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Audit Report No.2 2008–09
Performance Audit

Tourism Australia

Australian National Audit Office

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Canberra ACT
6 August 2008

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Tourism Australia in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Tourism Australia*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Contents

Abbreviations.....	7
Glossary	9
Summary and Recommendations	11
Summary	13
The Australian tourism industry	13
Tourism Australia	13
Marketing strategies.....	15
Audit objective, scope and methodology	15
Overall conclusion.....	16
Tourism Australia's response.....	18
Key findings.....	19
Recommendations	29
Audit Findings and Conclusions	31
1. Background and Context	33
The Australian tourism industry	33
Tourism Australia	33
Marketing strategies.....	36
Audit objective, scope and methodology	40
2. Selecting and Contracting Service Providers	42
Introduction	42
Procurement of services	44
Developing the contracts	49
Cooperative airline agreements	53
3. Managing Service Delivery	54
Introduction	54
Managing overarching creative development and media placement contracts.....	56
Delivery of regional projects through the overarching contracts.....	60
Digital services contract	62
Global media contracts	63
4. Governance Arrangements	65
Introduction	65
The Tourism Australia Board	66
Tourism Australia's planning and performance framework.....	71
Performance management and reporting	75
Improving Tourism Australia's performance reporting	78

Appendices	81
Appendix 1: Tourism Australia's Response.....	83
Appendix 2: Tourism Australia's Strategy Map	88
Appendix 3: Intermediate Outcomes - Example.....	89
Appendix 4: Assessing Tourism Australia's Impact on the Tourism Industry.....	90
Series Titles.....	92
Current Better Practice Guides	93

Figures

Figure 1.1	Tourism Australia's organisational structure and relationships	36
Figure 1.2	The four tiers of Tourism Australia's target markets ⁽¹⁾	38
Figure 1.3	Consumer purchasing cycle for travel model - Tier 1 countries ⁽¹⁾	39
Figure 2.1	Relationships between Tourism Australia and service providers to deliver its marketing projects	43
Figure 3.1	Relationships between projects and the global marketing contracts	54
Figure 4.1	Planning and performance reporting model for Tourism Australia.....	72
Figure 4.2	Tourism Australia's Outcome and Output Groups	76

Abbreviations

ABS	Australian Bureau of Statistics
Act (the)	The Tourism Australia Act 2004 (Amended 2007)
AGS	The Australian Government Solicitor
ANAO	The Australian National Audit Office
ATE	Australian Tourism Exchange
Board (the)	The Tourism Australia Board
CAC Act (the)	The Commonwealth Authorities and Companies Act 1997
Charter (the)	The Tourism Australia Board Charter
CPGs	The Department of Finance and Administration's Commonwealth Procurement Guidelines 2005
Department (the)	The Department of Resources, Energy and Tourism
FMOs	Finance Minister's Orders
former Department (the)	The Department of Industry, Tourism and Resources
former Minister (the)	The Minister for Small Business and Tourism
GDP	Gross Domestic Product
guidelines (the)	Tourism Australia's Procurement Policy and Guidelines 2005 (updated 2006 and 2007)
IVS	International Visitors Survey
KPI	Key Performance Indicator

Minister (the)	The Minister for Tourism
MoU(s)	Memorandum/a of Understanding
NVS	National Visitors Survey
PBS	Portfolio Budget Statements
PI	Performance Indicator
PM&C	The Department of the Prime Minister and Cabinet
RFT	Request for Tender
SoW/s	Statement/s of Works
STOs	State and Territory Tourism Organisations
White Paper (the)	Tourism White Paper – A Medium to Long Term Strategy for Tourism, 2003

Glossary

<i>australia.com</i>	An online tourism network gateway site that was developed as a joint initiative of Tourism Australia and the STOs.
creative development	The process to design advertising campaign/s.
digital services	The process of providing information technology services, particularly in relation to <i>australia.com</i> .
media placement	This is the planning and purchasing of the media option considered the most effective to deliver Tourism Australia's advertising message.
Portfolio Budget Statement (PBS)	The Statements to inform Senators and Members of Parliament of the proposed allocation of resources to government outcomes.
probity adviser	Provides advice on issues which may arise before and during the procurement. While probity advisers cannot act as decision makers, they are involved in ensuring the integrity of the process in real-time and are likely to be under the broad direction of the client.
probity auditor	Provides a review of the procurement process, or a review of key phases, after completion. A probity auditor should be largely self directing and, as a result, should have a higher degree of independence than a probity adviser.
regional offices	There are six regional offices that cover Tourism Australia's representation in 23 international markets.
Statement of Expectations	A publicly available statement provided annually by the Minister to each agency head in the portfolio outlining government expectations of that agency for the following 12 months.

Statement of
Intent

The head of a government agency's publicly available response to the portfolio Minister against the Statement of Expectations that sets out what the portfolio will achieve in the relevant year.

Summary and Recommendations

Summary

The Australian tourism industry

1. Tourism is a key driver for the Australian economy. In 2006–07, tourism accounted for 3.7 per cent (\$38.9 billion) of total Gross Domestic Product (GDP) and the tourism industry employed 482 800 people, 4.7 per cent of total employment in Australia.¹

2. In 2006–07, 5.6 million international tourists visited Australia, which was an increase of three per cent on the previous year. However, this was less than one per cent of the world's international tourists. During the same period, tourists spent a total of almost \$85 billion on goods and services. Of this, international tourists visiting Australia spent \$22.4 billion.²

3. Australia is a long haul destination for the majority of overseas visitors. This means that distance, time and budget are additional impediments to attracting international tourists. The past three years have also seen fluctuations in the relative value of the Australian dollar, and increases in fuel prices and airfares. These factors have effected the price competitiveness of Australia compared to other tourist destinations. The global tourism environment has also become increasingly competitive with Australia now competing with emerging markets such as China and India.

Tourism Australia

4. Tourism Australia is one of a number of government agencies that market Australia to attract overseas investment. Tourism Australia is responsible for international tourism marketing and the delivery of research and forecasts for the sector. It also provides a national leadership and coordination role for domestic tourism. As an Australian Government statutory authority, Tourism Australia is subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act). It was established on 1 July 2004 by the *Tourism Australia Act 2004*³, (the Act) following the integration of the

¹ Australian Bureau of Statistics, *Tourism Satellite Account 2006–07*, ABS, Canberra, 17 April 2008, pp. 3, 7. Tourism GDP represents the total market value of Australian produced goods and services consumed by visitors after deducting the cost of goods and services consumed in the process of production. It is therefore much lower than total spending.

² The balance (some \$62.62 billion) was spent by Australian residents travelling within Australia.

³ As amended in 2007.

Australian Tourist Commission, See Australia and the Bureau of Tourism Research. Tourism Australia's statutory objects are to:

- influence people to travel to Australia, including for events;
- influence people travelling to Australia to also travel throughout Australia;
- influence Australians to travel throughout Australia, including for events;
- help foster a sustainable tourism industry in Australia; and
- help increase the economic benefits to Australia from tourism.

Organisational structure

5. Tourism Australia is a global organisation with a workforce of some 230 staff located in Australia and overseas. It operates from its head office in Sydney, Research Unit in Canberra and in six regions that cover 23 international markets.⁴ Tourism Australia is governed by a Management Board which, apart from the Managing Director, is chosen by, and responsible to the Minister for Tourism.⁵ The Board is supported by two sub-committees and three industry advisory panels. The Board sets Tourism Australia's strategic direction and develops policy, with the day-to-day operations of Tourism Australia being the responsibility of its Managing Director and executive leadership team.

6. Tourism Australia works closely with the Department of Resources, Energy and Tourism⁶ and other government agencies to share information and develop marketing opportunities. It also collaborates with industry partners and the State and Territory tourism organisations (STOs) to facilitate a range of joint marketing initiatives, both domestically and internationally. The STOs are often co-located with Tourism Australia's overseas offices.

