protection and support in litigation, including better management of risks associated with the existence or lack of evidence of agency activity
- supports research and development activities.

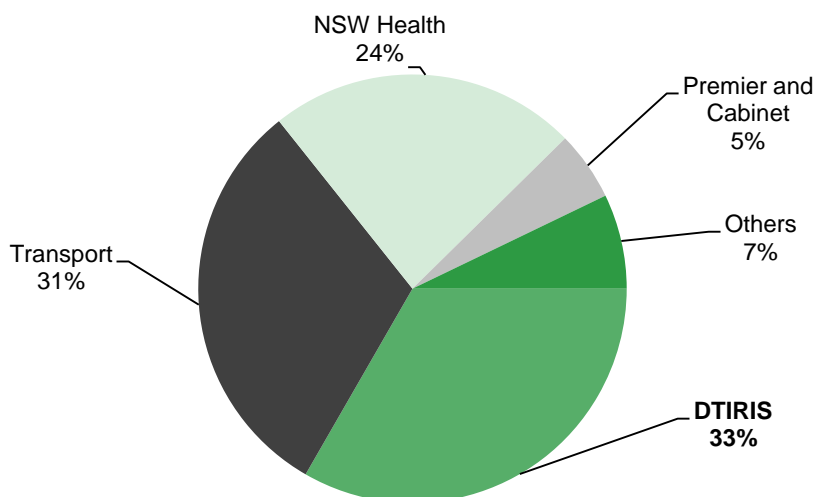
Source: NSW Ombudsman 2010.

Government advertising is a perennial issue for Auditors-General. Of all the things that agencies spend public funds on, advertising is one that attracts controversy and public debate. The importance of strengthening accountability and transparency has been raised in Western Australia and Victoria in recent years.

1.4 What is this audit about?

Our audit focused on agencies in the Trade and Investment, Regional Infrastructure and Services (DTIRIS) cluster. In the three years to 2013-14, DPC estimated the value of DTIRIS' campaign advertising expenditure was \$64.6 million, or around 33 per cent of the NSW government's total campaign advertising expenditure for this period.

Exhibit 4: Estimated advertising campaign expenditure by cluster, 2011-12 to 2013-14



Source: Department of Premier and Cabinet 2015.

We examined two DTIRIS cluster agencies in detail, DNSW and SOH. This was supplemented by information on how the following DTIRIS cluster agencies manage government advertising and communication activities:

- Department of Trade and Investment, Regional Infrastructure and Services (the Department) (lead agency)
- Art Gallery of NSW Trust
- Australian Museum Trust
- Independent Liquor and Gaming Authority
- Local Land Services
- Library Council of NSW
- NSW Food Authority
- Trustees of the Museum of Applied Arts and Sciences.

Policies and procedures play a strong governance role, providing clear, documented directives on the principles which dictate and guide the actions and behaviours of all staff. We looked at whether DTIRIS cluster agencies had established adequate policies and procedures for campaign advertising, digital media, sponsorships, partnerships, and other similar arrangements.

Information systems are also an important aid in complying with an agency's accountability obligations and supporting the performance of an agency's activities and functions. We examined whether DNSW and SOH had information systems that adequately support their accountability functions by capturing and reporting relevant and timely information on advertising and communications activities, including costs. We also reviewed the costing system used for government advertising and communications activities in the other DTIRIS cluster agencies.

We also examined DPC's role in effectively administering government advertising requirements, and in monitoring and reporting on the cost and effectiveness of government advertising and other communications activities.

See Appendix 2 for more information on the audit scope and focus.

Key findings

2. Regulation of government advertising

2.1 Effectiveness of government advertising requirements

The current regulatory framework is adequate to hold agencies to account for ensuring that their proposed advertising activities are necessary, cost effective and comply with government advertising requirements.

However, we found a number of weaknesses in how the framework is applied. DPC's role in monitoring implementation of government advertising requirements also requires improvement. Unclear and inconsistent application of government advertising requirements makes it hard for agencies to comply.

Recommendations

By December 2015, DPC should:

- develop a monitoring program to ensure agency compliance with government advertising requirements
- revise the government advertising requirements to ensure its advice to agencies is clear and consistent, and the compliance process is efficient.

DPC is responsible for monitoring implementation of government advertising in accordance with the Handbook. It assists agencies to comply with government advertising requirements by publishing guidelines on its website. It also provides informal advice to agencies as they submit proposals for peer review and approval.

Government advertising requirements have a number of compliance mechanisms in place, such as DPC's monitoring role, peer review and approval processes.

We reviewed DPC's role in monitoring implementation of advertising in accordance with the government advertising requirements.

DPC needs to improve its compliance monitoring

We identified examples of non-compliance with government advertising requirements, which demonstrated weaknesses in how compliance issues are being addressed by DPC and the peer review teams.

For example, in several of its peer review and approval submissions, SOH requested exemption from the requirement to use the central government MAS contract for media planning and buying. Even though DPC cannot grant this exemption, SOH's advertising submissions were approved by DPC without formally noting this issue. DPC advised that it worked with SOH to encourage compliance outside the peer review process. However, this was not explicit in the peer review and approval documentation.

DPC relies on agencies to comply with government advertising requirements. It advised that it follows up agencies when it becomes aware of compliance issues, and works collaboratively with agencies to encourage compliance. However, DPC advised that it faces reluctance from some agencies to comply with all requirements.

DPC does not systematically monitor agency compliance with government advertising requirements. This means it cannot be confident that all government advertising campaigns greater than \$50,000 are submitted for peer review and approval as required. For example, cultural institutions did not comply with government advertising requirements until recently (this is discussed in more detail in section 2.4).

In addition, agencies must resubmit advertising campaigns for peer review and/or approval by the Cabinet Standing Committee if there is any increase in the budget. DPC advised that this does not occur very often. However, as DPC does not receive data from all agencies once advertising campaigns are completed, it does not know whether agencies are complying with this requirement.

DPC also advised that agencies do not always submit campaign expenditure and evaluation results following completion of their advertising as required. This is discussed in more detail in section 3.1.

DPC advised that it does not have the framework to enforce compliance or impose sanctions under the existing arrangements, which has impacted its role in monitoring implementation of government advertising requirements.

In our view, DPC should do more to improve monitoring of government advertising requirements to provide greater certainty that compliance issues are identified and reported. We found that DPC does not have a monitoring program to systematically identify and follow-up non-compliance. An effective monitoring program would enable it to:

- identify agencies that undertake relevant advertising activities but do not fully comply with requirements
- encourage compliance through regular feedback to the agencies and follow-up mechanisms
- report quarterly to the Cabinet Standing Committee on those agencies that fail to fully comply with requirements.

Inconsistencies in applying government advertising requirements creates risks of non-compliance

In an effort to improve flexibility and efficiency, DPC introduced a number of changes to the government advertising approval process. For example, in June 2014, changes introduced included:

- the Cabinet Standing Committee considering agencies' annual advertising programs, rather than individual advertising campaigns over \$1 million
- agency submissions for approval being considered before, but subject to, the other requirements of peer review, cost benefit analysis and compliance certification
- DPC encouraging annual program-based peer reviews, rather than a peer review of individual campaigns.

However, DPC has not adequately updated the Handbook and templates to reflect these changes. The inconsistency in advice to agencies may lead to confusion about what is required, and creates a risk of non-compliance.

Our review of SOH's 2014-15 and DNSW's 2013-14 submissions for approval of their proposed advertising campaign programs found that the approval process managed by DPC has not been consistently applied. For example:

- SOH had Cabinet Standing Committee approval for its 2014-15 annual advertising campaign program totalling \$3.3 million. This approval was subject to individual campaigns meeting compliance requirements, such as peer review and compliance certification.
- DNSW had Cabinet Standing Committee approval for its 2013-14 annual advertising campaign program. However, it was not required to complete compliance requirements for each individual campaign. Instead, one peer review report and compliance certificate covered the 76 individual campaigns totalling \$19.8 million.

The Act requires agencies to conduct a cost benefit analysis where the cost of an advertising campaign is likely to exceed \$1 million. NSW Treasury provides guidance on conducting a cost benefit analysis for government advertising. NSW Treasury also reviews the cost benefit analysis before advertising campaigns are launched.

The Handbook leaves it open for agencies to decide whether to conduct a cost benefit analysis for a program of advertising campaigns or for individual advertising campaigns. NSW Treasury guidance is applied to individual advertising campaigns. NSW Treasury considers that where an agency has a program of advertising campaigns, and the various campaigns are both clearly unrelated and target different markets, campaigns should not be aggregated. However, this is not explained in the Handbook. As we found in section 2.3, without clear guidance there may be a perception that agencies split campaigns into smaller segments to avoid the requirement to conduct a cost benefit analysis.

Lack of clarity in government advertising requirements leads to inconsistent practices

We found that some parts of the Handbook require further clarification to assist agencies to comply with government advertising requirements.

The definition of government advertising is still unclear to agencies. DPC has received queries from agencies on whether their communication activities fall within the Act's definition of government advertising. DPC advised that it is currently updating the Handbook to clarify when a proposed publication or campaign is a government advertising campaign under the Act.

There needs to be better clarity and guidance on advertising campaigns undertaken by third parties on behalf of agencies to ensure that such advertising activities also comply with government advertising requirements. The Handbook provides the following limited information:

Government agencies should be conscious that partnership arrangements (such as campaigns conducted on behalf or with the endorsement of a Government agency but funded solely or partly by a non-government entity) that feature Government branding, may fall within the definition of a Government advertising campaign under the Act and therefore be subject to the requirements of the Act. Agency heads are responsible for this determination.

There are other government policies that are relevant to agencies' advertising, marketing and communications activities that are not referred to in the Handbook. These include the Social Media Policy and ICAC guidelines on sponsorships and direct negotiations.

In addition, while DPC advised that agencies should resubmit advertising campaigns for peer review if costs exceed the approved budget, this requirement is not reflected in the Handbook.

There are inefficiencies in the compliance process

Some agencies we reviewed raised concerns about the additional work and inefficiencies involved in complying with government advertising requirements. DPC's view is that it should not take agencies extra resources to prepare for peer review and campaign approval, as the information requested is already available as part of an agency's internal approval processes. It is agencies' responsibility to meet their obligations as efficiently as possible.

However, we found that in some cases, agencies present the information in a different format. For example, DNSW advised that it takes approximately three months' work to prepare the advertising submission and attachments for its annual program of more than 70 advertising campaigns. We found that DNSW re-works its internal advertising campaign documentation to meet government advertising requirements. This is because the paid advertising component that must meet government advertising requirements is a sub-set of its advertising and communication programs. DNSW extracts the paid advertising component information from its documentation to fulfil peer review and approval requirements according to the submission template. This is an inefficient process.

We found that the agencies we reviewed had not incorporated government advertising requirements into their processes. Most agencies also had not established good management systems to enable them to efficiently meet their reporting obligations. This is discussed in sections 2.2, 2.3 and 3.1.

