Audit Report No. 29 1996-97

Tabled 26 March 1997

MANAGEMENT OF CORPORATE SPONSORSHIP

Preliminary Study

Abbreviations

ANAO - Australian National Audit Office

ANMM - Australian National Maritime Museum

ASC - Australian Sports Commission

ICAC - NSW Independent Commission Against Corruption

NFSA - National Film and Sound Archive

NGA - National Gallery of Australia

NLA - National Library of Australia

NMA - National Museum of Australia

NSTC - National Science and Technology Centre

SSO - Sydney Symphony Orchestra

Part One

Summary

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1. The preliminary study found different levels of expertise and effectiveness in managing corporate sponsorship across the seven agencies reviewed, which largely reflected the extent to which each was involved in corporate sponsorship. Most corporate sponsorship arrangements examined in the study were relatively small in financial terms. The Australian National Audit Office (ANAO) found that there was scope for improvement in a range of areas across the different agencies. All of the agencies reviewed expressed a commitment to strengthen the management framework for corporate sponsorship within their agencies.

2. A number of the areas where improvements can be made are discussed in this report, including:

- sponsorship policies and guidelines;
- codes of conduct;
- minimising the potential for sponsors to influence agency activities;

- contracts and the need to obtain Ministerial approval;
- costs associated with sponsorship;
- reporting of in-kind sponsorship; and
- the use of evaluation and performance indicators.

3. The preliminary study findings did not warrant proceeding to a full performance audit. However, because corporate sponsorship is likely to be a growing area of importance for the Commonwealth, the ANAO concluded that there was value in producing, from the findings of the preliminary study, a better practice guide in addition to the audit report. This the ANAO did in cooperation with the agencies audited and other organisations outside the Commonwealth. The guide is presented as an appendix to this report, and is designed to assist Commonwealth agencies to manage their corporate sponsorship arrangements better. It will also be published separately for ease of reference.

1. Introduction

Why we did the study

1.1 Corporate sponsorship was selected as a preliminary study for a number of reasons. It is a growing and largely unregulated area where there are no specific Commonwealth guidelines or policy frameworks to assist those agencies which benefit from corporate sponsorship or those that may be interested in doing so. The pursuit of corporate sponsorship by agencies has Government support and encouragement. Management of corporate sponsorship within agencies involves particular concerns about accountability, probity and ethics.

Definition of corporate sponsorship

1.2 For the purposes of the preliminary study, corporate sponsorship was defined as a business relationship between a Commonwealth agency and a corporate entity or individual which has been entered into for advantage to both parties. The advantages accruing to the agency may be either tangible or intangible. That is, they may be in the form of direct subsidy, 'in-kind' support or the provision of particular expertise. The sponsor may be a company, individual or another Commonwealth agency.

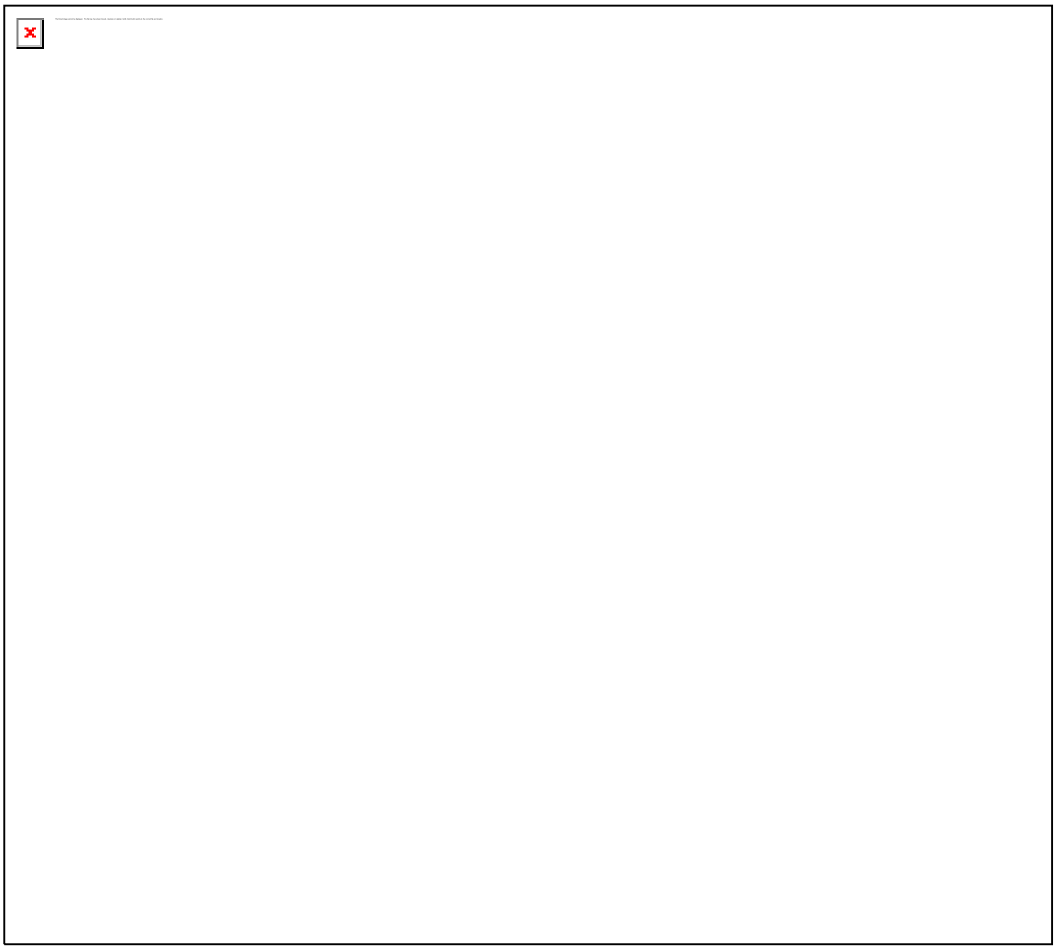
1.3 The *Income Tax Assessment Act 1936* distinguishes between corporate sponsorship and donations. The latter are another source of money, goods or services from the private sector. The Act requires that donations be given unconditionally and voluntarily. They cannot be made as a result of any contractual obligation and the donor is unable to receive anything material in acknowledgment. Tax deductions for donations can be claimed under section 78(1) of the Act. Corporate sponsorship, by comparison, involves a business relationship which both parties enter into with the intent of receiving a material benefit. Deductions cannot be claimed under section 78(1). Corporate sponsors can generally seek the same tax treatment for funds provided as corporate sponsorship as for other legitimate business expenses, regulated under section 51(1) of the Act.