7. From when it was established in 2004 to mid-2008, Tourism Australia has received approximately \$500 million in funding. Of this, \$412 million has been through parliamentary appropriations, with the additional revenue being

⁴ The regions are: United Kingdom, Ireland, Nordic and continental Europe; New Zealand; the Americas; Japan; Asia – North; and Asia – South, South East and Gulf.

⁵ Prior to Ministerial changes on 3 December 2007, the Board was responsible to the former Minister for Small Business and Tourism.

⁶ Prior to the changes in the Administrative Arrangements Orders in December 2007, Tourism Australia's portfolio department was the Department of Industry, Tourism and Resources.

generated through advertising, sale of goods and services, industry contributions and interest earned.⁷ Tourism Australia's budget for 2007–08 was \$163 million.

Marketing strategies

8. Tourism Australia's marketing strategies and advertising campaigns are designed to increase the number of international and domestic tourists, travelling to, and within, Australia. Currently, the markets being targeted are leisure, business and education. A core element of these marketing strategies is to target high yielding international tourists because they are more likely to stay longer, spend more and visit regional areas.

9. Tourism Australia's 'message strategy' is central to the delivery of its international marketing projects and communications. This strategy promotes alignment of marketing activities and helps integrate Australian experiences and products. Tourism Australia uses television advertising, the tourism website *australia.com*, digital communications, public relations and activities with trade events to increase consumers' knowledge of Australia and to build a strong image of what Australia is and what it offers to potential international tourists.

10. Tourism Australia categorises its international markets (countries) into four tiers. These tiers are based on: spend and dispersal objectives; target segments; marketing costs; and relevant external factors, such as the strength of the source market economy. The level and type of international marketing activity varies between countries and is based on these tiers.

Audit objective, scope and methodology

11. The objective of this audit was to assess the effectiveness of Tourism Australia's governance arrangements, the management of its marketing contracts, and whether outcomes are being achieved. The audit reviewed Tourism Australia's:

- procurement processes for selecting service providers;
- management of service provider contracts; and
- governance framework including planning, performance management and reporting.

⁷ *Tourism Australia Annual Report 2005–06*, Tourism Australia, Sydney, September 2006, p. 81.

Overall conclusion

12. Tourism Australia operates globally in a competitive environment. It has primary responsibility for international tourism marketing and also partners with STOs and the tourism sector to increase the overall reach of its marketing activities. Tourism Research Australia also provides research and forecasting data to better understand the consumer, and to inform industry and market development.

13. The majority of Tourism Australia's marketing activities are delivered through its major global contracts for creative development and media placement services. Digital services, including the tourism online gateway *australia.com*, are also delivered under contract arrangements. These three contracts consumed approximately thirty five per cent of Tourism Australia's total budget between 2004–05 and 2006–07, underlining the importance of Tourism Australia having effective processes for selecting and managing its service providers.

14. Tourism Australia's policies and guidelines provide a sound framework for undertaking complex procurements and managing its contracts. However, relevant guidelines were not followed when procuring its global creative development and media placement services and, to a lesser extent, digital services. In particular, procurement plans were not developed and the risks to the successful completion of these procurements were not assessed.

15. The assessment and selection process for digital services was generally well done. However, the creative development and media placement tenders were re-evaluated at the request of the Department of the Prime Minister and Cabinet following concerns raised by the former Minister about the evaluation process for short listing submissions. The documentation to support the original assessment was also not comprehensive and, as a consequence, the selection of these service providers lacked transparency.

16. The services provided under these major contracts, which to date are valued at in excess of \$184 million⁸, are fundamental to the success of Tourism Australia's marketing initiatives. The contracts accurately reflected the services to be provided. However, the media placement and creative development contracts did not include performance information that would enable Tourism Australia to evaluate the effectiveness of the services provided even though, as part of a review of the draft contracts, this was recommended. These contracts

⁸ This covers the period 1 July 2005 to 29 February 2008.

were due to end in June 2008 and have been extended to August to allow for transition arrangements to be put in place.

17. Although Tourism Australia has recently re-tendered for these services, it has not evaluated the current contracts to determine the extent to which the services provided contributed to Tourism Australia meeting its statutory objectives.⁹ It will be important when negotiating new contracts that Tourism Australia includes performance indicators that will enable it to assess whether the services provided under these contracts are achieving the objectives of the contract and, ultimately, assisting Tourism Australia to achieve its outcomes.

18. Tourism Australia and its providers are generally complying with contract requirements. It is apparent that Tourism Australia has implemented better contract management practices for the later digital services contract and applied some 'lessons learned' from its earlier contracting experiences.

19. As would be expected with a global organisation such as Tourism Australia, there is variation across regions in how marketing projects are delivered under the global contracts. Tourism Australia could draw on areas of better practice across the regions to achieve greater consistency in the preparation of project briefs and assessment of the risks to projects. In addition, if Tourism Australia is to be in a position to demonstrate the impact of its marketing projects, the project objectives should be measurable and the key performance indicators (KPIs) appropriate. The effectiveness of each project is central to how Tourism Australia assesses its overall performance in meeting its outcome and statutory objectives.

20. Tourism Australia needs to balance operating in a commercial environment with its mandate as a government agency, working within an accountability framework and being responsible to the Minister for Tourism and, through the Minister, to the Parliament. The CAC Act and the Act largely determine the governance requirements of Tourism Australia and its Board. These requirements are incorporated in the Board's Charter, which also includes the Board's role and responsibilities, collectively and as individual directors. The Charter is a document that, generally, establishes a sound management and governance framework for Tourism Australia and the Board.

21. However, a number of industry stakeholders expressed the view that the perceived conflicts of interest of Board members are a major risk to Tourism Australia's reputation. It is therefore important, particularly in the

⁹ Tourism Australia's statutory objectives are detailed in paragraph 4 and outlined in the contracts.

competitive tourism industry, that the decisions of the Board are transparent and that any perceived or actual conflicts are being (and are seen to be) appropriately addressed. The Board did not adhere to the procedures outlined in its Charter for managing potential conflicts of interest and revised the Charter to reflect its practices rather than procedures being changed to meet the Charter's requirements.

22. Tourism Australia is to report annually against its expected outcome in the Resources, Energy and Tourism Portfolio Budget Statements (PBS), its statutory objectives in the Act and its corporate plan. It has found reporting its performance against these requirements difficult. Currently, there is no clear alignment between the statutory objectives, Tourism Australia's performance framework in its corporate plan and the stated outcome and output groups in the PBS. Also, the indicators used to measure Tourism Australia's performance are primarily for the industry as a whole rather than the success or otherwise of Tourism Australia's marketing activities. Evaluating the impact of its projects, aggregating these results and developing intermediate outcomes, would place Tourism Australia in a better position to measure its own effectiveness and impact.

23. The ANAO has made three recommendations aimed at improving Tourism Australia's governance arrangements, relating in particular to: revised conflict of interest procedures; strengthening its risk management framework; and reviewing its planning and performance management framework.

Tourism Australia's response

24. Tourism Australia accepts the recommendations of the ANAO performance audit and is taking action to give effect to them. The ANAO report notes that Tourism Australia's policies and guidelines are consistent with the Commonwealth Procurement Guidelines (CPGs) and provide a sound framework for undertaking complex procurements and managing its contracts. Tourism Australia progressively improved its processes to address the issues raised in relation to the creative development and media placement contracts which were entered into in 2005. The selection process for new creative and media placement contracts that commenced in February 2008 was rigorous, transparent and conducted in full accordance with the CPGs. The Tourism Australia Board is currently reviewing its Board Charter to appropriately reflect procedures for dealing with potential conflicts of interest. The Board's current process follows the standard practice where the Chairman seeks declarations of conflict or interest in any matter by any Board member for any

issue to be discussed and then, depending on the nature of such conflict or interest, the Board member concerned is asked to vacate the room while the matter is discussed. The minutes of Board meetings reflect this practice.