The Act commenced in 2012 and a statutory review is due after 13 September 2016. DPC advised that the threshold will be considered as part of the statutory review. It also acknowledged that the peer review process is due for review. It is considering a range of improvements to streamline the peer review process, including desktop or in-house reviews of lower value campaigns, and simplifying templates.

As part of these reviews DPC should ensure that the compliance processes put in place are an efficient way to meet the government's policy objectives, and are clearly and consistently reflected throughout the government advertising requirements.

2.2 SOH compliance with government advertising requirements

Sydney Opera House carried out most of its government advertising activities effectively, economically, and efficiently, but has not complied with all government advertising requirements, such as reporting expenditure and outcomes. It has not breached the prohibition on political advertising in section 6 of the Act.

Recommendations

By December 2015, SOH should:

- ensure its marketing procurement practices are consistent with its procurement policies to better demonstrate value for money in procuring its advertising services.
- implement 6-monthly reviews of procurement practices to ensure staff are complying with them, particularly in relation to issuing free tickets in conjunction with procurement.

To fully comply with government advertising requirements, SOH should, by December 2015:

- use the government central MAS contract for media planning and buying
- report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign
- formalise its existing campaign management processes to set out minimum requirements for managing advertising campaigns
- include procedures to ensure content complies with government advertising requirements, and internal processes align with the certification statement for government advertising campaigns. This would also facilitate consistent and complete documentation.

The audit examined SOH's *Summer at the House 2014-15* advertising campaign program that ran from December 2014 until March 2015, with an approved budget of \$928,642. Within this program, we checked compliance with government advertising requirements by examining documentation for *The Christmas Show* advertising campaign. See Appendix 3 for more details of SOH's advertising activities and the campaigns we reviewed.

Campaign submission satisfied the peer review and approval process

SOH had Cabinet Standing Committee approval for its 2014-15 annual advertising campaign program totalling \$3.3 million. This approval was subject to individual campaigns meeting compliance requirements, such as peer review and compliance certification.

The peer review concluded that there was a clear need for the 2014-15 *Summer at the House* program of activity. The program was endorsed by SOH's Chief Executive Officer.

Exhibit 5: Demonstrating the need for the *Summer at the House* advertising campaign

SOH believes that the *Summer at the House* advertising campaign is critical to sustaining and growing attendance at the SOH. In previous years, attendance numbers during *Summer at the House* typically accounted for more than half of *SOH Presents* audiences in a financial year.

SOH advised that advertising across these campaigns is essential to meet revenue targets from ticket sales. This revenue underpins SOH's significant financial investment in curating and delivering these events. SOH estimated that the results for this advertising campaign would generate 163,715 ticket purchases and nearly \$10 million in gross box office revenue.

Source: Sydney Opera House 2014.

SOH's activities were efficient

In examining whether SOH's advertising activities were efficient, we looked at how it presents its advertising campaigns to meet government advertising requirements, as well as its policies, procedures and record keeping. We found three areas that indicate SOH's activities were efficient for the files we examined.

Documentation was readily available to the audit team. Campaign documentation appeared complete and reasonable and we were able to find sufficient evidence demonstrating that staff had followed procedures set out in SOH processes. We did not find gaps in its record keeping for the files we reviewed, and there did not appear to be unnecessary duplication in records or processes.

During separate interviews with SOH staff and managers, we noted consistency in their responses to questions about SOH's campaign development and approval procedures. This was also reflected in the documentation we reviewed. This indicates a consistent approach and shared understanding of procedures across different SOH business units. It also demonstrates that its practices are efficient.

SOH seems to have reasonable internal systems for its partnership team to advise campaign managers of the contra (media services provided in lieu of, or as well as, cash payment) provided as part of a partnership agreement. It also seems to have a reasonable way to allocate and account for the use of the contra for specific campaigns. This ensures that it uses all contra provided before the agreement expires and minimises use of additional, paid media placement costs.

We found that even when a campaign used the contra provided in a partnership agreement, SOH still prepared a project business case for internal approval. SOH is now also submitting campaigns for peer review (see *Summer at the House* campaign).

Gaps in demonstrating value for money

SOH met most of the criteria we examined to assess whether its advertising activities were economical. For example, SOH:

- used its extensive ticketing sales database as its research base to identify and market to its target potential audiences
- used existing creative material and lessons learned from previous campaigns
- conducted a post-campaign evaluation for the reviewed campaign.

The Handbook requires all agencies to book all media placements via the government central MAS contract managed by DPC. However, SOH did not comply with this requirement. SOH has existing sponsorship agreements with media suppliers and uses a range of preferred media suppliers for its advertising and marketing activities. SOH advised that it plans to fully comply with the requirement to use the MAS contract by July 2015.

SOH's procurement policy is designed to ensure its procurement delivers value for money. However, we found the value for money assessments and procurement decisions for direct advertising placement could be better documented.

In addition, marketing practices were not consistent with SOH policy. For example, we found that campaign managers entered into transactions, outside SOH policy with media suppliers and that these transactions were not accounted for appropriately. Where there was been insufficient advertising campaign budget to cover the cost of a media service, campaign managers negotiated to supply event tickets to suppliers for a discount to the cost of a media service.

SOH confirmed that these ad-hoc transactions were contrary to its policy, and that it may undermine SOH's existing media partnerships and budgetary controls. Since we raised this issue, SOH has quantified the extent of these transactions. It found that, as at May 2015, these arrangements in 2014-15 had resulted in 239 tickets provided to suppliers at a value of around \$13,000, out of a total of 416,853 tickets. SOH advised that this was in exchange for a \$64,000 discount on quoted media costs.

In line with its procurement policy, SOH should ensure its marketing staff:

- use the government central MAS contract
- establish a pre-qualified marketing services supplier panel for common services that may not be provided via the MAS contract
- document its evaluation of services or value for money before renewing contracts or agreements with media suppliers
- document competitive quotes it obtains for advertising and marketing services
- document how value for money has been ensured, when only one suitable provider or service is available.

SOH's operational business plan includes targets to reduce marketing expenditure. Trend data for the last three financial years demonstrates that marketing cost, as a proportion of box office revenue, is decreasing. However, without establishing marketing practices consistent with SOH's procurement policy, there is risk of not getting best value and inconsistent or inappropriate practices.

SOH engages in direct negotiations with media suppliers to secure media, marketing and advertising activities. However, SOH's policy to manage these arrangements has not been updated in line with ICAC guidelines.

Lack of procedures increases risks of inappropriate content and non-compliance

SOH's current procedures do not address how it ensures that government advertising requirements are met when planning and publishing advertising campaigns.

SOH has guidance and templates for developing a marketing strategy and plan, ongoing assessment of campaign progress against actual and forecasted ticket sales, and states the creative and digital requirements to market an event. However, in the absence of written policy it is unclear which templates, approval points, consultation stages with senior management, and documentation are mandatory throughout the campaign process. It is also unclear when changed processes and templates became effective.

In addition, the guidance does not set out the minimum requirements and appropriate documentation needed to ensure that processes support the agency head's certification that advertising campaigns:

- comply with the Act, Regulations and Guidelines
- contain accurate information
- are necessary to achieve a public purpose and is supported by analysis and research
- are an efficient and cost-effective means of achieving the public purpose.

We also found that the creative content approval procedure did not include checking whether the content was appropriate and consistent with government advertising requirements.

We found that *The Christmas Show* advertising campaign did not breach the prohibition on political advertising in section 6 of the Act. However, without a final checkpoint, there is a risk that content may be inappropriate when published.

In the absence of comprehensive procedures, there is increased risk of non-compliance with government advertising requirements and inconsistent practices.

SOH did not report to DPC on campaign expenditure and outcomes

Following the completion of an advertising campaign, agencies are required to provide information to DPC on expenditure and outcomes.

Agencies should already be complying with this requirement, even though DPC only recently commenced requesting this information, as noted in section 2.1. We acknowledge that SOH has responded to DPC's recent requests, reporting on all expenditure by campaign for 2013-14, and actual against budget for 2014-15. However, it does not report campaign expenditure and outcomes to DPC at the completion of each advertising campaign.

We found that SOH has established processes and systems that would enable it to provide this information to DPC efficiently. For example, SOH evaluates all events, upon their completion. The evaluation report includes:

- analysis of actuals against project objectives and targets, such as paid audience targets, and revenue and expenditure targets (including marketing cost)
- audience insights and analysis against expectations
- digital media analysis
- learnings against key areas.

However, evaluation reports are not currently conducted for all SOH advertising campaigns. SOH typically only evaluates larger advertising campaigns. SOH should ensure its procedures require an evaluation of all campaigns.

SOH also has adequate systems in place to record and report expenditure and outcome information. These systems include an extensive sales database and an internal event costing system that enables timely and reliable financial information on each of its campaigns against approved spending.

In July 2014, SOH implemented a new financial management system (called MADGE) for its performances. MADGE was developed to streamline and automate SOH-wide budgeting and forecasting for all *SOH Presents* events and festivals. The system links with the SOH financial management system and is used to generate monthly performance reports. Campaign Managers use MADGE to monitor progress against their marketing budget. This system would be an efficient means of reporting to DPC on actual expenditure against approved campaign spending levels.

2.3 DNSW compliance with government advertising requirements

DNSW carried out most of its government advertising activities effectively, economically, and efficiently, but did not comply with all government advertising requirements, such as reporting expenditure and outcomes. It has not breached the prohibition on political advertising in section 6 of the Act.

Recommendations

By December 2015, DNSW should improve its policies to better demonstrate it achieves value for money in advertising and marketing arrangements.

By June 2016, DNSW should improve its management systems to support efficient and reliable tracking of its marketing programs and advertising campaigns.

To fully comply with government advertising requirements, DNSW should:

- immediately ensure that related advertising campaigns are not inappropriately split to avoid the threshold for cost benefit analysis
- by December 2015, report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign
- by December 2015, formalise existing campaign management processes to set out minimum requirements for managing advertising campaigns
- by December 2015, include procedures to ensure content complies with government advertising requirements, and internal processes align with the certification statement of government advertising campaigns. This would also facilitate consistent and complete documentation.

Our audit focused on DNSW's activities in relation to its 2013-14 advertising campaign program. This consisted of 76 individual advertising campaigns, with a combined approved budget of \$19.8 million planned for delivery from September 2013 to June 2014. Within this program, we checked compliance with government advertising requirements by examining documentation for the *Sydney in Summer* and the *Short Breaks – Couples and Families* advertising campaigns. See Appendix 4 for more details of DNSW's advertising activities and the campaigns we reviewed.

Campaign submission satisfied the peer review and approval process

Since 2013-14, DNSW has prepared a single submission for approval by the Cabinet Standing Committee combining all its proposed advertising campaigns for the related financial year.

Due to the size of its annual program, and the logistics of preparing for and presenting to 76 separate peer review panels, DPC allowed DNSW to present its 2013-14 annual advertising campaign program for a single peer review process.