Why agencies seek corporate sponsorship

1.4 The agencies interviewed during the preliminary study sought corporate sponsorship for a number of reasons but largely because it can provide additional resources to assist them to meet their objectives. Corporate sponsorship can also provide opportunities to enhance the marketing of particular activities in co-operation with the sponsor. This is particularly the case where the public sector lacks marketing expertise.

1.5 Figure 1 depicts the total amount of sponsorship obtained in the last five years by the seven agencies involved in the preliminary study. In most cases these amounts are somewhat understated because an assessed value of in-kind, or contra, sponsorship was not included. The latter were considered too costly and too unreliable to pursue.

Figure 1: Trends in corporate sponsorship in selected Commonwealth agencies



Source: ANAO analysis

1.6 Two agencies involved in the study, the National Science and Technology Centre (NSTC) and National Library of Australia (NLA), provided two different examples as to why agencies seek corporate sponsorship. The NSTC receives no specific Budget funding for the establishment and touring of educational exhibitions and programs. In order to undertake these projects it seeks out corporate sponsors to meet the capital costs of new exhibitions and to contribute to the ongoing costs of travelling the exhibition. [1] In contrast, the NLA values sponsorship not only to raise money but also to forge links with the community, which can result in the presentation of a gift to the Library in the future. The NLA exhibition, Changing Coastlines: Putting Australia on the World Map 1493-1993, held during 1993-94, saw the Library receive a gift after forming such a link. Sponsorship money for the NLA is a useful addition to its funding and helps to add quality to projects by, for example, assisting an exhibition to travel, providing a better quality catalogue, or funding wider promotion of an exhibition or activity.

1.7 Only two of the agencies investigated during the study, the Australian Sports Commission (ASC) and Australian National Maritime Museum (ANMM), have provision in their legislation allowing them to seek and obtain sponsorship. [2] In three of the agencies [3] this capacity is derived from the general powers of the agencies. The remaining two, the National Film and Sound Archive (NFSA) and the NSTC, do not have enabling legislation.

Why companies wish to be sponsors

1.8 Companies undertake corporate sponsorship for a variety of reasons, including to:

- provide an alternative to mainstream marketing tools;
- exploit a connection between the sponsored activity and one or more of the company's products;
- generate goodwill towards the company - from stakeholders (e.g. shareholders and staff), the marketplace and the wider community;
- build relationships with the wider community;
- generate brand awareness; and
- use sponsored activities to offer high-quality hospitality to clients as part of the promotion of their organisation.

Audit objectives and scope

1.9 The overall objective of the preliminary study was to determine whether a performance audit of the management of corporate sponsorship was warranted. Specifically, the areas canvassed during the preliminary study were:

- policies and guidelines for the management of corporate sponsorship;
- integration of corporate sponsorship into agency planning;
- contractual arrangements;

- evaluation of corporate sponsorship within the agency;
- valuation and reporting of corporate sponsorship; and
- costs and benefits associated with corporate sponsorship.

Methodology and cost of the study

1.10 The study, including the better practice guide, was conducted from August to November 1996. Interviews were conducted with a variety of Commonwealth and non-Commonwealth entities, including a number of arts and sporting organisations actively involved in seeking corporate sponsorship and several companies which have extensive experience with sponsorship programs.

1.11 The Commonwealth entities whose corporate sponsorship activities were examined during the preliminary study are:

- Australian National Maritime Museum;
- Australian Sports Commission;
- National Film and Sound Archive;
- National Gallery of Australia;
- National Library of Australia;
- National Museum of Australia; and
- National Science and Technology Centre.