Key findings

Selecting and contracting service providers (Chapter 2)

25. Tourism Australia is dependent on the performance of its service providers to achieve its objectives and outcomes. As previously noted, it currently has major contracts in place to deliver its creative development, media placement and digital services. It also has cooperative partnerships with two major airlines and had global media arrangements to deliver joint marketing initiatives. All contracts and agreements are for three years and were entered into in 2005, except the digital service agreement that was entered into in 2006.

Procurement of media placement and creative development services

26. Tourism Australia's procurement guidelines are consistent with the *Commonwealth Procurement Guidelines 2005* (the CPGs) and provide a sound basis for undertaking complex procurements. The guidelines require a business case and appropriate procurement plan to be developed for each procurement. Tourism Australia developed appropriate business cases for each procurement. However, a procurement plan that included an assessment of the risks associated with the procurement and an evaluation methodology was not developed for the creative development and media placement services. This lack of planning contributed to the following shortcomings:

- lack of transparency in evaluating tenders and not comprehensively addressing all service requirements (criteria that would be assessed and any related sub-criteria);
- insufficient consideration of tenderers' financial viability; and
- campaign work starting before contracts for creative development and media placement services were in place.

Evaluating tenders

27. Evaluation committees were established to assess all tenders. The documentation supporting the initial short-listing process and assessment of the tender submissions did not clearly demonstrate how the evaluation committees' scores against some selection criteria were determined.

Weightings were applied to and ratings were given for most criteria. However, for others such as the Government criterion¹⁰ there was only a rating of 'good' or 'average' with no further information provided to qualify either rating. This could have been addressed if a narrative justifying the ratings had been included, increasing the transparency of the committees' evaluations. In contrast to these procurements, the documentation supporting the later digital services assessment included narratives and justifications for the scores against each criterion. As a result, the assessment committee was able to provide more detailed information to the Board.

Concerns relating to short-listing process

28. The former Minister had concerns about the evaluation process for short-listing submissions and requested PM&C to undertake a review of the creative development and media placement tender process. PM&C requested Tourism Australia to re-evaluate the submissions to address concerns relating to the assessment criteria. PM&C also requested that the Board's Audit Committee review the re-evaluation process. All submissions were re-evaluated, not just the short-listed tenderers. A summary table of 're-evaluated' results was provided to the Audit Committee along with the revised weightings for each criterion. The original ranking of submissions did not change.

29. As the weightings to the awards sub-criteria had also been changed after the initial evaluation process had commenced, the Committee requested a further scenario test and additional information on the timing of the decision to establish scoring methodology for this criterion. Legal advice on the implications of this change to the evaluation methodology indicated that the process followed by the evaluators had minimised the risk of allegations of bias. The Committee advised the Board that the scenario testing had satisfactorily addressed the issues raised by PM&C.

Consideration of financial viability

30. Tourism Australia's internal auditor considered that the financial viability of tenderers for all three services was not given adequate emphasis. This issue was raised for digital services when consideration was being given to varying the contract from \$4.5 million to \$15.1 million for Phase Two and whether the provider had the financial capacity to deliver against the revised

¹⁰ The Government criterion includes: proven ability to work collaboratively; proven process for transparency, accountability and procedures; and evidence of financial stability.

contract.¹¹ To mitigate any financial risks, the contract was novated to include the Australian parent company as a party to the contract.

31. The financial viability of service providers is critical to the success of the contracts. The weighting applied to the financial viability of tenderers for creative development and media placement was a maximum of two per cent of the total score (100 per cent). The Request for Tender (RFT) documentation also outlined that Tourism Australia could conduct a probity inquiry to determine financial viability, corporate history and whether there was any significant litigation—past, present or pending. However, Tourism Australia advised that no probity inquiries were undertaken for these procurements.

Probity of the evaluation processes

32. Probity advisers are typically engaged for high-risk and complex procurements. However, no adviser was engaged for the creative development and media placement procurements until concerns were raised by PM&C. Tourism Australia appointed its Risk and Administration Manager as its internal probity adviser. The probity adviser was not required to produce a probity plan or report but the re-evaluation report noted that he confirmed and checked the revised scores. In contrast, the digital services procurement process included the appointment of an internal probity adviser, who developed a probity plan and provided ongoing advice, and an external probity auditor who audited the process against the plan.

Work commencing before contracts were in place

33. Completion of Tourism Australia's 2005–06 work program required work on a new global campaign to commence in July. This was a contributing factor to Tourism Australia requesting the preferred tenderers to begin work before the contracts were executed in October 2005. Tourism Australia considered it had managed the contracting risk by not paying invoices until the contracts were signed, although it had requested that services commence. Tourism Australia's risk mitigation method was ineffective because its request for services to be provided created an obligation, whether or not the contracts were executed.

Developing the contracts

34. In developing a contract, it is important to establish a clear statement of deliverables and an effective performance management regime. The

¹¹ Digital Services was to be developed in two phases: \$4.5 million for Phase One and \$15.1 million for Phase Two.

development of contracts should also incorporate an assessment of risks and appropriate provisions to ensure that the contract meets all legal and policy requirements.¹²

Creative development and media placement contracts

35. Tourism Australia did not undertake a thorough assessment of risks before entering into, or during, contract negotiations but engaged a consultant to review the draft contracts. The consultant made a number of recommendations in relation to: the services to be included in the retainer; reviews of the retainer and hourly rates; and reviewing performance against key performance indicators (provided by the consultant). However, only those recommendations relating to the amounts for, and reviews of, the retainer fees were incorporated in contract revisions. Tourism Australia was unable to demonstrate whether it had considered, and rejected, the other recommendations so it is difficult to determine whether the full benefits of undertaking the review were realised. The contracts do not have performance information to enable Tourism Australia to evaluate the effectiveness of the contracts and the services provided.

Digital services

36. The digital services procurement involved Tourism Australia looking to expand its traditional marketing methods to include the Internet. To manage the risk to Tourism Australia, the contract for digital services was developed as a two-phased approach. Phase One was for the comprehensive scoping of the work and implementation was undertaken in Phase Two. The contract for Phase One and the Statement of Works (SoWs) for Phase Two included deliverables, each output and the expected cost and met the necessary legal and policy requirements.

Managing Service Delivery (Chapter 3)

37. Tourism Australia's three major contracts consumed approximately thirty-five per cent of Tourism Australia's annual budgets of \$167.8 million in 2005–06 and \$158.6 million in 2006–07. The creative development and media placement contracts are also drawn on by Tourism Australia's regional offices to deliver projects in their respective markets. To assess how the contracts are used in the regions, an indicative sample of projects in four of Tourism Australia's six regions were reviewed.

¹² Australian National Audit Office & the Department of Finance and Administration's Better Practice Guide *Developing and Managing Contracts*, February 2007, p. 16.

Managing overarching creative development and media placement contracts

38. The creative development and media placement contracts required annual Ministerial approval for the upper limit of funding that could be incurred by Tourism Australia, each year.¹³ The former Minister was requested to approve the annual upper limit of expenditure in June 2006. Prior to approving this funding, Tourism Australia was requested to undertake internal and external reviews to determine whether the contracts had provided value for money and give details of the mechanisms it had in place to monitor and manage the contracts in 2006–07.

Contract reviews

39. There have been four internal audits and four external reviews of different aspects of the contracts since they were executed in 2005. Broadly, these covered quality of service delivery and whether the services provided were appropriately billed and had not already been paid under the retainer fees. However, they did not include an assessment of whether the objectives of the contract had been achieved or the various projects undertaken within the contracts were effective.

40. The reviews identified some aspects of good performance and, overall, the services provided were assessed to be delivered at least to a satisfactory level. The reviews also made recommendations to improve performance, particularly in relation to financial management and communication between the parties involved. Tourism Australia has subsequently taken steps to tighten its financial controls.

Evaluation of creative and media contracts

41. Although there have been a number of reviews of the creative and media contracts since they were executed in 2005, Tourism Australia has yet to formally evaluate whether the services provided under these contracts (which to date are worth \$184 million) achieved the objectives of the contract. Such evaluations could have informed Tourism Australia's recent approach to the market and development of subsequent contracts, in line with the CPGs.