DPC reported that the peer review of the 2013-14 annual advertising campaign program was completed satisfactorily. It was endorsed by the Chief Executive of DNSW and approved by the Cabinet Standing Committee.

DNSW advised that the peer review and Cabinet approval process limits its ability to respond to high potential marketing opportunities at short notice. This was supported by a recommendation of the Visitor Economy Taskforce in 2012 that DNSW be exempt from the peer review and Cabinet Standing Committee approval process. The government has not granted this exemption, and DPC does not have the authority to grant an exemption from this legislative requirement.

DNSW appears to have avoided the requirement to conduct cost benefit analyses

The Act requires agencies to undertake a cost benefit analysis for any advertising campaign where the likely cost will exceed \$1 million. NSW Treasury reviews the cost benefit analysis before advertising campaigns are launched.

NSW Treasury considers that where an agency has a program of advertising campaigns and the various campaigns are both clearly unrelated and target different markets, campaigns should not be aggregated.

In our view, to meet the test of whether advertising campaigns have not been split to avoid the requirement for a cost benefit analysis, the agency must demonstrate that the individual campaigns are both clearly unrelated and target different markets.

DNSW's 2013-14 annual program consisted of 76 individual advertising campaigns, each with a budget of less than \$1 million. Hence, DNSW did not complete any cost benefit analyses.

We found that DNSW's files indicated that the 76 individual advertising campaigns target different markets. However, our review also found that many were in fact related. For example:

- DNSW's 2013-14 annual advertising program submission grouped the 76 individual advertising campaigns into five major campaign categories, as shown in Exhibit 6
- the Sydney Seasonal Campaigns category included a 'Sydney in Summer' campaign with a budget of \$950,000 and a 'Sydney in Winter' campaign with a budget of \$950,000
- the Regional NSW Campaigns category included a 'Short Breaks – Couples' campaign with a budget of \$850,000 and a 'Short Breaks – Families' campaign with a budget of \$900,000
- the International Markets category includes DNSW's contribution to campaigns by airline partners in various countries listed as separate campaigns. For example, Qantas New Zealand, Qantas China, Qantas Indonesia, Qantas Singapore, Qantas Japan, Qantas UK, Qantas North America (for travel November to February), and Qantas North America (for travel March to June). We found that DNSW has one three year partnership agreement with Qantas that includes these campaigns, the aggregate of which would exceed \$1 million.
- DNSW's partnership agreement with Qantas lists one North America campaign. However, this has been split into two North America campaigns in the 2013-14 annual advertising program submission, appearing to avoid the requirement for cost benefit analysis.

Exhibit 6: Destination NSW's 2013-14 annual advertising campaign program

Campaign group	DNSW approved advertising budget 2013-14
Sydney Seasonal Campaigns	\$2,200,000
Regional NSW Campaigns	\$2,650,000
Event Campaigns	\$5,175,000
Partnership Campaigns (domestic Markets)	\$2,800,000
International Markets	\$7,020,000
Total	\$19,845,000

Source: Destination NSW 2015.

In addition, there were inconsistencies between the 2013-14 Cabinet Standing Committee submission and its management files. For example, the ‘*Sydney in Summer*’ campaign totalled \$950,000 in the Cabinet Standing Committee submission for approval of its 2013-14 annual program. However, internal files show that this campaign was related to other campaigns. Specifically:

- the ‘*Sydney in Summer 2013 Campaign Overview*’ proposed a total campaign budget of \$1.95 million combining the ‘Sydney in Summer’, ‘NSW in Summer’ and ‘It’s ON!’ campaigns, which were all in market during the same period of time
- the *Post Evaluation Report* combined ‘Love Every Second’ in Sydney 2013-14, including an ‘It’s ON!’ campaign and the ‘Sydney in Summer’ and ‘NSW in Summer’ insert, and outlined the actual cost of the group as follows:

Exhibit 7: Combined post campaign evaluation report

Campaigns	Actual expenditure
‘Love Every Second’	\$951,791
‘It’s ON!’	\$744,719
‘Sydney in Summer’ and ‘NSW in Summer’ Insert	\$400,000
TOTAL	\$2,096,510

Source: Destination NSW 2015.

In 2011, DNSW sought NSW Treasury advice on the application of the cost benefit analysis requirement. NSW Treasury advised that none of the individual campaigns in DNSW’s 2011-12 annual program met the threshold for a cost benefit analysis. However, in the same advice, NSW Treasury noted that judgement was required in applying the threshold to avoid the perception that campaigns had been broken down into smaller units to avoid the requirement for a cost benefit analysis.

Gaps in demonstrating value for money

DNSW met most of the criteria we examined to assess whether its advertising activities were economical. For example:

- one of the campaigns was a repeat campaign that used post-campaign evaluation information to test whether creative concepts had worked based on independent research
- DNSW’s campaign strategy and approach for the 2013-14 annual advertising campaign program was cost-effective, as many campaigns in the program were reported to be repeat campaigns, using existing creative material and lessons learned from previous campaigns
- DNSW had conducted post-campaign evaluations.

DNSW used a combination of preferred media suppliers, sponsorship, partnership, direct negotiations and event investment arrangements for its advertising and marketing activities.

DNSW had some good procurement practices. It used the government central MAS contract for some services. For other services, it established a marketing services panel of suppliers following an open tender process. Its procurement policy requires staff to obtain competitive quotes from its marketing services panel suppliers if the value of services will exceed \$150,000.

DNSW engages in direct negotiations with proponents to secure some of its marketing opportunities. These are managed in accordance with its sponsorship policy and partner guidelines, rather than its procurement policy. However, we found that its sponsorship policy and partner guidelines were not consistent with all ICAC principles for direct negotiations. For example, they do not address how to mitigate risks and demonstrate value for money in the absence of competitive processes. We also found that the value for money assessments and decisions for these arrangements could be better documented.

There are opportunities for DNSW to improve its practices by including in its policies the requirement to evaluate services and value for money when entering or renewing these arrangements.

See section 3.2 for more details on sponsorships, partnerships and other similar arrangements.

Lack of policy increases risks of inappropriate content and non-compliance

DNSW has established procedures and useful templates to guide staff in most aspects of campaign management. However, its current procedures do not address how it ensures that government advertising requirements are met when planning and publishing advertising campaigns.

While DNSW has guidance for its campaign process, our review of two campaign management files found it was difficult to confirm that procedures were followed. We also found weaknesses in its campaign process. For example, within its approval system:

- while there were multiple signatories on file, it is unclear what each signing officer was accountable for, increasing inefficiencies in the process and the risk of areas being overlooked
- checkboxes were left un-ticked, required responses were left blank, and documents were not always signed
- there was minimal information documented on the approval template. It was unclear how multiple approvals related back to the overall campaign strategy and approved budget
- there were variations of the approval template, and it was not clear which was the current version.

DNSW has an approval process in place that involves senior management approval of content and marketing related costs. DNSW acknowledges that the approval process could be better documented to promote better transparency and accountability.

In the absence of a written policy and more detailed procedures for campaign management, it is unclear which templates, approval points, consultation stages with senior management, and documentation are mandatory throughout the campaign process. It is also unclear when changed processes and templates became effective.

In addition, the guidance does not ensure that advertising campaigns have appropriate documentation to support the agency head's certification that the advertising campaigns:

- comply with the Act, Regulations and Guidelines
- contain accurate information
- are necessary to achieve a public purpose and is supported by analysis and research
- are an efficient and cost-effective means of achieving the public purpose.

We also found that the existing creative content approval did not include checking whether the content was appropriate and consistent with government advertising requirements.

We found that the *Summer in Sydney* and *Short Breaks* advertising campaigns did not breach the prohibition on political advertising in section 6 of the Act. However, without a final checkpoint, there is a risk that content may be inappropriate when published.

In the absence of comprehensive procedures, there is an increased risk of non-compliance with government advertising requirements and inconsistent practices.

DNSW has a sound Code of Conduct and Gifts, Hospitality and Ticketing Policy. Both documents are clear and transparent and cover minimum standards, roles and responsibilities. We encourage DNSW to use this model for its other policies.

Inadequate systems reduce transparency and accountability

DNSW lacks adequate management systems to allow it to efficiently and reliably track workflow and expenditure against approved plans for its advertising campaigns. This includes advertising campaigns that it undertakes with industry partners internationally and domestically.

DNSW uses local spreadsheets to track its marketing program (including advertising) and partnership campaigns. Different forms of 'trackers' are used, such as campaign budget trackers; value in kind trackers, and partnership trackers.

We found that these trackers are not sufficient project management or reporting tools for such large and complex functions. DNSW undertakes over 100 domestic and international advertising campaigns per year. It also works with industry partners and regional tourism organisations on cooperative marketing campaigns, valued at \$13.2 million in 2013-14.

We also found that DNSW had not established an adequate internal project costing system to enable timely and reliable financial information on each campaign against approved budget. DNSW was unable to easily and reliably report on actual expenditure for each of its 76 individual advertising campaigns against its combined approved budget of \$19.8 million. This provided limited transparency and accountability of advertising expenditure incurred.

DNSW advises that it can reliably report on financial information for campaigns using its tracker system. However, this is a manual process which increases the risks of errors due to the volume of data that must be aggregated and reconciled with the financial management system.

As mentioned in section 2.1, DNSW re-works its internal advertising campaign documentation to meet government advertising requirements. Better management systems to record and report on its workflow and expenditure would improve efficiencies.

The lack of integrated data means that DNSW cannot easily and reliably report on performance and financial information for advertising and communications activity. It also means that it cannot efficiently and reliably conduct transparent performance reporting on all its advertising campaigns internally or meet its external reporting obligations under government advertising requirements. This was discussed in section 2.1.

DNSW has recognised that limitations in its existing systems are a key business risk. It has advised that it intends to introduce project management tools to improve efficiencies and integrity, including the tracking of campaign advertising cost against approved budgets.

DNSW did not report to DPC on campaign expenditure and outcomes

Following the completion of an advertising campaign, agencies are required to provide information to DPC on expenditure and outcomes.

Agencies should already be complying with this requirement, even though DPC only recently commenced requesting this information, as noted in section 2.1. DNSW has responded to DPC's recent request by providing an effectiveness review on campaign activity for 2013-14. However, it does not report campaign expenditure and outcomes to DPC at the completion of each advertising campaign.

Nevertheless, we found that DNSW has some established processes that would enable it to provide this information to DPC. For example, DNSW evaluates all its advertising campaigns at their completion.

However, DNSW does not have an adequate system in place to provide timely and reliable financial information for each advertising campaign against approved budget.

2.4 The Department of Trade and Investment, Regional Infrastructure and Services and the DTIRIS cluster agencies

The Department had established policies and procedures that are consistent with some, but not all of the government advertising requirements. Some of the other agencies in the DTIRIS cluster had not established their own policies and procedures and did not make use of those available from the Department.