1.12 The cost of the study was $90 000 and it was conducted in accordance with ANAO Auditing Standards.

Conclusion

1.13 The seven agencies examined during the preliminary study exhibited differing levels of expertise in their management of corporate sponsorship which was generally satisfactory. Nevertheless, the ANAO found that across the seven agencies there was scope for improvement in a number of areas, particularly in development of sponsorship policies and guidelines, evaluation of the costs and benefits associated with sponsorship, the use of evaluation and performance indicators, and reporting of in-kind sponsorship.

1.14 The preliminary study findings did not warrant proceeding to a full performance audit. However, because corporate sponsorship is likely to be a growing area of importance for the Commonwealth, the ANAO concluded that there was value in producing a better practice guide in addition to the audit report.

2. Issues for the Management of Corporate Sponsorship

Sponsorship policies and guidelines

2.1 A sponsorship policy should provide guidance on sponsorship principles and practices within an agency. By articulating the conditions under which sponsorship arrangements are entered into, and the manner in which they operate, policy documents can assist to maximise opportunities for raising corporate sponsorship in an ethical context. Corporate sponsorship policies not only provide a necessary structure in which to seek sponsorship but can also assist to minimise the risk of corruption and conflict of interest and any perception that these latter elements may be present within the agency. In this way, a sponsorship policy can protect the reputation of the agency and its staff. Useful elements of a sponsorship policy include guidance on incorporating elements of probity and integrity into the decision-making process and guidance on managing and resolving potential problems with sponsors.

2.2 Of the seven agencies examined during the preliminary study, only three, the ANMM, NSTC and National Museum of Australia (NMA), have developed sponsorship policies. The NFSA has gone through the process of devising sponsorship guidelines which are mentioned in its Marketing Policy. Although drafts of the NFSA guidelines were examined during the ANAO study it does not appear that they have been finalised.

2.3 The New South Wales Independent Commission Against Corruption (ICAC) [4] recommends that sponsorship policies should include details such as:

- the aims and objectives of sponsorship for the agency;
- the ethical issues to be considered in a sponsorship relationship;
- guidelines for deciding on appropriate and acceptable sponsors, assessing potential sponsorship projects, and negotiating a sponsorship agreement;
- appropriate forms of acknowledgment for sponsorship and benefits for sponsors;
- monitoring and reporting requirements;
- accountability mechanisms to make sure that information about the full nature and extent of sponsorship agreements is available to the public; and
- evaluation methods for assessing the outcomes of a sponsorship project for both the sponsor and the organisation.

2.4 The ANAO noted that the policy documents of the ANMM, NSTC and NMA include references to aims and objectives, guidance on what are considered to be inappropriate sponsors, and appropriate forms of acknowledgment. The ANMM policy also includes details of assessment procedures and guidance on monitoring and reporting sponsorship activities.

2.5 None of the policy documents examined refers to accountability mechanisms or evaluation methodologies. With regard to accountability mechanisms, the ANAO recognises that it is not always feasible to disclose the full extent of sponsorship agreements to the public. Sponsorship agreements are often commercial documents with the details classified as commercial-in-confidence. However, to keep the public properly informed, agencies could, at least, include information in annual reports such as the names of the agency's sponsors and the amount of sponsorship provided.

2.6 The corporate sponsorship policies of these three agencies also include useful items additional to ICAC's recommended list. These items include:

- a definition of sponsorship;
- the requirement for a contract to be entered into for sponsorship over a specified amount;
- the treatment of funds from sponsorship as public money to be properly accounted for;
- the commitment that sponsorship would not influence the content or interpretation of any program or service;
- a commitment to protecting the name and goodwill of the agency; and
- the impact of sponsorship on tendering.

2.7 The ANAO found that all three agencies with sponsorship policies identified certain categories of sponsors with which the agency would not enter into a sponsorship agreement. Examples of organisations from which sponsorship would not be accepted include those with connections to tobacco, armaments and animal testing activities. One agency also noted that it would consider, on a case-by-case basis, whether to accept sponsorship from competitors of existing sponsors and other governments or countries which had been the subject of a Government ruling. The ANAO considers that guidance in the policy as to those corporations acceptable to the agency as sponsors, either to the agency as a whole or for specific projects, is necessary for managers of the sponsorship program. Rather than being an exhaustive list of named companies, this could simply be a statement that sponsorship would not be accepted from corporations engaging in particular activities or those from certain industries. The choice of sponsor is important as, by accepting corporate sponsorship, the agency is allying its name and reputation with that of the sponsor. Agencies should ensure that they and their functions are not compromised in any way by offers of sponsorship. The ANAO noted that the NLA did not accept sponsorship from a drug company for its Medline service as it could have led to a perception of conflict of interest.

The potential for sponsors to influence agency activities

2.8 The provision of sponsorship does not entitle a sponsor to persuade an agency to manage its business in ways that it would not otherwise have done or to require that any project should be undertaken differently from the way that the agency determines. One of the risks associated with corporate sponsorship is that the public may perceive that improper influence has occurred. Alternatively, without clear guidelines, a sponsor could assume that it had a duty or entitlement to exercise such influence for mutual advantage.