Delivery of regional projects through the overarching contracts

42. As previously noted, the majority of marketing projects are delivered in the regions. Each project is included in Tourism Australia's annual operating

¹³ This upper limit was calculated on the total amount of all projects, detailed in the respective annual operating plans.

plan and a project plan that should include objectives, KPIs, the target market, estimated budget and risks is developed for each project.

43. For each project, Tourism Australia is to submit a brief to the provider, which incorporates the project objective and KPIs. The service providers are to deliver the required services and provide an itemised invoice to Tourism Australia, consistent with agreed contract rates. For each of the regional projects examined, Tourism Australia had checked the service providers' invoices to confirm that the required services had been provided, and billed at the appropriate rates.

44. A brief was developed for each of the regional projects reviewed. However, these were not consistent across regions. For example, only one region was able to provide evidence that the risks to the success of the project had been considered and incorporated into the project plan or in a supporting document. There were also shortcomings in the specification of project objectives and in the identification of their KPIs. For example, the *G'day Australia Week* campaign had an objective that was difficult to measure, namely, '....deeper and longer conversations about Australian experiences.' Yet, the project brief for this campaign included a range of KPIs and targets that were used to measure the impact of the campaign.

45. Tourism Australia does not systematically evaluate the effectiveness of its projects and, currently, is unable to demonstrate what impact these projects have had on their target markets. The lack of evaluation also means that Tourism Australia is not identifying the factors impacting on the success, or otherwise, of the projects or lessons learned that could be incorporated into future projects. The effectiveness of each project is central to how Tourism Australia assesses its overall performance in meeting its outcome and statutory objectives.

Digital services contract

46. Generally, the digital services contract has been well managed and payments appropriately made and reconciled. The terms of the contract and the SoWs were also met by Tourism Australia and the service provider. Tourism Australia has implemented a number of better practice processes in managing this contract, such as:

- the contract contains performance information, milestones, and outputs that measure the objectives;
- there have been three risk assessments of the contract; and

- the service provider has a comprehensive risk management plan that covers the development and delivery of requirements against the SoWs.

Global media contracts

47. Tourism Australia's media placement contractor entered into contracts on its behalf with National Geographic and Discovery Communications Incorporated, through the Discovery Channel. The ANAO examined the contracts for three episodes of the Discovery Channel *American Chopper Down Under* television program, which were filmed in Australia in 2007.¹⁴ Three agreements were developed for this project: a contract between Discovery and the media placement provider for collaboration; a second agreement between Discovery and Tourism Australia for development of the programs; and the third was an agreement between Orange County Choppers and Tourism Australia to build a custom motorcycle and promote the program.

48. Although the three episodes met Tourism Australia's expectations in terms of worldwide viewing audiences, the Board put the global contracts program on hold in March 2007. This decision resulted, in part, from the Board becoming aware of a number of issues relating to the management of the contracts. In particular, an accounting issue arose over the purchase and sale of the custom-built motorcycle, built as part of the program.

Governance arrangements (Chapter 4)

Legislative and policy framework

49. Tourism Australia's legislative and policy framework largely determines its governance arrangements. The CAC Act and regulations outline reporting requirements and corporate planning obligations. Under the *Commonwealth Authorities and Companies (Report of Operations) Orders 2005*, Tourism Australia must report annually on its outcomes and outputs and other statutory requirements. The Act also outlines the requirements of both the Board and Tourism Australia in relation to governance activities.

Tourism Australia Board

50. The Board comprises a Chair, Deputy Chair, the Managing Director of Tourism Australia and six non-executive directors. The Board's role and responsibilities, collectively and as individual directors, are clearly defined in

¹⁴ American Chopper programs are usually based around Orange County Choppers Inc (OCC) building custom motorcycles. They are usually filmed in the OCC workshop or in various locations in the United States. Filming has only occurred in two overseas locations, including the Australian episodes.

its Charter, which provides a sound governance framework for the Board and Tourism Australia. Accountabilities and areas of responsibility are well defined and processes are in place to facilitate communication and reporting between the Board, the Minister, Tourism Australia and the department. Although the Board has been in existence since July 2004, its first assessment was not undertaken until February 2008. The Board was given an oral briefing in April and the ANAO has been advised that the recommendations of this review will be addressed in the coming months.

51. A number of industry stakeholders expressed the view, in discussions with the ANAO and through survey responses from STOs, that the perceived conflicts of interest of Board members are a major risk to Tourism Australia's reputation. It is important, particularly in a competitive tourism industry, that the decisions of the Board are transparent and that any perceived or actual conflicts are being (and are seen to be) appropriately addressed. The current arrangements for dealing with potential conflicts of interest could be improved if the Charter is changed to incorporate its original content, and intent, in relation to conflict of interest matters. The current arrangements for dealing with potential conflicts of interest could be improved given:

- the changes to the procedures in the original Charter in relation to potential conflicts of interest;
- the large number of interests declared by members and the inconsistent disclosure of potential conflicts of interest at Board meetings;
- one instance in three years of a Board member declaring an actual conflict of interest and being absent while the discussion and subsequent decision was made;
- the lack of documentation surrounding any discussion by the Board relating to potential conflicts of interest; and
- the perception of stakeholders that a relationship exists between business interests, share holdings, and Board approvals and decisions.

Tourism Australia's planning and performance framework

52. Tourism Australia's annual report must review how it has performed during the financial year in relation to its: statutory objects and functions; corporate plan; and outputs and contribution to outcome in its PBS. To achieve this, Tourism Australia needs a well integrated planning and performance management framework.

Tourism Australia's planning framework

53. Tourism Australia's corporate plan provides a strategic overview and the annual operating plan and project plans provide detail on activities at the operational level. These plans are approved by the Board and endorsed by the Minister. Although Tourism Australia has a cascading planning framework in place, the relationships between the different levels of planning, the outputs and outcome in the PBS and statutory objects in the Act are not clear. This lack of alignment makes it difficult for Tourism Australia to demonstrate that it is achieving its outcome. Better alignment would be facilitated by using the strategy map in the corporate and operating plans (outlined in Appendix 2) to link Tourism Australia's outputs to its outcome and by using consistent language across all documents.

Incorporating risk into the planning process

54. Tourism Australia's strategic and operational planning includes an environmental analysis and marketing challenges and opportunities. The ANAO appreciates that the Board would have considered the risks facing both Tourism Australia and the industry before approving these plans. However, there have been no documented assessments of Tourism Australia's strategic risks or the mitigation strategies developed to address these risks. Some operational risks are identified in the operating plan and at the individual project level. However, a stronger focus on managing risk is needed to enhance Tourism Australia's planning processes.

55. In February 2007, Tourism Australia developed a risk matrix that detailed a number of organisation-wide risks (for example, intellectual property, legal, resources) and their impact on each of its functional areas. The matrix does not identify the source of risk, treatment strategies, or who is responsible for managing and treating each risk. The ANAO was advised that the risk ratings are not based on analysis but rather on perceptions. During the audit, Tourism Australia initiated a review of its strategic risks as part of developing a risk management framework, supported by a risk management plan.

Performance management and reporting

56. Tourism Research Australia¹⁵ collects and analyses a wide range of data from a number of sources including the Australian Bureau of Statistics

¹⁵ Tourism Research Australia is a business unit of Tourism Australia and provides a range of independent specialist research services to the tourism industry and support organisations.

Tourism Satellite Accounts and Tourism Australia's brand tracking, international and domestic visitors' surveys.¹⁶ Results from these surveys are published quarterly and annually and baseline, trend and forecasting information is well established. In spite of the comprehensive nature of the data collected, information that relates specifically to Tourism Australia's activities, in contrast to those of the industry as a whole, is currently not always identified and analysed.

57. The lack of integration between the various levels of planning and reporting has made assessing Tourism Australia's performance against its PBS outcome difficult. This is exacerbated by the broad nature of the outcome and the fact that it is not clearly related to the statutory objects and functions in the Act and corporate plan. By measuring the effectiveness of its projects and aggregating the results, Tourism Australia should be able to assess its performance against its output groups and, ultimately, its outcome.