Recommendations

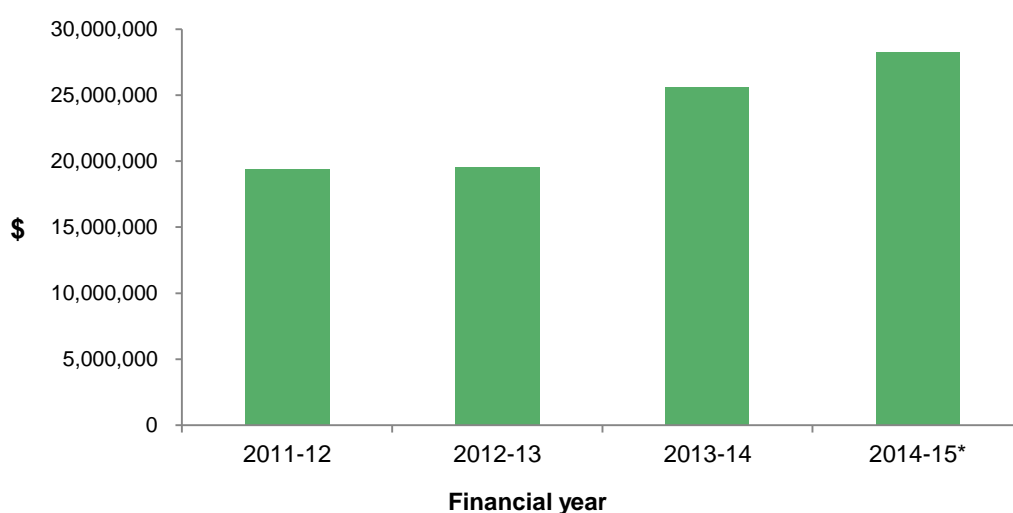
To fully comply with government advertising requirements, by December 2015, the DTIRIS cluster agencies should ensure they:

- use the government central MAS contract for media planning and buying
- report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign
- establish policies and procedures that set out minimum requirements for managing advertising campaigns to ensure they comply with government advertising requirements, and internal processes align with the certification statement for government advertising campaigns.

While our audit focused on SOH and DNSW, we also examined whether DTIRIS and its cluster agencies have established adequate policy and procedures (consistent with government policy and guidelines) for campaign advertising to support the agency head's compliance certificate.

DTIRIS cluster agencies have one of the largest advertising campaign budgets in the NSW government.

Exhibit 8: Estimated advertising campaign expenditure for the DTIRIS cluster 2011-12 to 2014-15



Key: * value of advertising campaign budgets peer reviewed, as at December 2014.

Source: Department of Premier and Cabinet 2015.

Increased risk of non-compliance due to lack of policy

The Department has a suite of policies and guidelines in relation to communications. Its Publishing Policy establishes a framework for the development and production of digital and printed published material. The Policy contains sufficiently broad procedures to enable it to be applied to different types of communication activities, including digital media and written material.

The Publishing Policy supports some of the key principles of government advertising requirements, such as efficiency and cost-effective planning of communication. However, it does not refer to government advertising requirements, and does not address all required principles. For example, the policy does not refer to the requirements that:

- published material should not be party-political
- advertising campaigns should be evaluated at their completion
- expenditure and outcome information should be reported to DPC.

Some DTIRIS cluster agencies did not have policies and procedures for the development and production of advertising campaigns.

Despite the availability of the Department's suite of relevant policies and procedures, most DTIRIS cluster agencies had not adopted, or referred to these. Without policies and procedures that reflect government advertising requirements, there is a risk that not all requirements are consistently complied with by cluster agencies.

Like SOH and DNSW, the requirement to report campaign expenditure and outcomes to DPC at the completion of each advertising campaign, is not consistently followed across the DTIRIS cluster. While DPC only commenced requesting this information from agencies in 2013-14, agencies should be complying with this requirement.

We acknowledge that, if requested, the agencies we reviewed are able to extract this information for an individual advertising campaign. However, their financial information systems had limitations which made this process inefficient. For example, project codes are not consistently used to capture relevant expenditure data for each advertising campaign.

Cultural institutions only recently commenced submitting advertising campaigns for peer review and approval

Cultural institutions in our review include the Sydney Opera House Trust, State Library of NSW, Australian Museum, Art Gallery of NSW, and Museum of Applied Arts and Sciences.

Until 2013, these cultural institutions assumed they were exempt from the requirement that advertising campaigns over \$50,000 be subject to peer review. They based this assumption on the nature of their advertising activities, which are to promote events and public participation.

DPC subsequently clarified that they were not exempt. Since this clarification, these cultural institutions have complied with this requirement.

Not all cluster agencies use the government central MAS contract

We found some DTIRIS cluster agencies did not comply with the requirement to use the government central media contract. Instead, they used a combination of sponsorship and other contractual arrangements with major media suppliers for advertising and marketing activities. There is a risk that these procurement arrangements do not demonstrate value for money.

Agencies must use the booking arrangements managed by DPC for media planning and media buying. In order to derive maximum discounts, the NSW Government utilises its aggregated media spend to negotiate with media suppliers.

Room for improved efficiencies with better strategic communication planning

The Department consists of a diverse range of divisions, and it is reasonable that the divisions have their own communications units and personnel. Each division is responsible for planning their communication activities.

Shared service arrangements in the Department aim to create efficiencies and reduce costs by centralising the delivery of services. A central communications team drives the strategic stakeholder communications and marketing for the Department. This involves:

- working closely with the Directors of each Divisional communications branch, providing expert advice to the Divisions as to the best cross-channel tactics, collateral and distribution mediums
- maintaining policies and procedures related to advertising and communication activities.

However, the performance of advertising and communication activities across divisions is not monitored by the Department and is not included in departmental key performance indicators.

Responsibility for communications planning and management rests with divisional communication teams. However, the Department has recognised the need for integrated communications. It advised that preliminary work has been undertaken to develop principles for an integrated approach to communications and marketing, including considering appropriate key performance indicators.

3. Managing government advertising and communications

3.1 Cost and effectiveness of advertising campaigns

DPC's oversight of government advertising activities is inconsistent. There is no system to capture total government advertising expenditure and outcomes. As a result, it is difficult to establish whether cost savings targets are being met, or whether government advertising is being used effectively. The full cost of NSW government advertising is currently not reported.

Recommendations

By December 2015, DPC should:

- enforce the requirement for agencies to report on campaign expenditure and outcomes at their completion.
- publish an advertising cost reporting template to assist in consistent and reliable data collection across agencies
- publish an advertising campaign evaluation template to assist agencies to report on campaign outcomes.
- improve transparency of reporting on the cost of government advertising campaigns by publishing both the approved advertising campaign budgets and the actual expenditure.

As part of assessing how advertising and communications activities are managed, we reviewed DPC's oversight and reporting of whole of government advertising expenditure and cost-saving initiatives.

Reporting of the cost saving target is not based on reliable data

In March 2011, the NSW Government made a commitment to reduce the cost of advertising by a minimum of 25 per cent by 2015 compared to the four years to March 2011. DPC estimated that in financial years 2008 to 2011, the total advertising spend was \$464.8 million. To achieve the target reduction, advertising expenditure in the four years up to and including 2014-15 should not exceed \$348.6 million.

DPC does not collect or monitor data on the total cost incurred by government agencies on advertising, other than media placement expenditure.

To determine the cost saving target, DPC requested that agencies provide it with actual advertising expenditure. DPC advised that it was difficult to obtain consistent and reliable data. DPC did not provide guidance to agencies to ensure consistent and relevant cost information is obtained, and not all agencies responded to DPC's request. Therefore, DPC had to compensate for this by adding an estimated \$58.6 million to the understated actual advertising expenditure amount.

Since 2011-12, the advertising cost data used to monitor and report progress against the cost saving target has been primarily based on approved advertising campaign budgets, not actual advertising campaign expenditure. While DPC advised that it had applied a consistent methodology using the information available to it, we found this method inadequate because:

- it does not account for those agencies that do not comply with government advertising requirements to seek peer review and approval, or use the central MAS contract
- as approved advertising spending is not acquitted, DPC is unaware of whether agencies have under or overspent their approved budget
- it does not take into account that agencies also have a number of advertising campaigns that are under \$50,000 and not submitted for peer review and approval.

Effectiveness of advertising campaigns across government is largely unknown

Agencies are required to submit details of actual advertising campaign expenditure and campaign evaluation results to DPC. DPC advised that there is low compliance with this requirement. As a result, there is limited assurance across government that campaign advertising is transparent, cost-effective and meeting objectives.

As mentioned in section 2.1, DPC only commenced requesting this information from agencies in 2013-14. Previously, DPC requested this information from agencies on an ad hoc basis. DPC has since developed an evaluation template outlining what information agencies are to provide. However, this has not been published.

DPC should ensure its evaluation template enable it to assess:

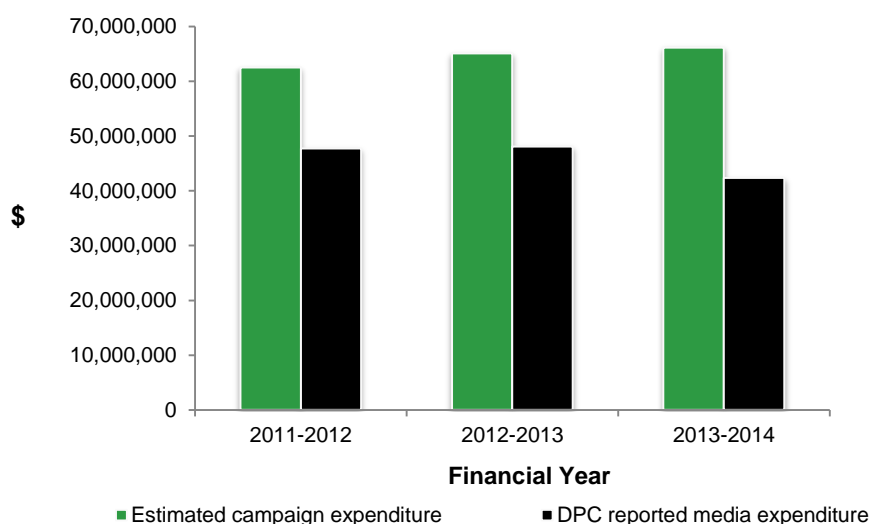
- achievement of all objectives
- the cost-effectiveness of campaigns
- whether actual costs are within the approved budget.

Public reporting does not include all advertising costs

DPC reports on the media buying and placement costs incurred through the central MAS contract it manages. However, these costs do not include all costs to government agencies for advertising, such as research, evaluation, and creative development and production. For example, media placement costs made up around 48 per cent of total advertising campaign expenditure of \$3.1 million for Sydney Opera House Presents performances and festivals.