2.9 The NMA sponsorship guidelines state 'The Museum and its staff will not allow a sponsor to determine the content or interpretation of any program or service'. [5] Similarly, the National Gallery of Australia's (NGA's) code of ethics states that 'The Gallery, when using commercial support and sponsorship for its collections and activities, must ensure that standards, goals and integrity of the Gallery are not compromised by such relationships'. [6]

2.10 The ANAO noted a submission to the recent evaluation of the NSTC stated that perceptions exist that some of the NSTC's programs have been heavily influenced by sponsors. [7] A concern expressed by the NSTC during the review was that total reliance on sponsorship can create the potential for marketing objectives to unduly influence the design of exhibitions. [8] However, it may not be possible to avoid this totally when the choice of sponsorship is dominated by the availability of funds from particular sponsors.

2.11 The NSTC acknowledged that it is inclined to accommodate the sponsorship offers it receives and will attempt to work them into the agency's program. The NSTC relies heavily on corporate sponsorship to support new exhibitions and the touring of exhibitions. Where a company offers sponsorship, the NSTC will endeavour to work the offer into its education and exhibition programs. This can result in exhibition priorities and planning being altered.

2.12 The ANAO observed that one of the consequences associated with agencies actively seeking sponsorship is an increased volatility in planning and budgeting which results from sponsors electing to support activities which may be a low priority for the agency or, in some cases, to support a project which it had not previously considered doing. For example, within the ANMM, prioritising projects is an ongoing process, with shifts occurring according to the availability of funds, which includes both from appropriations and corporate sponsorship. Some projects in the ANMM can go ahead only if they receive sponsorship. Sponsored activities that were not originally identified as a high priority have been undertaken ahead of projects which were initially deemed to be a higher priority. Receipt of sponsorship has also meant that some core projects have been implemented more elaborately or in a different way from that originally envisaged by the ANMM; examples included the design of the Museum's entrance and the roof lighting.

2.13 The ANAO considers that it is reasonable for receipt of sponsorship to be one factor determining the priority of projects, provided that core agency objectives or effectiveness are not compromised. The ANAO found no evidence to suggest that any such compromise had occurred in the agencies it examined.

Codes of conduct

2.14 Ideally, a code of conduct is not simply a document but the outcome of a proactive approach by agencies to promote appropriate behaviour and beneficial results as well as to prevent fraud. In the management of corporate sponsorship, a code of conduct should aim to provide guidance to ensure the probity of staff dealings with sponsors.

2.15 The NGA is the only agency of those reviewed during the preliminary study which has a code of ethics or of conduct which includes reference to corporate sponsorship. The NGA's code of ethics makes reference to not compromising the Gallery and states that the names and logos of corporate sponsors should not be made more prominent than that of the Gallery's.

2.16 Several agencies did not have their own codes of conduct but adhered to others'. For example, the ANMM uses the Museum Council's Code of Conduct. But, most commonly, it is the Guidelines on Official Conduct of Commonwealth Public Servants that is used. Although corporate sponsorship is not specifically included in these guidelines, they do refer to the acceptance of sponsored travel, gifts and other benefits.

2.17 The ANAO considers that where an agency uses, or proposes to use, corporate sponsorship, issues relating to corporate sponsorship should be addressed in agency codes of conduct. Where an agency does not have its own code of conduct, it could consider developing a statement of ethical principles and practices dealing specifically with corporate sponsorship matters without reinventing the wheel but recognising any particular agency factors.

Planning

2.18 The ANAO noted that all agencies reviewed during the preliminary study included some consideration of corporate sponsorship in their formal planning. One agency had a revenue target for both in-kind and cash sponsorship. Another agency planned to seek sources of funding to develop and tour exhibitions. The same agency also proposes to develop business and marketing plans for all revenue-raising activities.

2.19 The agencies reviewed generally had forward plans for exhibitions or programs which considered funding options, including corporate sponsorship.

Table 1: Corporate Sponsorship in Agency Plans

Agency	Sponsorship is mentioned in corporate or strategic plan	Sponsorship is mentioned in operating or business plan	Sponsorship is mentioned in marketing or development or fundraising plan
ANMM	yes	yes	excluded
ASC	yes	yes	yes
NFSA	n.a.	no	yes
NGA	yes	in draft	in draft
NLA	no	yes	n.a.
NMA	yes	n.a.	yes
NSTC	yes	yes	yes

Source: ANAO analysis of agency plans

2.20 The uncertainty associated with securing sponsorship funds causes problems for planning within agencies. For example, the ANMM reported that, in any year, it is necessary to have well-advanced planning for a number of projects knowing that at best only half, and probably less, will eventuate. It noted that having the capacity to change priorities to be able to respond to potential sponsors is an integral part of successfully managing a mix of funding from appropriations and sponsorship revenue. The ANMM further noted that every part of the agency was affected by the uncertainty this created. For example, curatorial staff prepare detailed plans for one exhibition and then have to proceed with another, often with less lead time. Managers, with a number of reporting responsibilities, including annual reporting of income and expenditure, find that changing priorities results in having to make continuous revisions to budgets and plans which necessitate additional reports and variations in advice to Ministers and Boards or Councils.

2.21 The ANMM also noted that, in general, agency planning processes deal mainly with policy and expenditure and are not strongly focused towards revenue generation. It is clear that agencies developing corporate sponsorship programs need to factor revenue considerations into all aspects of their budgetary and business planning processes.