58. One way to achieve this would be to develop intermediate outcomes to link its output groups to its outcome. Performance indicators also need to be consistent to enable meaningful comparisons of performance over time. Tourism Australia has a strong and established survey methodology for collecting and analysing tourism data. Improvements in measuring Tourism Australia's performance will require revisions to existing surveys and re-assessing how the performance data relating to Tourism Australia is analysed and reported.

¹⁶ The IVS surveys 40 000 departing international visitors and the NVS surveys 120 000 Australian residents annually.

Recommendations

Recommendation No. 1
Paragraph 4.22 To enable the Tourism Australia Board to appropriately manage potential conflicts of interest, the ANAO recommends that the Board:

- (a) reinstate the procedures in the original Charter covering potential conflicts of interest; and
- (b) document in the minutes of its meetings any discussions or decisions in relation to potential conflicts of interest.

Tourism Australia response: *Agreed*

Recommendation No. 2
Paragraph 4.37 In developing and implementing its risk management framework and supporting plan, the ANAO recommends that Tourism Australia:

- (a) identifies all significant strategic, operational and project level risks;
- (b) analyses these risks and develops appropriate mitigation strategies; and
- (c) regularly reviews its risks and updates its plan.

Tourism Australia response: *Agreed*

**Recommendation
No. 3**

Paragraph 4.55

To enable Tourism Australia to more effectively meet its legislative reporting requirements, the ANAO recommends that it review its planning and performance management framework to:

- (a) align, where relevant, its corporate and operational planning documents;
- (b) develop, where applicable, measureable intermediate outcomes linked to its overall outcome, outputs and statutory objects;
- (c) align the performance indicators in its Portfolio Budget Statements, Corporate Plan and Operational Plan; and
- (d) review, where necessary, the performance data it collects through its surveys.

Tourism Australia response: Agreed

Audit Findings and Conclusions

1. Background and Context

This chapter provides background information on Australia's tourism industry and Tourism Australia. The audit objective, scope and methodology are also outlined.

The Australian tourism industry

1.1 Tourism is a key driver for the Australian economy. In 2006–07, tourism accounted for 3.7 per cent (\$38.9 billion) of total Gross Domestic Product (GDP) and the tourism industry employed 482 800 people, 4.7 per cent of total employment in Australia.¹⁷

1.2 In 2006–07, 5.6 million international tourists visited Australia, which was an increase of three per cent on the previous year. However, this was less than one per cent of the world's international tourists. During the same period, tourists spent a total of almost \$85 billion on goods and services. Of this, international tourists visiting Australia spent \$22.4 billion.¹⁸

1.3 Australia is a long haul destination for the majority of overseas visitors. This means that distance, time and budget are additional impediments to attracting international tourists. The past three years have also seen fluctuations in the relative value of the Australian dollar, and increases in fuel prices and airfares. These factors have effected the price competitiveness of Australia compared to other tourist destinations. The global tourism environment has also become increasingly competitive with Australia now competing with emerging markets such as China and India.

1.4 Primary responsibility for marketing international and domestic tourism rests with the tourism industry, State and Territory Governments and Tourism Australia.

Tourism Australia

1.5 Tourism Australia is one of a number of government agencies that market Australia to attract overseas investment. It is responsible for international tourism marketing and the delivery of research and forecasts for the sector. It also provides a national leadership and coordination role for

¹⁷ Australian Bureau of Statistics, *Tourism Satellite Account 2006–07*, ABS, Canberra, 17 April 2008, pp. 3, 7. Tourism GDP represents the total market value of Australian produced goods and services consumed by visitors after deducting the cost of goods and services consumed in the process of production. It is therefore much lower than total spending.

¹⁸ The balance (some \$62.62 billion) was spent by Australian residents travelling within Australia.

domestic tourism. As an Australian Government statutory authority, Tourism Australia is subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act). It was established on 1 July 2004 by the *Tourism Australia Act 2004*¹⁹ (the Act) following the integration of the Australian Tourist Commission, See Australia and the Bureau of Tourism Research. It was a major initiative of the then Government's *Tourism White Paper – A Medium to Long Term Strategy for Tourism* (the White Paper). The White Paper, released in November 2003, was a ten year strategy for the tourism industry and outlined a suite of measures to assist the industry to become more sustainable. The Minister for Tourism recently announced that a long-term national tourism strategy is being developed to replace the White Paper.

1.6 The main objectives of Tourism Australia are outlined in the Act and are to:

- influence people to travel to Australia, including for events;
- influence people travelling to Australia to also travel throughout Australia;
- influence Australians to travel throughout Australia, including for events;
- help foster a sustainable tourism industry in Australia; and
- help increase the economic benefits to Australia from tourism.

Organisational structure

1.7 Tourism Australia is a global organisation with a workforce of some 230 staff located in Australia and overseas. It is governed by a Management Board, which apart from the Managing Director, is appointed by and is responsible to the Minister for Tourism.²⁰ The Board is supported by two sub-committees and three industry advisory panels. The Board sets Tourism Australia's strategic direction and develops policy, with the day-to-day operations of Tourism Australia being the responsibility of its Managing Director and executive leadership team.

1.8 Tourism Australia operates from its head office in Sydney and Research Unit in Canberra. It also has representation in 23 international markets via

¹⁹ As amended 2007.

²⁰ Prior to Ministerial changes on 3 December 2007, the Board was responsible to the Minister for Small Business and Tourism.

offices in Auckland, London, Frankfurt, Los Angeles, Toronto, Tokyo, Seoul, Hong Kong, Shanghai, Singapore, Taipei, Kuala Lumpur and Bangkok. These offices are grouped within the following regions:

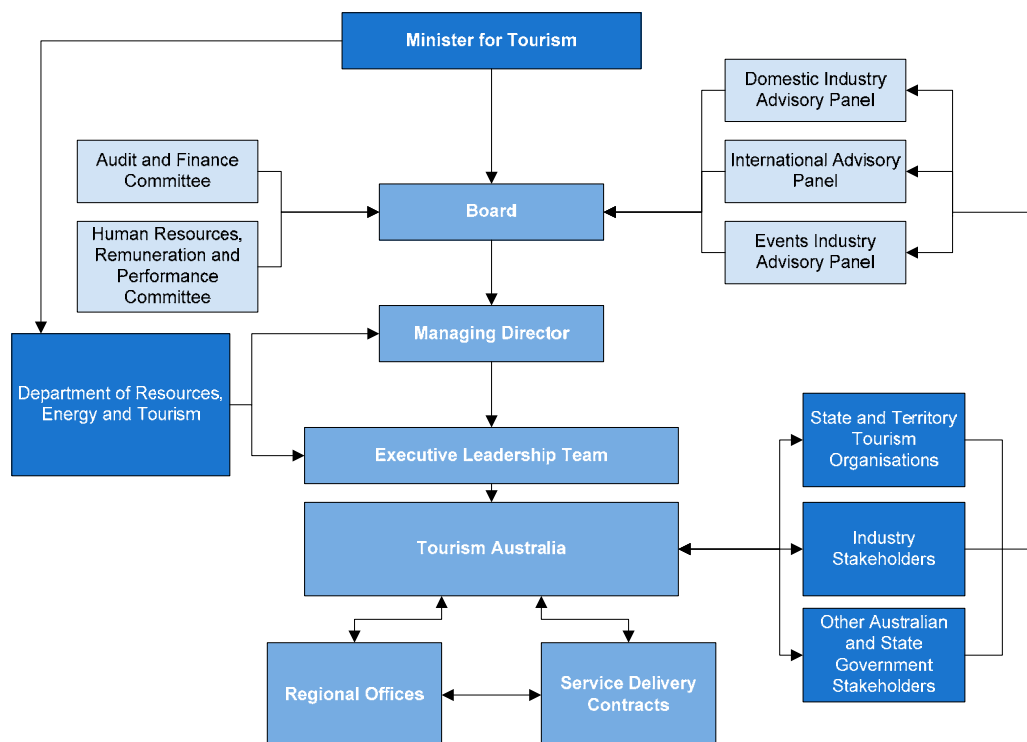
- United Kingdom, Ireland, Nordic and continental Europe;
- New Zealand;
- the Americas;
- Japan;
- Asia - North; and
- Asia - South, South East and Gulf.