Furthermore, the reported media placement expenditure is incomplete, as not all agencies use the MAS contract. For example, in 2013-14 DPC reported nil paid media placement expenditure for SOH advertising campaigns. However, SOH incurred almost \$1.5 million using its own media suppliers rather than the government central media contract.

Exhibit 9: Comparison of the estimated advertising campaign expenditure and reported media expenditure through the MAS contract for all NSW cluster agencies, 2011-12 to 2013-14



Source: Department of Premier and Cabinet 2015.

DPC analysis comparing advertising expenditure to media placement expenditure found that the total estimated advertising expenditure reported by agencies for 2007-08 to 2010-11 was around \$148 million (or 47 per cent) higher than DPC's reported media expenditure for that period.

The Victorian Auditor-General's Office recognised that government advertising is one component of many other forms of communication activities undertaken by agencies. For agencies like DNSW and SOH, whose legislative functions includes promoting events and New South Wales as a tourist destination, a significant amount of their expenditure is in the nature of advertising and communication activities.

With this in mind, the full cost of advertising and communications is significantly more than reported media expenditure for these agencies. For example, DNSW's media placement cost is 42 per cent of its total estimated cost of advertising and communications expenditure for 2013-14.

Exhibit 10: Estimated cost of advertising and communications for DNSW

Expenditure categories DNSW advertising and communication activities	DNSW 2013-14 \$'000
Media placement	11,834
Creative production	4,651
Partnership campaign collateral	8,829
Other advertising expenditure	1,302
Total Advertising (as per financial statements)	26,616
Printing & Publication	210
Visiting journalists and accommodation	1,228
TOTAL	28,054

Source: Audit Office research 2015.

Note: Data excludes employee related expenditure and investment in events.

To promote transparency and accountability in relation to advertising expenditure, the Australian Government requires both direct media placement and associated indirect campaign advertising expenditure to be publicly reported annually for campaigns with expenditure in excess of \$250,000.

Similarly, in December 2013, the Victorian Government commenced providing information on advertising campaigns with media expenditure valued at \$150,000 or more.

Exhibit 11: Overview of Victorian Government's campaign advertising report

This report provides, for the first time, information on advertising campaigns with MAMS media expenditure valued at \$150,000 or more that were completed in 2012–13.

For each campaign, a short description and a breakdown of expenditure by medium are provided. Expenditure data has been provided by the department or public body that conducted the campaign.

Campaign advertising expenditure is broken down by:

- Advertising media expenditure – expenditure through the Government's MAMS media purchasing contract
- Creative and campaign development expenditure – including advertising agency costs, creative development and production costs
- Research and evaluation expenditure – including formative research, concept testing, benchmarking and tracking research, evaluation research and analysis
- Print and collateral expenditure – includes design, printing, production, postage, distribution and warehousing costs
- Other campaign expenditure – activity not included in the above categories.

Source: Victorian Government 2013.

No similar reporting mechanisms are in place in NSW to support transparency and accountability.

3.2 Review of sponsorship and other similar arrangements

Agencies we reviewed use sponsorships, partnerships and other similar arrangements to promote their activities and supplement their paid campaign advertising activities. These arrangements are formalised in agreements between agencies and their suppliers. Some of these arrangements are consistent with the ICAC guidelines on sponsorships and direct negotiations. However, there is no established government policy to ensure all such arrangements are appropriately managed.

Agencies we reviewed do not have adequate policies and procedures that are consistent with ICAC guidelines. This increases the risk of corruption, reduces transparency and accountability, and limits their ability to achieve value for money.

Recommendations

By December 2015, DPC should publish a policy and guidelines for sponsorship and other similar arrangements.

By June 2016, the DTIRIS cluster agencies should ensure they review their own policies and ensure they comply with ICAC guidelines and DPC policy, and address potential risks specific to their agency in relation to sponsorships and other similar arrangements.

We reviewed DTIRIS cluster agencies that use sponsorship and other similar arrangements to help fund or promote agency activities, focusing on DNSW and SOH. We looked at whether the agencies had policies and procedures in place that are consistent with relevant policies and guidelines for such arrangements, such as ICAC guidelines.

In 2006, ICAC published guidelines on sponsorships and direct negotiations. These guidelines provide advice on managing corruption risks and demonstrating value for money in sponsorships and other similar arrangements, such as partnerships.

Sponsorships are defined as a commercial arrangement whereby a sponsor provides a contribution in money or in kind to support an activity in return for certain benefits. Direct negotiations are defined as an exclusive negotiation between an agency and a proponent without first undergoing a genuine competitive process.

Regardless of whether an arrangement is a sponsorship, grant, partnership or other form of investment or marketing activity, the ICAC guidelines should be applied.

Most DTIRIS cluster agencies reviewed enter into sponsorship and partnership arrangements with public and private sector organisations to help promote agency activities and/or supplement marketing budgets. SOH and DNSW, in particular, identify sponsorships and partnerships with industry as part of their core business strategies.

No State policy to govern sponsorship, partnership and other similar arrangements

DTIRIS cluster agencies can engage in communication activities, such as sponsorships and partnerships and other similar arrangements that are not governed by the government advertising requirements. These arrangements pose similar risks of misuse of public funds. While DPC advised that it refers agencies to the ICAC guidelines, they are not binding. DPC should develop a policy and guidelines to address these arrangements.

In Victoria, sponsorships received or provided by public sector agencies must be registered, evaluated upon completion and publically reported in budget papers, annual report or in publicly available performance reports. The Western Australian State Supply Commission (WASSC) advocates that sponsorship arrangements need to encourage open competition, accountability, probity and value for money. In addition, the WASSC provides templates for establishing and managing sponsorship arrangements to assist agencies to comply with relevant guidelines.

No similar controls or oversight mechanisms are in place in NSW to support transparency and accountability.

There also needs to be better guidance on advertising campaigns undertaken by third parties on behalf of agencies, to ensure that partner advertising activities comply with government advertising requirements. We discussed this in section 2.1.

Lack of agency policies increases risk

Some DTIRIS cluster agencies that engage in sponsorship arrangements, did not have policies in place for sponsorships, partnerships and other similar arrangements. These agencies should establish relevant policies and procedures.

The Department and SOH are two cluster agencies that do have policies and procedures on sponsorship arrangements. DNSW has sponsorship and partnership program guidelines.

The Department's policies and procedures were the most comprehensive. They were mostly consistent with ICAC sponsorship principles, but could be improved by ensuring that the Department:

- obtains conflict of interest declarations from people associated with each arrangement, including staff and the proponent's employees
- evaluates the arrangement upon completion to assess whether value for money has been obtained and benefits realised, and whether conflicts of interest arose.

We found that SOH and DNSW regularly manage extensive and complex arrangements. In addition, DNSW has staff working in ten international locations who are responsible for identifying, negotiating and managing these arrangements in their host countries. Yet the agency's policies have not been reviewed to ensure they address ICAC guidelines or the different types of arrangements the agency manages.

There are four important controls in the ICAC guidelines that are not adequately addressed in SOH and DNSW's policies to manage the scale of their arrangements. These are:

- identifying and managing conflicts of interest as part of the assessment process
- assessing value for money prior to participating in any arrangement
- preparing a submission for approval that assesses a proposal against predetermined criteria which aligns with the ICAC guidelines
- evaluating the arrangement upon completion, which includes assessing whether value for money has been obtained and benefits realised, and whether conflicts of interest arose.

SOH and DNSW both have Codes of Conduct that address conflict of interest matters for their staff. However, their policies and procedures do not require conflict of interest declarations to be obtained from people associated with each arrangement, including staff and the proponent's employees.

We note that SOH and DNSW have some controls over these arrangements, including signed agreements setting out obligations between the parties, and regular reporting to their executive management.

According to ICAC's guidelines agencies should establish policies to address the granting and management of sponsorships, regardless of their value or number. The guidelines also outline steps an agency should take when negotiating directly with a proponent to ensure the process mitigates the risk of corrupt conduct and delivers value for money.

In the absence of policies, there is an increased risk of inconsistent practices, and a lack of transparency and accountability in decision making. ICAC also suggests that there is an increased risk of dishonest or partial conduct that could amount to corruption.

Lack of reporting on the Department's sponsorship activity

According to the Department's policy, a sponsorship database must be maintained to record sponsorship agreements and benefits. Reporting to DTIRIS Executive on the Department's sponsorship activity is also required. We found that the Department has not adequately complied with these requirements.

Our review of the Department's sponsorship database for the last three financial years revealed that the data recorded is incomplete and inconsistent. For example, there were a number of data gaps, and no indication of whether the 'value of direct financial sponsorship' is cash received or granted. Also, in some instances, the records include DTIRIS cluster agency sponsorship arrangements, but this is inconsistent and incomplete.

The Department acknowledged there were gaps in the database. It advised that the inconsistency in DTIRIS cluster agency records reflected more general ambiguity relating to the governance arrangements of cluster agencies.

3.3 Review of digital media

Agencies use digital media in addition to traditional paid advertising campaigns as part of their advertising, marketing and communication strategies. These forms of communication pose the same risk of misuse of public resources as paid advertising. The agencies we reviewed use digital media extensively, yet they did not have a strong governance and accountability system for these activities that is consistent with the government advertising principles. We found examples of inappropriate use of political images by DNSW.

Recommendations

By December 2015, DPC should review and update government advertising requirements to ensure they reflect current advertising practices, and address the diverse range of advertising and communication activity, including digital media.

By December 2015, the DTIRIS cluster agencies should ensure they establish policies and procedures to govern their digital media content to ensure it is accurate and appropriate prior to publishing.

While the main focus of the audit was government advertising campaigns, we looked to see whether agencies had policies and procedures to govern digital media.

Digital media refers to digitised content that is transmitted via the internet, computer networks or other digital platforms. Common forms of digital media include websites, smart device applications, and use of social media channels.

Increased use of digital media warrants better accountability

While paid digital media is captured within government advertising requirements, agencies' internally funded digital, social and online channels are not. These pose similar risks of misuse of public resources and inappropriate use for political purposes.

The Handbook states that the NSW Government aims to ensure communications across all agencies are well coordinated and effectively managed. However, there is limited policy and guidance to ensure that digital media content published by agencies is accurate and appropriate (e.g. apolitical), and are planned and managed efficiently and cost-effectively.

The NSW Government has increased its use of digital media. This reflects changes to the community's media consumption habits. Social media platforms such as YouTube and Facebook, rather than TV, are now becoming the most powerful screens that audiences consume and engage.

Exhibit 12: Overview of DNSW's digital program in 2013–14

During 2013-14, the Destination NSW consumer social media channels were used extensively to promote Sydney and Regional NSW to global audiences. They are the largest social media channels within the NSW Government and continue to deliver strong results.