Contracts and the need to obtain Ministerial approval

2.22 Corporate sponsorship agreements within agencies can be based on a handshake, an exchange of letters or a formal contract, depending on the level of administrative control within the agency and the sponsor's attitude and approach. The preference of the NSTC is to have agreements in writing to ensure that there are no misunderstandings. The experience of the ANMM suggests that this is prudent, as, on occasion, it has had to enforce contracts. As contracts are legally binding there is at least recourse for resolution of disputes through the legal process.

2.23 The ANAO considers that it would be of benefit to agencies to set a level of sponsorship at which contracts should be drawn up. Those sponsorship arrangements for quite small amounts, for example below $5 000, may not require a formal contract. In such cases an exchange of letters would generally be sufficient. Among those agencies with sponsorship policies only the ANMM has a requirement that contracts be entered into for sponsorships over a set amount. In that case it is for amounts over $50 000. [9] The NSTC has an informal limit of $500 000 at which it requires a contract to be drawn up.

2.24 ICAC sponsorship principles recommend that sponsorship arrangements should be in writing and should include the following:

- the benefits, including the economic benefits, available to the sponsored agency and to the sponsor;
- any personal benefits available to staff of the sponsor and their relatives;
- the form or forms of sponsorship acknowledgment which will be available;
- the term of the sponsorship and any conditions regarding renewal;

- consequences of changes which may occur over time (for example, a shift in the relationship, new policies);
- financial accountability requirements; and
- any special conditions which apply.

2.25 As part of the preliminary study the ANAO reviewed a selection of contracts used by the agencies. Most of the elements recommended by ICAC were found to be present in all. The ANAO noted that the NGA contracts included an additional and quite useful element - a mechanism to calculate the proportion of funds to be paid back should the sponsorship be terminated.

2.26 The agencies examined during the preliminary study put the view to the ANAO that it was not possible to have a standard contract for sponsorship. The ANAO considers that while individual agreements can and should vary, there should be, as a minimum, a generally applicable standard framework which would be useful for all parties as shown in other Commonwealth procurement contracts. Contracts or some form of written agreement should be used where the sums involved are significant or the sponsorship relationship will span other than a short period of time.

2.27 None of the agencies examined during the preliminary study had legislation specifically requiring it to seek Ministerial approval when entering into agreements for corporate sponsorship. Instead, the enabling legislation of some of the agencies examined requires them to obtain Ministerial approval prior to entering into contracts over a specified amount. The following table details for each agency, its enabling legislation and the amount of a transaction for which Ministerial approval is required.

Table 2: Legislative Authority to Enter into Contracts or to Purchase and Dispose of Assets

Agency	**Legislative authority**	**Amount ($)**	**Wording**
ANMM	*Australian National Maritime Museum Act 1990* s.47 Contracts	>250 000	pay or receive
ASC	*Australian Sports Commission 1989* s.47 Contracts	>500 000	payment or receipt
NFSA	Does not have enabling legislation		
NGA *	*National Gallery Act 1975* s.38 Power to purchase and dispose of assets	>250 000	acquire or dispose of any property, right or privilege
NLA *	*National Library Act 1960* s.7A Power to purchase and dispose of assets	>250 000	acquire or dispose of any property, right or privilege
NMA	*National Museum of Australia Act 1980*	>250 000	pay or receive

	s.7(b) Limit on contracts		
NSTC	Does not have enabling legislation but has sought Ministerial approval on occasion, in line with sections of its draft legislation.		

** The enabling legislation of the NGA and NLA does not contain a section specifically addressing contracts.*

2.28 The ANMM and ASC were two agencies which complied with legislative provisions and sought Ministerial approval for contracts with corporate sponsors. The ANMM noted in its sponsorship policy that 'sponsorships exceeding $250 000 in value require the prior approval of the Minister ...'. [10]

2.29 The NGA has not sought Ministerial approval to date because it sees the contracts involved as being for the Gallery to obtain something of value, with the benefits it is providing to the sponsor worth less than $250 000. The enabling legislation of the NGA and NLA do not contain a section relating to contracts. Each does, however, have a section concerning the purchase and disposal of assets. Under that section, each agency must obtain Ministerial approval before acquiring or disposing of any property, right or privilege (other than a work of art in the case of the NGA) where the value exceeds $250 000.

2.30 Given that corporate sponsorship could be seen to be acquiring or disposing of a 'privilege' (as described above), the ANAO considers that it would be prudent for agencies to obtain Ministerial approval before entering into sponsorship agreements above amounts designated in the section of their legislation concerning contracts or the purchase and disposal of assets.

2.31 The NSTC advanced another reason that some agencies may not feel the need to seek Ministerial approval. The opinion expressed by the NSTC was that legislation largely regulates expenditure; revenue is not generally covered. This lack of focus on generating revenue was also recognised by the ANMM with regard to planning.

2.32 Clearly, agencies entering into sponsorship agreements should comply with any legislative provisions that require Ministerial approval before entering into a contract or purchasing or disposing of assets. However, where uncertainty exists, this should be clarified through early legal advice.