1.9 Tourism Australia works closely with the Department of Resources, Energy and Tourism²¹ and other government agencies to share information and develop marketing opportunities. It also collaborates with industry partners and State and Territory Tourism Organisations (STOs) to facilitate a range of joint marketing programs and communication strategies, both domestically and internationally. The STOs are often co-located with Tourism Australia's overseas offices. Figure 1.1 summarises Tourism Australia's organisational structure and relationships.

²¹ Prior to the changes in the Administrative Arrangements Orders in December 2007, Tourism Australia's portfolio department was the Department of Industry, Tourism and Resources.

Figure 1.1

Tourism Australia's organisational structure and relationships



Source: ANAO analysis of Tourism Australia data

1.10 From its establishment in 2004 until mid-2008, Tourism Australia has received approximately \$500 million in funding. Of this, \$412 million has been through parliamentary appropriations, with the additional revenue being generated by advertising, sale of goods and services, industry contributions and interest earned.²² Tourism Australia's budget for 2007–08 was \$163 million.

Marketing strategies

1.11 Tourism Australia's marketing strategies and advertising campaigns are designed to increase the number of international and domestic tourists travelling to, and within, Australia. A core element of these strategies is to target high yielding tourists because they are more likely to stay longer, spend more and visit regional areas. Currently, the following three markets are being targeted:

²² *Tourism Australia Annual Report 2005–06*, Tourism Australia, Sydney, September 2006, p. 81.

- leisure – these are experience seekers²³, including those travelling to attend major events;
- business – which covers corporate meetings, incentives and association meetings; and
- education – which includes school groups and visiting friends and relatives of international students.

1.12 The majority of Tourism Australia's marketing activities are undertaken through its two global contracts for creative development and media placement. Combined, payments from these two contracts accounted for 31 per cent (\$174 million) of all Tourism Australia's contracts between 2004–05 and 2006–07, and consumed 35 per cent of the total budget for this period. The creative development team is responsible for designing campaign/s and the media placement provider plans and purchases the media option considered the most effective to deliver the campaign message. Tourism Australia undertook 149 marketing projects worldwide in 2007–08.

1.13 Tourism Australia's 'message strategy' is central to the delivery of its international marketing programs and communications. This strategy promotes alignment of marketing activities and helps integrate Australian experiences and products. Tourism Australia uses television advertising, the tourism website *australia.com*, digital communications, public relations and activities with trade events to increase consumers' knowledge of Australia and to build a strong image of what Australia is and what it offers to potential international tourists.

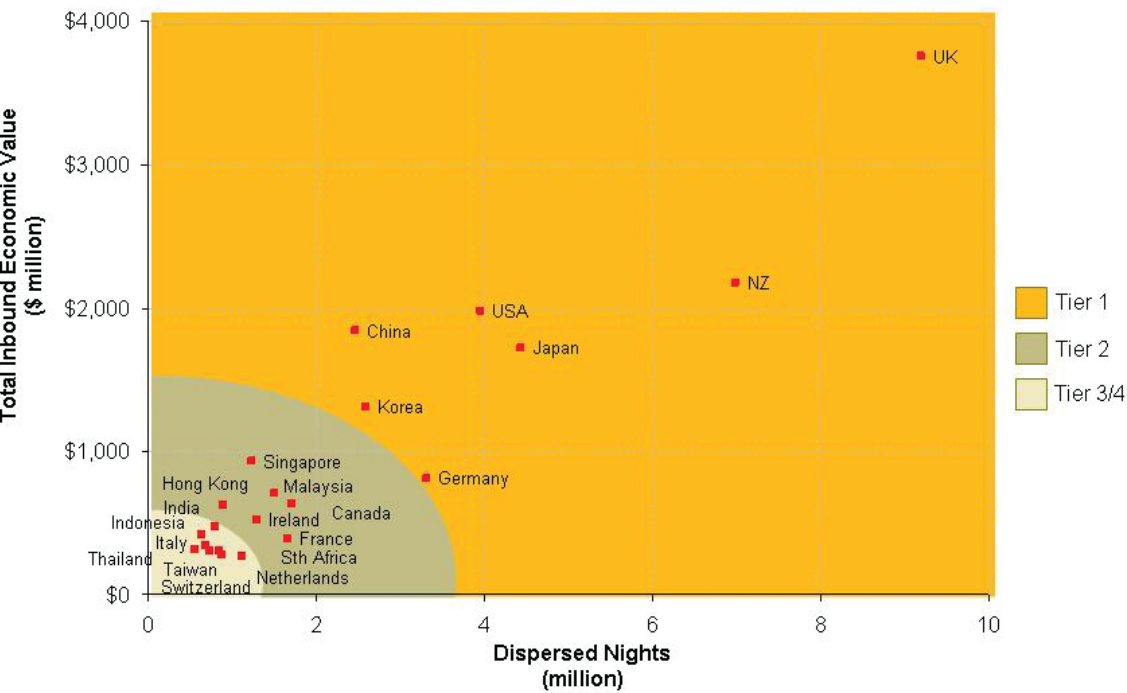
International markets

1.14 Tourism Australia categorises its international markets (countries) into four tiers. These tiers are based on: spend and dispersal objectives; target segments; marketing costs; and relevant external factors, such as the strength of the source market economy. The level and type of international marketing activity varies between countries and is based on these tiers, which are illustrated in Figure 1.2.

²³ This market segment is found among all age groups, income levels and geographic locations, and has a mindset that goes beyond holiday behaviour and travel.

Figure 1.2

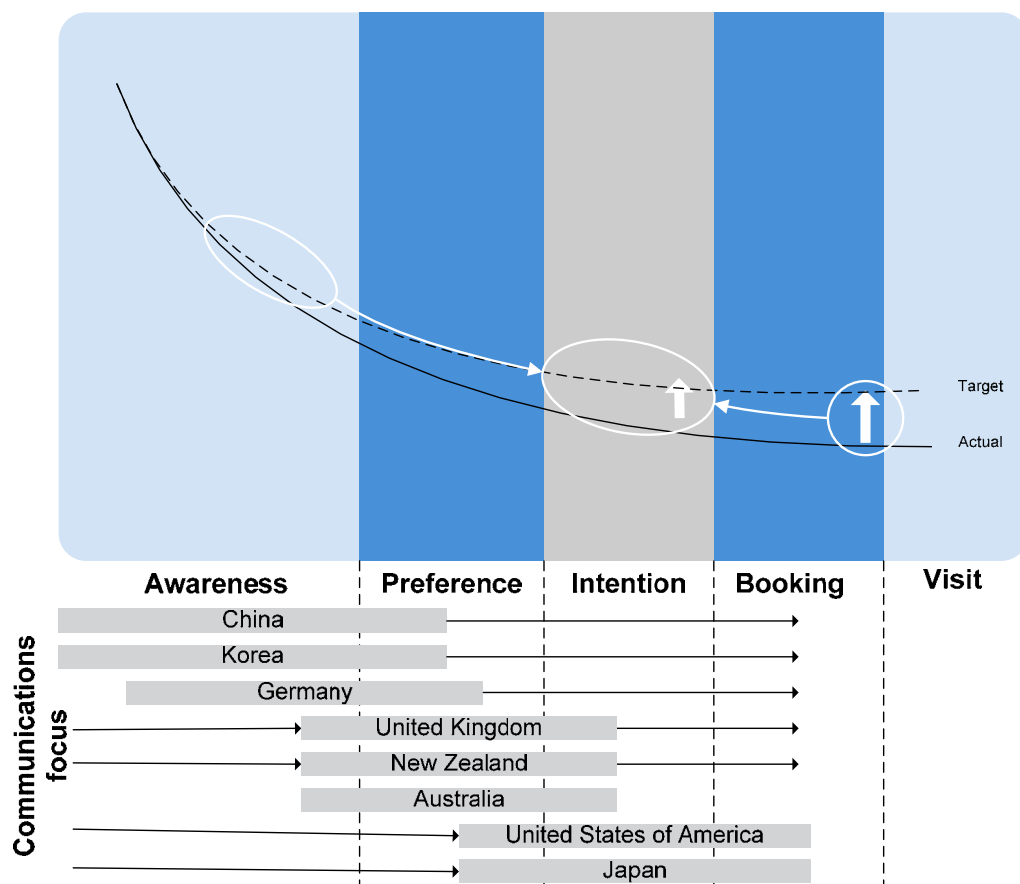
The four tiers of Tourism Australia’s target markets⁽¹⁾



Note 1: The diagram shows the number of nights and the amount spent per country, not the number of tourists. The highest number of tourists come from New Zealand, followed by the United Kingdom, Japan and the USA.