Highlights of DNSW's digital programs include:

- Together with vividsydney.com, Destination NSW's consumer websites sydney.com and visitnsw.com generated more than 20 million visits (a 43 per cent increase year-on-year), and over 4.8 million leads to the NSW tourism industry (a 78 per cent increase year-on-year)
- sydney.com and visitnsw.com relaunched as fully responsive websites in March 2014. The websites are now fully mobile-optimised and the website design scales elegantly to the users' device. Over 130 device and browser combinations were tested during the responsive website project. Since the relaunch, leads to the NSW tourism industry have increased by 48 per cent from users on mobile devices
- A 128 per cent increase in Destination NSW Tourism Facebook fans from 714,000 to more than 1.63 million. These Facebook fans have an average weekly reach of 26.5 million friends of fans on Facebook due to responses to advertising, sharing of posts and conversations
- A 123 per cent increase in Destination NSW tourism Twitter followers from 54,873 to over 122,000
- More than 2.3 million completed YouTube video views – a 45 per cent growth on video assets viewed since the beginning of the FY2013/14. Destination NSW YouTube channels provide an additional channel to broadcast TV commercials and video assets to improve the reach of campaign activity
- Google+ followers are over 1.33 million – an 87 per cent increase from the beginning of 2013-14.

Source: Destination NSW 2014.

Similarly, SOH has its own website and digital channels including Facebook, Twitter, YouTube, Instagram, Google+ and e-newsletters.

The *NSW Government Web Guidelines* states:

The NSW Government's ten year plan for the state – NSW 2021 – emphasises the need to communicate with customers, particularly online. With digital communication forming a major channel between government and the community, it is vital that NSW Government agencies have a strategy that includes the efficient and effective use of digital media.

DPC published the *NSW Government Web Guidelines* and *NSW Government Social Media Policy and Guidelines*. However, we found that these do not adequately establish a governance framework for all aspects of digital media. DPC advised that it plans to conduct a gap analysis between the current set of NSW Government policy and guidance documents and a broad range of government advertising and communication activities.

Agencies lack a policy framework to govern digital media

Even though agency-owned digital media falls outside of the *Government Advertising Act 2011*, we expect that agencies should conduct these activities in line with the same principles of accuracy and appropriateness (apolitical), need, and cost-efficiency, as outlined in government advertising requirements.

The Department, SOH and DNSW each have a Social Media Policy that is consistent with the NSW Government Social Media Policy. The SOH's Social Media Policy is still in draft form. SOH should ensure its policy is endorsed and implemented.

We found that while SOH and DNSW review and approve online content, existing practices do not assess whether that digital content (including social media content) is apolitical prior to publication.

The Department's policy for digital media is in its Publishing Policy. We found that this addresses most of the principles of the government advertising requirements. Most of the remaining DTIRIS cluster agencies, including DNSW and SOH, do not have a digital media policy for their online activities.

Our examination of broader marketing and communication practices found that the intent of Government's Social Media Policy and Guidelines was not always followed. This states that any posts to agencies' social media channels (Facebook, Twitter etc) must be apolitical. The government advertising requirements define political content to include images of Government Ministers. For example, DNSW has included many images of Government Ministers on its corporate Twitter account in the 15 months to March 2015.

Appendices

Appendix 1: Response from agencies

The Department of Premier and Cabinet



Ref: A1237494

Mr A T Whitfield PSM
A/Auditor-General
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2000

Dear Mr Whitfield

Thank you for the opportunity to respond to your Performance Audit on Government Advertising dated 5 June 2015.

The *Government Advertising Act 2011 (Act)* is a relatively new legislation, governing a complex and fast-changing environment. The auditing of this legislation and the regulatory framework which sits underneath it is important for assessing how the NSW Government is performing against these requirements as well as opportunities for improvement. We welcome the opportunity to improve our processes and procedures to ensure Government Advertising is beneficial to the community and appropriately regulated.

The review has identified evidence of “uncertainty and non-compliance with the government advertising requirements” by some agencies. DPC will examine the report’s findings in detail and implement all improvements necessary to improve the operation of the framework introduced by the Act.

Whilst DPC recognises its leadership role in relation to government advertising, the Act is clear that responsibility for ensuring compliance with the Act lies with individual agency heads. I note in particular, section 9 of the Act that sets out the independent role of heads of Government agencies.

DPC considers that there are clear areas where improvements can be made in relation to the guidance and advice DPC can provide to assist agencies to comply with their obligations under the Act. Accordingly, the report comes at a time when DPC is making continuous improvements to advertising processes. We are in discussions with agencies and have already taken significant steps to guide them in consistently applying correct practices for government advertising. Further efforts in this area include:

- Structural changes within Strategic Communications at DPC to clearly define roles and responsibilities relating to sound governance of advertising;

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- Initiating a review of the Cost Benefit Analysis Framework (formerly known as Economic Appraisal) to harmonise government agencies' approach to this task to enable more consistent analyses in the future;
- Strengthening channels of communication between DPC and government agencies' strategic communications teams for ongoing direction and exchange of information; and
- Making a suite of updates to the NSW Government Advertising Handbook (**Handbook**) to address any confusion (action already in progress).

Please find attached DPC's response to specific recommendations made in the report.

We would like to formally thank the Audit Office for consulting with DPC throughout the Audit process and believe that the findings will help drive continuous improvement in government advertising. DPC notes that the Act is due for statutory review in 2016, so the matters raised by the Audit Office will be relevant for that review.

Yours sincerely



Blair Comley PSM
Secretary

12 June 2015

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DPC's Response			
	Recommendation	DPC's Response	Actions to be taken
1	<i>By December 2015, DPC should develop a monitoring program to ensure compliance with the government advertising requirements.</i>	Accepted in principle. Noting that whilst DPC acknowledges it has a monitoring role in relation to Government advertising in general (as outlined in the NSW Government Advertising Handbook), DPC considers that it would be inconsistent with the Act to direct agencies in relation to decisions about whether Government advertising campaigns comply with the Act. Under the Act, this is clearly a matter for individual agency heads.	DPC will continue to work collaboratively with government agencies and reiterate their responsibilities to meet the government advertising requirements, as it does presently.
2	<i>By December 2015, revise the government advertising requirements to ensure its advice to agencies is clear and consistent, and the compliance process is efficient.</i>	Accepted.	DPC is progressing updates to the NSW Government Advertising Handbook to ensure that advice to agencies is clear and that there is clarity of respective roles and accountabilities.
3	<i>By December 2015, enforce the requirement for agencies to report on campaign expenditure and outcomes at their completion</i>	Accepted in principle. Noting that whilst DPC acknowledges it has a monitoring role in relation to Government advertising in general (as outlined in the NSW Government Advertising Handbook), DPC considers that adherence with requirements on reporting campaign expenditure and outcomes is a matter for individual agency heads.	DPC will continue to work collaboratively with government agencies and reiterate their responsibilities to meet the government advertising requirements. DPC will consider how it can support agencies by providing greater guidance and the development of additional templates to facilitate better reporting.
4	<i>By December 2015, publish an advertising cost reporting template to assist in consistent and reliable data collection across agencies</i>	Accepted.	DPC will continue to work collaboratively with government agencies and reiterate their responsibilities to meet the government advertising requirements. DPC will consider how it can support agencies by providing greater guidance and the development of additional templates to facilitate better reporting.

5	<i>By December 2015, publish an advertising campaign evaluation template to assist agencies to report on campaign outcomes</i>	Accepted.	DPC will continue to work collaboratively with government agencies and reiterate their responsibilities to meet the government advertising requirements. DPC will consider how it can support agencies by providing greater guidance and the development of additional templates to facilitate better reporting.
6	<i>By December 2015, improve transparency of reporting on the cost of government advertising campaigns by publishing both the approved advertising campaign budgets and the actual expenditure</i>	Noted. Noting that whilst DPC acknowledges that it has a monitoring role in relation to Government advertising in general (as outlined in the Handbook), DPC's capacity to meet this recommendation will continue to remain reliant on adherence from agency heads.	DPC will make all endeavours to capture budgeted and actual expenditure based on agency information supplied.
7	<i>By December 2015, DPC should publish a policy and guideline for sponsorship and other similar arrangements.</i>	Accepted in principle. Noting that whilst DPC plays a monitoring role in relation to Government advertising, DPC's role in directing any approaches to sponsorship is to reference the ICAC overarching guidelines. We note the ICAC is an independent statutory organisation but forms part of the Premier and Cabinet cluster.	DPC is progressing updates to the NSW Government Advertising Handbook to ensure that advice to agencies is clear and directs agencies to the ICAC guidelines.
8	<i>By December 2015, DPC should review and update the government advertising requirements to ensure they reflect current advertising practices, and address the diverse range of advertising and communication activity, including digital media.</i>	Accepted.	DPC recognises that contemporary advertising includes a breadth of communication activities disseminated under a variety of different mediums. DPC will review the latest activities in use across government and will consider where additional guidance should be included in the NSW Government Advertising Handbook to ensure that advice to agencies is clear. DPC notes that the Act is due for statutory review in 2016 and these activities will be considered during the review process.

Sydney Opera House

Sydney Opera House.

15 June 2015

Mr A T Whitfield PSM
Deputy Auditor-General
Level 15, 1 Margaret Street
Sydney NSW 2000

Dear Mr Whitfield,

Thank you for the opportunity to provide a formal response to the NSW Auditor-General's Performance Audit Report (Audit Report) on Government Advertising.

The Sydney Opera House (SOH) is the symbol of modern Australia, the nation's premier tourism destination and one of the world's busiest performing arts centres. It is a not-for-profit, Public Trading Enterprise that generates the majority of its operational revenue. In 2014/15 the Opera House raised \$92.3 million, or 87 per cent of its operating budget, through commercial programming, tours, food and beverage, retail and venue hire. Advertising activity underpins this self-earned revenue.

As a State and national icon, advertising supports the Opera House's profile nationally and internationally, driving tourism, economic activity and cultural opportunities and experiences for the people of NSW. In 2013, a Deloitte Access Economics report estimated the Opera House's annual contribution to the national economy at \$775 million, and its cultural and iconic value to Australia at \$4.6 billion.

In 2014/15, the Opera House hosted more than 8 million visitors, of which more than 1.4 million attended 1,850 performances and more than 300,000 took a guided tour of the building. More than 2.3 million transactions occurred across the Opera House precinct's 11 theatre bars, six restaurants and two retail stores.

After a period of uncertainty as to whether the Government Advertising Act 2011 (Act) captured the activity of the State's Cultural Institutions, it was confirmed in 2013 that the Opera House's advertising activity falls under the Act's definition of Public Awareness Campaigns. Since that time, SOH campaigns have been submitted for peer review and approval, as required under the Act.

SOH's response to the recommendations contained in the Audit Report is as follows:

- **General comment:**

The Opera House appreciates the opportunity to be part of this audit and considers the recommendations outlined in the Audit Report will improve its marketing and advertising processes and reporting practices. It further supports the audit's recommendation that the Department of Premier and Cabinet (DPC) review and update government advertising requirements to ensure they reflect current advertising practices and the diverse range of activity undertaken by agencies,

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Sydney Opera House.

such as SOH. This way, the Act, policies and guidelines will encourage consistency, transparency and accountability, while at the same time recognising the need for agencies, particularly those operating in commercial environments, to be agile and responsive to opportunities as they arise.