Costs and benefits associated with sponsorship

2.33 The agencies examined during the preliminary study were largely unable to quantify the amount they spent on acquiring sponsorship and sponsorship-related activities. Simply put, if an agency is unable to quantify the costs associated with arranging sponsorship, it will not know whether its sponsorship activities are cost-effective.

2.34 The costs associated with sponsorship usually fall into four main areas:

- searching for a potential sponsor;
- developing an agreement with a sponsor;

- providing the agreed benefits to the sponsor; and
- building an ongoing relationship with the sponsor.

2.35 Searching for new sponsors can involve extensive research and relationship building. Some agencies have referred to the costs in doing this as 'investment costs'. Such costs may be quite high depending on how long it takes to secure a sponsor. The ANMM gave one example of approaching twenty companies before finding one that wished to sponsor a particular exhibition. The costs of searching for potential sponsors can be reduced if the potential sponsor is already known to the agency or has been a sponsor in the past.

2.36 The NGA reported that, while it did not have the processes in place to capture costs, these would probably be around 30-40 per cent of the value of the sponsorship obtained. Although the NSTC did not quantify these costs, it noted that there was internal pressure to minimise them. The ANAO considers that the NSTC, ASC and ANMM are better able to determine the costs associated with sponsorship than are other agencies in the study. The ASC employs a consultant who deals largely with sponsorship. The NSTC is able to quantify the cost of maintaining a sponsorship officer and the sponsorship budget. The ANAO found that the agency in the best position to calculate the cost of sponsorship was the ANMM, which employs a sponsorship manager and allocates a specific budget for sponsorship activities. The sponsorship manager is also required to report to the ANMM's Council on sponsorship-related expenditure. However, these costs do not include the cost to the ANMM of structuring or designing an exhibition that companies might wish to sponsor.

2.37 None of the seven agencies included in the preliminary study placed a limit on the amount it spent on attracting and maintaining sponsorships. A useful benchmark is employed by the Sydney Symphony Orchestra (SSO), which limits the amount it spends on servicing sponsors to 10 per cent of the total income received from sponsorship. It advised that this limit was set when it was a division of the Australian Broadcasting Corporation and that it is currently included in the SSO Corporate plan as a performance indicator for 1996-97.

2.38 As well as the direct costs involved in building relationships with potential sponsors and maintaining relationships with existingsponsors, generating corporate sponsorship can involve other costs to the agency, including the time spent by senior staff and agency Directors or CEOs on developing good relationships with potential and existing sponsors. Time spent by agency CEOs can be considerable, even when there are staff responsible for the corporate sponsorship program. For many sponsors the first point of contact is usually with the head of an agency. These costs should be factored into the costs associated with the sponsorship program. Estimates of the amount of their time that agency CEOs spent on sponsorship matters ranged from 5 per cent to 25 per cent and were greater if time involved in relationship building was included. One extreme example, given by the NSTC, was of ten years of ongoing discussions it had with a major corporation before it agreed to be a sponsor.

2.39 Another aspect of the costs and benefits of corporate sponsorship is the method used by the agency to determine how to price the services which it offers to sponsors. The specific benefit provided to a sponsor is public association with the Commonwealth agency in the delivery of a public good or service. If this association is not valued properly the agency could be selling itself short. Agencies told the ANAO that their sponsorship programs offered very good value for money, especially when compared with the cost of print and television advertising. In recognising the value that they can offer, agencies may find it useful to develop measures and to set benchmarks for the range of benefits they offer and provide to sponsors.