Source: Tourism Australia

1.15 Tourism Australia’s campaigns may be region or country specific. The campaigns are determined by each country’s tier, its progression along a ‘consumer movement towards travelling’ marketing model and the demographic of the population that would be exposed to the campaign. For example, the current global marketing campaign - *A Unique Australian Invitation* launched in February 2006 has been adapted to suit the business and cultural circumstances of each region and/or country. Figure 1.3 outlines Tier One countries, their position on the ‘consumer purchasing cycle for travel’ model and how Tourism Australia’s marketing focus varies within a Tier. Tourism Australia’s campaigns are aimed at narrowing the gap between Australia as a preferred destination and actual visits. It also illustrates the attrition rate between initial awareness and actual visits, which can be based on a range of factors and, as noted previously, some of these are outside Tourism Australia’s control.

Figure 1.3**Consumer purchasing cycle for travel model - Tier 1 countries⁽¹⁾**

Source: Tourism Australia

Note 1: This model is based on a generic consumer purchase attrition curve. Australia has been included because of Tourism Australia's role in domestic marketing.

1.16 Other major marketing initiatives undertaken by Tourism Australia include:

- the management of *australia.com*, an online tourism network gateway site that was developed as a joint initiative between Tourism Australia and the STOs to market Australia as a tourism destination online;
- global programs, which involved working with two major international television broadcasting companies to gain access to the experience seeker market;²⁴ and

²⁴ These programs were suspended in October 2007 pending a performance review.

- cooperative partnerships with two major airlines to deliver joint marketing initiatives.

Domestic markets

1.17 Primary responsibility for marketing domestic tourism rests with the tourism industry and State and Territory Governments. Tourism Australia supports their efforts through its national leadership and coordination role. It achieves this by developing a range of marketing initiatives, in conjunction with the STOs and industry. For example, Tourism Australia conducted a survey to gain a greater understanding of the issue of annual leave stockpiling²⁵ and how reducing this leave could be used as an opportunity to stimulate domestic tourism. As a result, it developed the *No Leave - No Life* marketing campaign.

Audit objective, scope and methodology

1.18 The objective of this audit was to assess the effectiveness of Tourism Australia's governance arrangements, the management of marketing contracts, and how the agency measures its performance. The audit reviewed Tourism Australia's:

- procurement processes for selecting service providers;
- management of service provider contracts; and
- governance framework, including planning, performance management and reporting.

Methodology

1.19 The audit methodology included qualitative and quantitative analysis, file and document reviews and interviews with the Chairs of the Board and its two sub-committees, staff from Tourism Australia and departmental officers. The audit team also interviewed industry stakeholders and surveyed STOs for their perceptions of Tourism Australia's performance as the national tourism organisation.

1.20 To assess procurement and contract management processes, the ANAO reviewed Tourism Australia's three major contracts, its co-operative

²⁵ Tourism Australia contracted AC Nielsen in 2005, to conduct a survey on Australian stockpiling of annual leave. The report found that Australians had stockpiled 70 million annual leave days, equating to around \$13.7 billion dollars in wages.

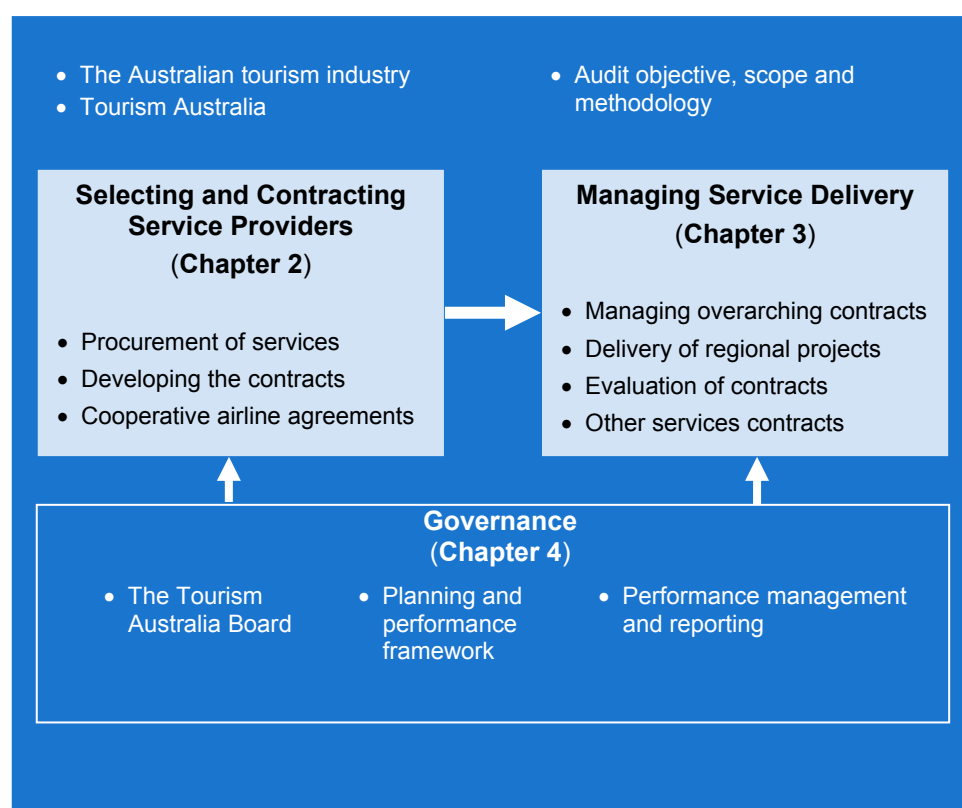
agreements and a sample of projects across four of its six regional offices. As domestic tourism is the responsibility of the STOs and Tourism Australia's primary focus is international tourism marketing, the ANAO did not review domestic marketing projects.

1.21 The audit was conducted in accordance with ANAO auditing standards at a cost of \$369 370.

Acknowledgements

1.22 The ANAO would like to express its appreciation to the Board members, Tourism Australia management and staff, the industry stakeholders and departmental officers for their assistance in conducting this audit.

Structure of this report



2. Selecting and Contracting Service Providers

This chapter examines how Tourism Australia selected the providers to deliver its marketing activities and developed contracts for the provision of these services.

Introduction

2.1 It is important that the service providers that are selected by Tourism Australia to deliver its marketing activities are those that will make the most effective contribution. Tourism's Australia is dependent on the performance of these providers to achieve its objectives and outcomes. When Tourism Australia was established on 1 July 2004, it inherited an existing procurement framework and a range of complex decentralised arrangements to deliver its marketing campaigns and projects. Tourism Australia reviewed these arrangements and centralised the provision of marketing services. It also extended existing partnership agreements with two international airlines, and introduced new arrangements with global media organisations.