- **Procurement (Recommendations 9 to 11):**

By December 2015, SOH will have adopted the government central Media Agency Services (MAS) contract for media planning and buying. The Opera House's transition to MAS commenced some time ago, during which time the process, contractual impediments to adopting the MAS, and costs and benefits of transitioning were assessed, and a pilot use of the services was undertaken. From 1 July 2015, the majority of Opera House advertising will be purchased through this service, rather than directly, with full compliance by December 2015.

By utilising the government central MAS contract, SOH marketing procurement practices will be consistent with its procurement policies. SOH will undertake six monthly reviews of procurement practices in relation to marketing activities.

While SOH acknowledges the benefit of using the MAS contract, it considers that its existing procurement practices have achieved value for money. These involve direct placement of advertising, which is informed by extensive campaign planning, knowledge and experience from previous campaigns, and the use of appropriate channels to reach target audiences. This approach has seen improved efficiency over recent years: between 2011/12 and 2014/15 marketing expenditure on Sydney Opera House Presents programs will have steadily reduced from 14 per cent of Box Office revenue in 2011/12 to less than 12 per cent in 2014/15, equating to a savings of more than \$400k in 2014/15. The Opera House hopes to continue this efficiency trend once it adopts the MAS contract.

- **Reporting (Recommendation 12):**

SOH will share its post campaign evaluation reports, including expenditure data, with DPC at the completion of relevant campaigns, as recommended. This will be provided in addition to SOH's quarterly expenditure reports to DPC, which has been recent practice.

- **Campaign management (Recommendation 13 & 14):**

While SOH's existing campaign management practices have not resulted in instances of non-compliance, SOH will formalise its existing documented processes and practices, including digital media content management, into a single, overarching Advertising and Marketing Campaign Management Policy. This policy will outline processes in relation to content and certification that will ensure compliance with government advertising requirements.

- **Sponsorship arrangements:**

The Audit Report notes that SOH manages extensive and complex sponsorship arrangements, supported by policies and procedures and a Code of Conduct signed by all staff. SOH is satisfied that its current practices align

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with ICAC guidelines in relation to sponsorship arrangements, despite all ICAC controls not being formally documented in the existing policy. Prior to the commencement of the government advertising audit SOH began updating its sponsorship policies to reflect current practices, including the ICAC guidelines. This will be finalised by December 2015.

We look forward to continuing to work with DPC to meet government advertising requirements, and to support the achievement of the Opera House's advertising and commercial objectives.

Kind regards,

A handwritten signature in blue ink, appearing to read 'Louise', followed by a long horizontal flourish.

Louise Herron AM
CEO, Sydney Opera House

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Comment by the Acting Auditor-General on Destination NSW response to the audit

Destination NSW's response states, "As your report highlights, the GAA process is not a relevant or appropriate process for the determination of the success of Destination NSW."

Our report does not express a view on whether or not it is appropriate for Destination NSW to be subject to the Government Advertising Act and associated processes. This is a policy matter for the Government to determine.



18 June 2015

Mr A T Whitfield
A/Auditor-General
Audit Office of NSW
Level 15, 1 Margaret Street
Sydney NSW 2000

Dear Mr Whitfield

Government Advertising Performance Audit Report

Thank you for the opportunity to comment on your Government Advertising Performance Audit Report. I provide the following comments on behalf of Destination NSW.

Overall we are in agreement with the majority of your recommendations. However, in our opinion, the Report still contains inaccuracies. Errors that we have requested be rectified, appear not to have been amended.

We note your comment that the Visitor Economy Industry Action Plan (2012) recommendation that DNSW be exempt from Peer Review and the Cabinet Standing Committee approval process, has not yet been actioned.

As your Report highlights, the GAA process is not a relevant or appropriate process for the determination of the success of Destination NSW. I would draw your attention to the table below:

Comparative Period Performance – 3 Years Pre Destination NSW and 3 Years Post the formation of Destination NSW

	1 April 2008 to 30 March 2011 (Pre DNSW)		1 April 2011 to 30 March 2014 (Post DNSW)	
	Average Growth per annum	Period Total Growth	Average Growth per annum	Period Total Growth
Overnight Visitor numbers	-1.0%	-3.1%	3.1%	9.5%
Visitor nights	1.1%	3.2%	3.2%	9.8%
Overnight Visitor expenditure	1.4%	4.4%	4.7%	14.9%

As you are aware, Destination NSW is subject to both internal and external audits of its processes each year and to date has had no adverse findings.

We agree that the current mandated SAP system is not fit for purpose for advertising tracking. However, we are reviewing the advertising campaign tracking system used by Tourism Australia and hope to have something similar in place over the coming months.

As the NSW Government Agency that runs the most advertising campaigns, both domestically and internationally, and has the highest number of commercial advertising partnerships in place and campaigns to market, we require a commercially agile advertising approvals system.

The attached table provides our response to the specific recommendations contained in the Audit Report.

Yours sincerely



Sandra Chipchase
Chief Executive Officer

Destination NSW's Response			
	Recommendation	Destination NSW's Response	Actions to be taken
1	<i>Immediately ensure that related advertising campaigns are not inappropriately split to avoid the threshold for cost benefit analysis.</i>	Destination NSW does not inappropriately split campaigns to avoid the threshold for cost benefit analysis.	Destination NSW will continue to work collaboratively with DPC to ensure Government advertising requirements are met.
2	<i>By December 2015, improve its policies to better demonstrate it achieves value for money in advertising and marketing arrangements.</i>	Noted. Destination NSW reports results in the GAA Advertising Effectiveness Review and was congratulated on the record results achieved.	Destination NSW will continue to build upon the outstanding results achieved to date.
3	<i>By December 2015, report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign.</i>	Accepted.	Destination NSW will continue to work collaboratively with DPC to meet the Government advertising requirements.
4	<i>By December 2015, formalise existing campaign management processes to set out minimum requirements for managing advertising campaigns.</i>	Accepted.	Destination NSW will seek to further formalise processes to ensure the requirements for managing Government advertising campaigns continue to be met.
5	<i>By December 2015, include procedures to ensure content complies with Government advertising requirements, and internal processes align with the certification statement of Government advertising campaigns. This would also facilitate consistent and complete documentation.</i>	Accepted.	Destination NSW will seek to further enhance procedures to document compliance with Government advertising requirements and ensure internal processes align with the certification statement of Government advertising campaigns.
6	<i>By June 2016, improve its management systems to support efficient and reliable tracking of its marketing programs and advertising campaigns.</i>	Accepted.	Destination NSW will continue to explore the enhancement of existing management systems with a particular focus on the integrated tracking for marketing and advertising campaigns.



Trade &
Investment

Office of the Secretary

SECO15/256

Mr A T Whitfield
A/Auditor-General
Audit Office of NSW
Level 15, 1 Margaret Street
SYDNEY NSW 2000

Dear Mr Whitfield

Government Advertising Performance Audit Report

Thank you for the opportunity to comment on your Government Advertising Performance Audit Report (Report). I provide the following comments on behalf of NSW Department of Trade and Investment, Regional Infrastructure and Services (Department) and its cluster agencies.

I am in agreement with some of the Report's recommendations in so far as they relate to the Department. However the Report is misleading, particularly in its Executive Summary and the recommendations contained therein, which are combined for the Department and cluster agencies.

As communicated to NSW Audit Office staff, the Report's Executive Summary does not differentiate between the Department, which has a high level of compliance with the *Government Advertising Act 2011* (Act) and cluster agencies, some of who, were not as compliant due to the nature of their business and their understanding that the Act did not apply to them until fairly recently. The Report incorrectly summarizes its key recommendations as though they universally and equally apply to the Department and other cluster entities.

Notwithstanding the views of the Department of Premier and Cabinet expressed in the Report, insufficient consideration is given to the fact that much of the expenditure of the cluster's cultural institutions is money sourced from and for commercial activities. I therefore question the definition of Government advertising and the appropriateness of current frameworks governing that advertising, as it relates to those activities which are actually commercial. Contextual assessment for specific frameworks, appropriate for specific activities, would be more useful than the current approach.

As mentioned in the Report, I sought an exemption on behalf of the cultural institutions, from the peer review process for campaigns costing in excess of \$50,000, required by the Act. This was on the basis of the specific nature of the business models of those entities and their incompatibility with the 'one size fits all' approach of the required peer review process.

I similarly question the appropriateness of the Act's requirements as they relate to Destination NSW. The Act and Report fail to recognize and enable, or support, the unique nature of Destination NSW's operations and functions, including the receipt of unsolicited

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and unique proposals for marketing opportunities. The recommendations in the Report and the Act place significant limitations on the present effectiveness and agility with which Destination NSW operates, as demonstrated through its successful promotion of NSW as a tourist destination.

The Report does not make recommendations which appropriately or correctly reference the vital and differing nature of sponsorship and co-operative marketing arrangements to the cultural sector and Destination NSW, or the need for commercial, co-operative and in confidence agreements necessary to maintain viable business relationships.

I similarly question the Report's finding that Destination NSW has circumvented Act requirements for cost benefit analysis of campaigns by splitting them, based on the actual and significant differences between campaigns as reported.

I also question the finding that Government's Social Media Policy was breached in some instances by the posting of political content in social media channels and consider the definition of 'political content' used to make this assessment inappropriate. References stating that social media content must be 'apolitical' exist in a guideline referencing, the now repealed *Public Sector Employment and Management Act 2002* which does not specifically define the term, but rather outlines core values for conduct within the public sector, which the Department and cluster agencies have not breached.

Cultural institutions, Destination NSW and similarly governed agencies are accountable to their management, stakeholders and boards and therefore have processes in place to ensure adequate review of the results of campaigns and their conduct.

Consideration should be given to the often lean marketing resources of cultural institutions and smaller agencies. A 'one size fits all' approach to advertising governance frameworks increased reporting on sponsorship and results have placed, and will increase pressure on resources and result in further inefficiencies.

Some flexibility and consideration of lean, commercially run enterprises, and those that operate in unique areas of Government such as the cultural institutions and Destination NSW should have been incorporated into the Report's recommendations.

The Governance framework is to ensure that Government advertising is met or does not become 'political' campaigning. The nature of the advertising undertaken by Destination NSW and the Sydney Opera House and other cultural institutions does not warrant review for this purpose.

Yours sincerely



Mark I Paterson AO
Secretary

17/6/15

Appendix 2: About the audit

Audit Objective

To conduct a statutory performance audit under section 14 of the *Government Advertising Act 2011*.