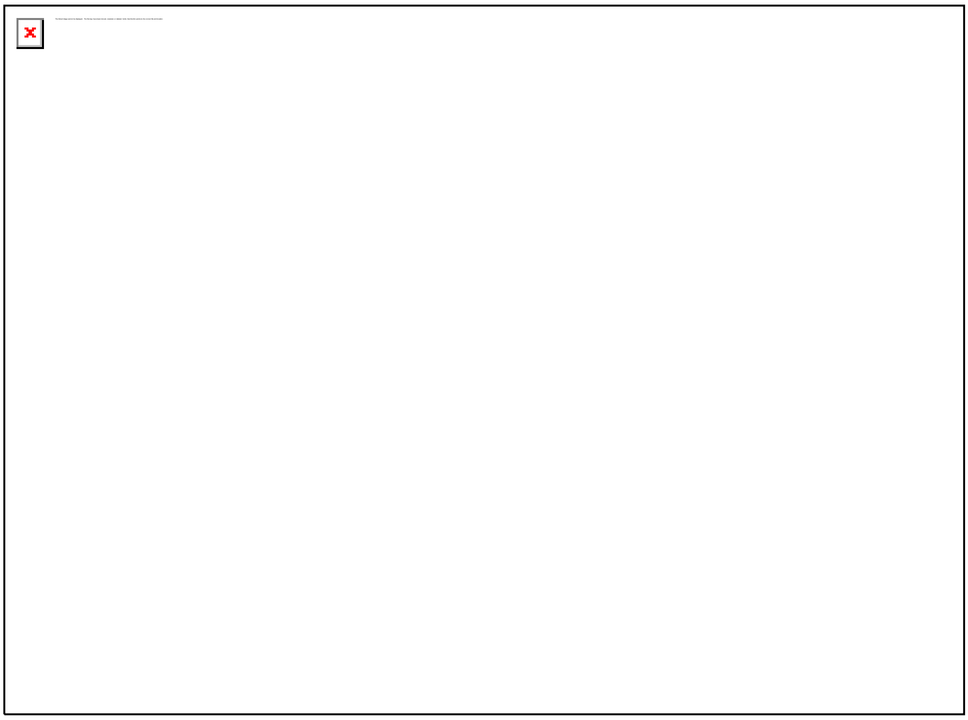
Reporting of in-kind sponsorship

2.40 Of the two types of sponsorship, cash and the provision of goods or services ('in-kind' sponsorship), agencies generally prefer cash sponsorship because it offers them a greater degree of flexibility. Agencies reported that organisations often prefer to give in-kind or *contra* sponsorship. The agencies examined believed that this was because of a perception held by sponsors that it does not cost them as much to provide in-kind sponsorship as it does cash sponsorship or that, at most, it is seen as being a marginal addition. Agencies found that in-kind sponsorship requires more complex management. It could be used directly by the agency; it could be sold to generate revenue; it might be passed on to agency clients; or it could be disposed of in some other way.

2.41 While the agencies examined in the preliminary study report cash sponsorship in their financial statements, most do not include in-kind sponsorship. In some cases a list of sponsors is included in the annual report, which may include the specific organisations which provided in-kind sponsorship. The lack of reporting of in-kind sponsorship means that it is not as transparent as cash sponsorship although it attracts the same degree of risk. The ANAO considers that lack of disclosure of in-kind sponsorship weakens public accountability and carries the same potential for allegations of impropriety as it does with cash sponsorship. This is especially true in instances where in-kind sponsorship forms a considerable portion of the income an agency generates through corporate sponsorship.

2.42 As an example, Figure 2 following indicates the percentage of total sponsorship that the ASC has received as in-kind sponsorship over the last five years. The ASC is one of the few agencies reviewed during the preliminary study that measures its in-kind sponsorship. As can be seen from the figure, at times a high proportion of the revenue generated has been in the form of in-kind corporate sponsorship. If the other agencies involved in the preliminary study attracted similar levels of in-kind support, the reported levels of corporate sponsorship would be significantly understated.

Figure 2: Percentage of In-kind Sponsorship received by the Australian Sports Commission for the last five years



Source: ANAO analysis of revenue figures supplied by the Australian Sports Commission.

2.43 The most common reason given to the ANAO for lack of reporting of in-kind sponsorship was the inherent difficulty of valuing it. For example, the NSTC likened the valuing of in-kind sponsorship to trying to value a work of art. Other reasons for not valuing and reporting in-kind sponsorship included:

- agencies lack the resources to be able to value their in-kind sponsorship;
- in-kind sponsorship may not be regarded as material in terms of the overall accounts or in terms of the total sponsorship the agency receives; and
- some companies do not wish to disclose the value of the goods or services they have provided to an agency.

2.44 Among the agencies examined during the preliminary study, three made attempts to value all or parts of the in-kind sponsorship that they received as follows:

- ASC - uses the retail or wholesale price of goods received. In some cases it receives vouchers from sponsors entitling it to services such as hotel accommodation or travel. In these cases the ASC values the services at market value. A mixture of these valuation methods is used.
- ANMM - uses a variety of wholesale and retail prices and usually obtains a statement of value from the sponsor; and
- NSTC - if the sponsor gives the Centre an exhibition it will be recorded and valued as an asset.

2.45 The ANAO noted that receipt of in-kind sponsorship may be included by agencies in their internal reports, project documents or project budgets. However, there is no consistency in these respects across agencies. There was a recognition among the agencies reviewed that the valuation and reporting of in-kind sponsorship is an area on which they needed detailed guidelines. The ANAO noted that the majority of agencies had not thought through issues of valuation or reporting relating to in-kind sponsorship and had consequently been slow to develop adequate processes and procedures.

2.46 The ANAO considers that in most circumstances it should be relatively easy to value in-kind sponsorship with a reasonable degree of accuracy. In-kind sponsorship should be recognised in the financial statements as revenue and assets at their fair value on receipt by an agency. [11] The 'fair-value' of in-kind sponsorship is the amount that would be exchanged between a willing buyer and a willing seller. [12] Wholesale prices are appropriate only where the agency regularly has access to such prices in its normal dealings.

Use of evaluation and performance indicators

2.47 The ANAO found that most agencies examined during the preliminary study evaluated their corporate sponsorship programs in a somewhat ad hoc manner. For example, in responding to an ANAO question about its evaluation of sponsorship, one agency replied that most sponsors ask for media clippings and a report at the end of the sponsorship arrangement. Although most agencies conducted some evaluation, these were usually for the sponsor's benefit, not internal evaluations of whether sponsorship was cost-effective from the agency's perspective.

2.48 The ANAO found that performance indicators are not used to any great degree to measure outcomes of sponsorship. Both the ANMM and ASC use a revenue target as a performance indicator. The ASC Marketing Strategy includes other indicators which it suggests could be used to measure the benefits to agencies as a result of associations with sponsors. These include:

- the quantum of funds raised;
- the amount and quality of promotion, public relations and media advertising generated by the sponsor;
- the right fit and prestige of association ('the better the names we are associated with the more likely we are to attract additional sponsors');
- access to products and services needed for its programs; and
- developing partnerships for the general good of sport.