The audit assessed whether:

- selected agencies have carried out their government advertising activities effectively, economically and efficiently, and in compliance with the *Government Advertising Act 2011*, the regulations, other applicable laws and the government advertising guidelines (our legislative obligation)
- advertising and communications activities were managed in a way that is accountable, transparent and in compliance with relevant policies and guidelines

Audit Scope and Focus

Line of Inquiry	Criteria
Have the DNSW and SOH carried out activities in relation to Government advertising campaigns effectively and doing so economically and efficiently and in compliance with the <i>Government Advertising Act 2011</i> , the Government Advertising Regulations 2012, other laws and the Government advertising guidelines?	In examining whether agencies' advertising activities were effective, we looked at whether the agency had: <ul style="list-style-type: none"> policies and procedures that were consistent with the Government advertising requirements complied with the Government advertising requirements for the campaigns we reviewed campaign documentation that was complete and reasonable.
	In examining whether agencies' advertising activities were economical, we looked at whether the agency had: <ul style="list-style-type: none"> tested creative concepts and did appropriate research used a cost-effective campaign strategy and approach conducted post-campaign evaluations to inform future advertising campaigns demonstrated value for money in procurement.
	In examining whether agencies' advertising activities were efficient, we looked at management systems, record keeping activities, and how it presented advertising campaigns to meet government advertising requirements.
	We assessed whether the agencies had complied with all government advertising requirements contained in the Act, Regulation, Guidelines and the Handbook. We also reviewed all advertising campaign material for selected campaigns to judge if any elements breached the Act, regulations, guidelines, or handbook. In particular, whether there had been any breach of the prohibition on political advertising under section 6 of the Act.
Have advertising and communications activities are managed in a way that is accountable, transparent and in compliance with relevant policies and guidelines?	DTIRIS and its related agencies have policies and processes that are clear and transparent and keep records of their activities
	DPC monitor and report on the cost and effectiveness of government advertising and other communications

See section 1.4 for a description of the agencies we reviewed.

Audit assumptions

For the purposes of this audit, we made the following assumptions:

- the 'government advertising requirements' are contained in four documents: the *Government Advertising Act 2011*, the Government Advertising Regulation 2012, the NSW Government Advertising Guidelines, and the NSW Government Advertising Handbook
- we reviewed a sample of government advertising campaigns approved by peer review and/or Cabinet Standing Committee between March 2013 and November 2014
- by 'advertising and communications activities are in compliance with relevant policies and guidelines', we mean the agencies' policies and guidelines that align NSW government policies and guidelines, and/or other best practices, as well as the government advertising requirements.

Audit exclusions

The audit did not examine:

- the outcome of any government advertising and communication activities, although we did check that post evaluations have been completed if required
- government advertising campaigns that are not required to undergo a peer review according to the Act and guidelines
- recruitment and public notice advertising, as defined in the Handbook
- the merits of Government policy objectives.

Audit approach

We drew audit criteria from relevant sources including:

- *Government Advertising Act 2011*
- Government Advertising Regulation 2012
- NSW Government Advertising Guidelines
- NSW Government Advertising Handbook
- NSW Ombudsman Transparency & Accountability, Public Sector Agencies Fact Sheet, March 2012
- Western Australian Auditor-General's Report, Government Funded Advertising, June 2014
- Victorian Auditor-General's Report, Government Advertising and Communications, February 2012
- Independent Review of Government Advertising Arrangements, Allan Hawke, February 2010
- ICAC Sponsorship in the public sector guidelines
- ICAC Direct Negotiations guidelines
- NSW Government Social Media Policy
- Audit Office of NSW, Performance Audit report, Government Advertising, 2012-13
- Audit Office of NSW, Performance Audit report, Government Advertising, 2009.

We collected evidence by:

- examining relevant policy, guidelines, documentation and data relating to government advertising and communication activities
- reviewing compliance of selected advertising campaigns in SOH and DNSW against government advertising requirements

- reviewing compliance for selected advertising and communication activities in SOH and DNSW against the relevant policies and guidelines.
- having DTIRIS cluster agencies complete a questionnaire designed to collect information around the individual agencies' management of advertising and communication activities.

Fieldwork

We conducted meetings with key personnel from the following departments and agencies:

- Department of Premier and Cabinet
- Department of Trade and Investment, Regional Infrastructure and Services
- Sydney Opera House
- Destination NSW
- NSW Treasury.

Audit selection

We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to Parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

Acknowledgements

We gratefully acknowledge the cooperation and assistance provided by the Department of Premier and Cabinet, Department of Trade and Investment, Regional Infrastructure and Services and the DTIRIS cluster agencies, including Sydney Opera House and Destination NSW. In particular, we would like to thank our liaison officers and staff who participated in interviews and provided material relevant to the audit.

Audit team

Giulia Vitetta and Jasmina Munari conducted the performance audit. They were assisted by Huntley Evans. Kathrina Lo provided direction and quality assurance.

Audit cost

The estimated cost of the audit is \$220,000.

Appendix 3: About the Sydney Opera House and its advertising and communications activities

The Sydney Opera House (SOH) is operated and maintained by the Sydney Opera House Trust, which is constituted under the *Sydney Opera House Trust Act 1961*. The Trust's objectives and functions include promoting of artistic taste and achievement in the branches of musical, operatic, dramatic, dance, visual or auditory arts.

In 2013–14, SOH's programming arm, SOH Presents (SOHP), presented over 800 performances across five different program streams: contemporary music; talks and ideas; children, families and education; international performance arts, and Indigenous.

Summer at the House (SATH) represents the cluster of programming and precinct activities that run from December until March at the Sydney Opera House. It includes shows from Sydney Opera House Presents, Resident Companies, precinct partners and commercial hirer activity. The core objectives surrounding the SATH brand campaign is to generate revenue for the shows during this time and increase precinct business.

The *Summer at the House 2014-15* advertising campaign program consisted of several advertising campaigns. It included the SATH brand campaign, and other several shows (such as *The Christmas Show*) advertising campaigns which have been identified to occur over the same period. Each campaign set to achieve paid attendance and general box office revenue targets.

The Christmas Show campaign

The Christmas Show advertising campaign (later named *Christmas at the House*) was a new campaign promoting ticket sales over two concerts at the Sydney Opera House presented in December 2014. It featured two concepts; Jingle Bell Rock, a contemporary take on Christmas music and Christmas Carol Sing-along, a traditional carols concert; both under the brand of Christmas at the House. The marketing campaign was managed by an external entertainment marketing agency.

The campaign consisted of print media in newspapers, radio, multiple outdoor advertising formats and range of digital media including online search.

Image from The Christmas at the House outdoor advertisement



Source: Sydney Opera House 2014

In addition to paid media advertising via digital, radio, print, TV and outdoor channels to advertise performances or other events, SOH invests in other communication activities, such as:

- publicity plans and securing media to publicise their campaigns and shows
- producing marketing material, such as flyers and posters
- onsite promotional signage
- owned media channels including a website and social media channels.
- media sponsorships to deliver broad reach through outdoor/transit media, TV and print media; accessing contra advertising and preferential advertising packages
- niche networks and community engagement, such as community outreach (e.g. dance and art schools), distribution of e-cards.

Appendix 4: About Destination NSW and its advertising and communications activities

Destination NSW (DNSW) is the lead agency for the NSW tourism and major events sectors. It holds one of the largest approved advertising budgets at a total of \$19.8 million each year 2013-14 and 2014-15. DNSW's role is to:

- market and promote NSW as a tourist destination and as a destination for hosting major events
- promote travel to and within NSW
- promote major events.

DNSW's goal is to generate increased overnight visitor expenditure to Sydney and NSW to \$36.6 billion by 2020. The overall objective for DNSW's marketing activity is to contribute to the achievement of the visitor economy 2020 targets, namely to double overnight visitor expenditure by 2020 and to maximise the benefits of the visitor economy for NSW.

Each year, DNSW invests in four categories of marketing campaigns:

- Sydney seasonal campaigns
- Regional NSW campaigns
- event campaigns
- partnership campaigns.

Summer in Sydney campaign

The *Sydney in Summer 2013-14* marketing campaign was a repeat campaign based on the Sydney in Summer 2012-13 program. It was designed to influence 'intention' behaviour – namely to increase visitation, length of stay and support the tourism and event industries in Sydney and NSW (either via visits and leads to DNSW's website Sydney.com or directly to a partner).

The campaign showcases the volume and diversity of the summer experiences (namely outdoor and water-based) and seasonal events. The campaign consisted of multiple outdoor advertising formats and range of digital media including online search and social media.

Image from the Sydney in Summer outdoor advertisement



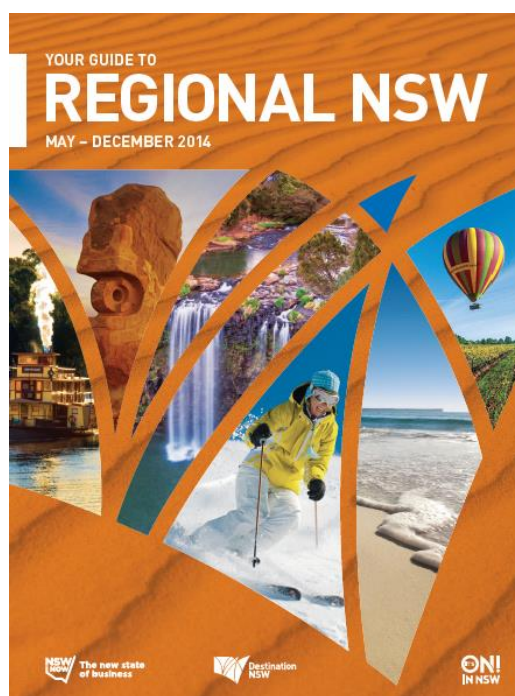
Source: Destination NSW 2013.

Short Breaks campaign

DNSW's regional campaigns are also designed to influence 'intention' behaviour. The *Short Breaks* campaign aimed at encouraging Sydneysiders to take a short break in Regional NSW. DNSW carried out two marketing programs as part of the overall strategy – a campaign targeting couples and a campaign targeting families. The audit focused on the Couples campaign activity for 2013-14. This campaign focused on food and wine, and was delivered in conjunction with industry partners.

The channel mix included newspaper magazine inserts, content distribution and broadcast assist programs. DNSW produced a 40-page newspaper insert magazine which promoted attractions across Regional NSW with a focus on food and wine.

Image from the Regional NSW magazine publication



Source: Destination NSW 2014.

In addition to paid media placement, DNSW engages in other communication activities that support their advertising campaigns to promote NSW and its events including:

- digital media: including its own websites, social media channels, search media programs and applications
- industry partnerships: including contracts with tourism wholesale and airline partners; and long-standing agreements with regional tourism organisations
- event partnership activities
- media relations and publicity
- international trade marketing and relations, and education campaigns.

DNSW implements a marketing strategy focused at integrating content across traditional media channels (such as print, radio and television), together with public relations and communications activities, digital channels and applications and social media channels.

Performance auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100

Our vision

Making a difference through audit excellence.

Our mission

To help parliament hold government accountable for its use of public resources.

Our values

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

Professional people with purpose

Making a difference through audit excellence.

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