2.49 The ANAO noted that the SSO uses a measurement that agencies could use as a target or could adapt for use as a performance indicator. As indicated earlier, the SSO has set a limit of 10 per cent of the total sponsorship income received as the amount the Orchestra will spend on servicing sponsors.

Table 3: Use of Performance Indicators and Evaluation of Corporate Sponsorship

Agency	Performance indicators	Form of indicator	Evaluation	Form of evaluation

			of project	
ANMM	Yes	revenue target	Yes	Compares amount of sponsorship achieved against resources expended in obtaining sponsorship.
ASC	Yes	revenue target	Yes	Discussions are held with sponsors during and at end of the sponsorship.
NFSA	No		Yes	Reports to NFSA Council four times a year on sponsorship activities. Identifies measures of success and failure before enter into a sponsorship, and analyses results after the event. Does not have benchmarks but rather indicators of what results NFSA wants from the sponsorship.
NGA	No		No formal mechanism	Talks to sponsor throughout sponsorship and provides a media report.
NLA	No		Some	Dialogue with sponsor throughout process. A detailed report and acquittal are supplied to some sponsors after the event.
NMA	No		Yes	Provides sponsors with evaluation reports.
NSTC	Yes	In individual contracts	Yes	Annual evaluation for certain projects, mid-point evaluation for others.

Source: ANAO analysis of agency data

2.50 Performance indicators or objectives have also begun to be specified by the NSTC in contracts. For example, in one contract they form the basis of regular feedback to the sponsor and in another contract can provide the basis for terminating the contract.

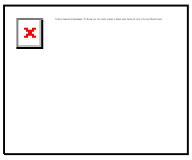
The extent to which evaluation of, and performance indicators for, corporate sponsorship were used by the agencies examined during the preliminary study is displayed in Table 3.

Conclusions

2.52 The study found that the extent to which corporate sponsorship is used by agencies varies markedly. The effectiveness of their management practices generally reflects the degree to which the agencies were committed to, or reliant on, corporate sponsorship. Generally, these arrangements are not financially material. The study identified opportunities for agencies to improve their performance in generating and managing corporate sponsorship, particularly in developing their sponsorship policies and guidelines, evaluating their costs and benefits associated with sponsorship, their use of evaluation and performance indicators, and reporting of in-kind sponsorship.

2.53 The ANAO found that there were no guidelines generally available to Commonwealth agencies to support their corporate sponsorship programs. Therefore, as a part of this project, we have developed a better practice guide, in consultation with a number of Commonwealth agencies and external organisations, to assist agencies to develop a more effective management framework for such sponsorship.

2.54 The preliminary study findings did not warrant proceeding to a full performance audit. However, the ANAO concluded that, because corporate sponsorship is likely to be a growing area of importance for the Commonwealth, the development and publication of a better practice guide would be a useful contribution to the improvement of public sector administration and accountability.



P. J. Barrett
Auditor-General

Canberra ACT
24 March 1997

Appendix 2 - Performance Audits in the Communications and the Arts Portfolio

Set out below are titles of the reports of the main performance audits by the ANAO in the Communications and the Arts Portfolio tabled in the Parliament in the past three years.

Audit Report No. 9 1993-94
Community Cultural, Recreational and Sporting Facilities Program

Audit Report No. 17 1993-94
Underperforming Officers in the APS - A Question of Efficiency

Audit Report No. 36 1993-94
Australian National Maritime Museum
Commercial Operations

Audit Report No. 31 1995-96
Environmental Management of Commonwealth Land
Site Contamination and Pollution Prevention

Audit Report No. 33 1995-96
Joint Commercial Arrangements

Audit Report No. 6 1996-97
Commonwealth Guarantees, Indemnities and Letters of Comfort

Audit Report No. 7 1996-97
IT Acquisition Councils

Audit Report No. 16 1996-97
Payment of Accounts

Footnotes

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1. *Review of the National Science and Technology Centre*, March 1996 (page 6).
[Back]

2. ASC - *Australian Sports Commission Act 1989* s.8(1)(j);
ANMM - *Australian National Maritime Museum Act 1990* s.6(f).
[Back]

3. NGA; NLA; NMA.
[Back]

4. ICAC, *Practical Guide to Corruption Prevention.*
[Back]

5. National Museum of Australia, Sponsorship Policy, Guideline 4.4.
[Back]

6. *Australian National Gallery Code of Ethics* (page 7).
[Back]
7. Submission from Patrick Filmer-Sankey, Director, Newcastle Regional Museum, to the evaluation of the NSTC, 9 October 1995. *Review of the National Science and Technology Centre*, March 1996.
[Back]

8. *Ibid*., (page 29).
[Back]

9. ANMM Sponsorship Policy (page 3).
[Back]
10. ANMM Sponsorship Policy (page 3).
[Back]
11. See December 1996 determination by Australian Accounting Research Foundation Urgent Issues Group.
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Australian *Accounting Standard 21 - Acquisition of Assets*.