2.2 The ANAO reviewed Tourism Australia's processes for procuring and developing its current major service agreements for:

- creative development;
- media placement;
- digital services; and
- cooperative airline partnerships.

All agreements were entered into in 2005, except the digital service agreement that was entered into in 2006. Figure 2.1 illustrates the major service agreements and their relationship to Tourism Australia's marketing projects.

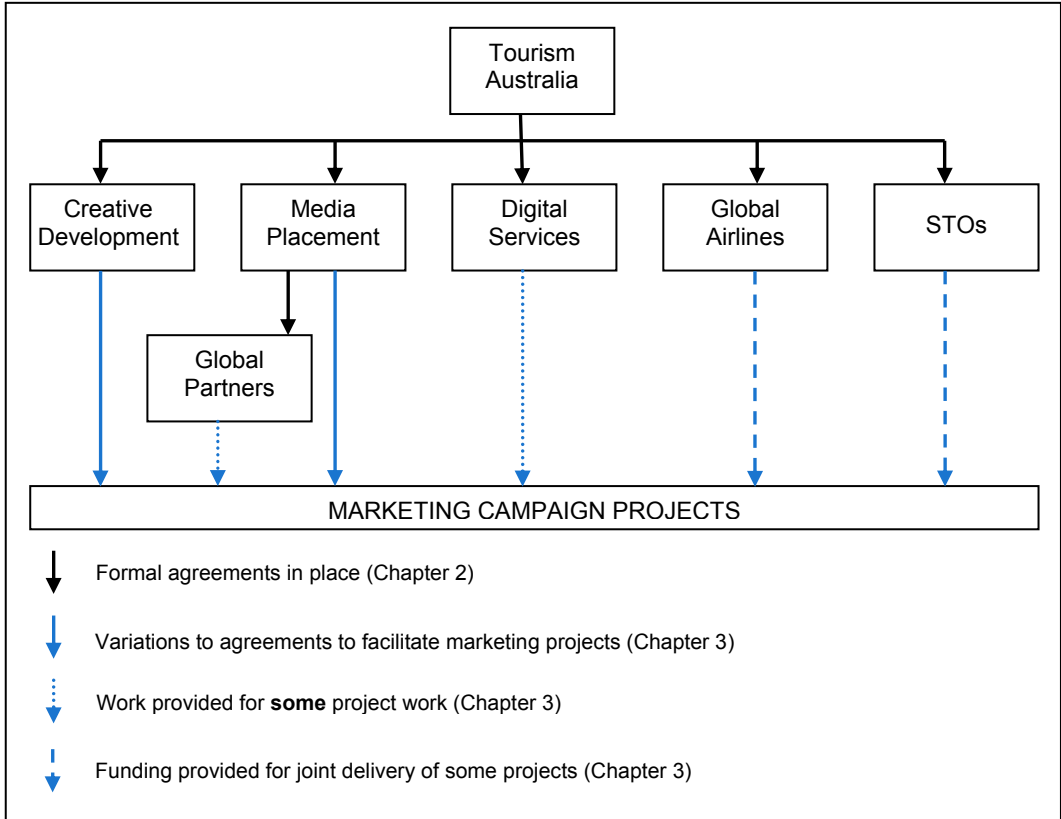
2.3 Although the cooperative airline partnerships do not involve the procurement of services, the arrangements have been formalised through Memoranda of Understanding (MoUs) between the two airlines and Tourism Australia. These MoUs outline Tourism Australia's commitment to jointly fund marketing initiatives and consequently have been included in this chapter.

2.4 Tourism Australia also has global media arrangements in place to deliver joint marketing initiatives. These arrangements are formalised by a contract with the television networks and the media placement provider on

Tourism Australia's behalf. Although Tourism Australia developed a business case to enter into these contracts, because of the joint funding arrangements, it did not formally approach the market. The arrangements are discussed in Chapter 3.

Figure 2.1

Relationships between Tourism Australia and service providers to deliver its marketing projects



Source: ANAO analysis of Tourism Australia data

2.5 The Finance Minister's Orders (FMOs) outline Tourism Australia's obligation to apply the *Department of Finance and Administration's Commonwealth Procurement Guidelines 2005* (the CPGs). However, most of Tourism Australia's procurement activities are exempt under the CPGs because they involve the procurement of property or services outside Australia for consumption outside Australia, or the procurement of Government advertising services. Nevertheless, where Tourism Australia chooses to procure services using a method covered by the CPGs, it is expected to follow the CPG's requirements. Tourism Australia's current *Procurement Policy and*

Guidelines (the guidelines), issued in 2005 and updated in 2006, are consistent with the requirements of the CPGs.

Procurement of services

2.6 In examining Tourism Australia's procurement processes for creative development, media placement and digital services, the ANAO assessed whether it had met the requirements of its own guidelines in relation to:

- procurement planning and assessing the risks associated with the procurement; and
- evaluating tenders and the approval process.

Planning the procurement and assessing the risks

2.7 Under its guidelines, Tourism Australia requires a sound business case and appropriate procurement plan to be developed for each service to be procured. Business cases were developed for each of the procurements and they contained the information required for the Board to make an informed decision. For example, a business case was developed to support a global approach to Tourism Australia's marketing activities. This was to replace the previous regional approach to creative development and media placement. The business case included clear goals and expected outputs that demonstrated the value to be added by centralising the arrangements. The business cases were presented to the Board and, where required, the former Minister, for approval to begin the procurement. Appropriate approval was obtained in all cases.

2.8 Procurement planning includes choosing an appropriate procurement method, identifying and assessing procurement risks, planning an approach to the market and developing an evaluation method and plan. Under Tourism Australia's guidelines, the procurement of creative development, media placement and digital services required tender processes because they were more than its then internal threshold of AU\$100 000. However, Tourism Australia did not develop a procurement plan for these services. For the digital services procurement, Tourism Australia developed an evaluation plan which provided roles and guiding principles relating to the receipt and registration, screening and evaluation of tenders, as well as a template for drafting the evaluation report.

2.9 Tourism Australia's internal auditor reported that there was no formal assessment of the risks associated with the procurement at any stage during

the three procurement processes, as required by its guidelines. The only documented risk assessment that was undertaken was for digital services, and this did not occur until requested by the Board, five months after the contract had been signed. Having processes in place to identify and assess the risks associated with these procurements and developing appropriate mitigation strategies would have helped Tourism Australia to address the shortcomings in its procurement processes that are discussed in the remainder of this chapter.

Preparing the tender documents and approaching the market

2.10 The CPGs require request for tender (RFT) documentation to clearly detail the:

- agency's requirements (that is all criteria that would be assessed and any related sub-criteria);
- applicable information and templates for preparing, lodging and assessing tenders; and
- Australian Government policy requirements, such as freedom of information, workplace relations and access to documents under the *Auditor-General's Act 1997*.

2.11 Tourism Australia's RFT documentation for the three services was generally appropriate and outlined the criteria for assessing the submissions.

Evaluating the tenders

2.12 Tourism Australia is responsible for ensuring that its tender assessment and selection processes are transparent and achieve value for money.²⁶ For Tourism Australia, this requires assessing risks, applying conflict of interest procedures, observing assessment and selection processes specified in the RFTs and obtaining relevant approvals.

2.13 Tourism Australia established evaluation committees to assess the tender submissions for the three services. The committees included representatives of key stakeholder groups within Tourism Australia who would be impacted by the work of the selected providers. The digital services evaluation committee also included an independent member with subject matter expertise. Conflict of interest declarations were completed by all

²⁶ Department of Finance and Administration, Commonwealth *Procurement Guidelines*, January 2006, Canberra, p. 10.

assessors. Although Tourism Australia was unable to provide signed declarations for the assessors of the digital services tenders, the probity adviser who oversighted the process reported that the procurement and assessment processes, including potential conflicts of interest, were appropriately managed.

2.14 The documentation supporting the initial short-listing process and assessment of the tender submissions for creative development and media placement did not clearly demonstrate how the evaluation committees' scores against some selection criteria were determined. Weightings were applied to and ratings were given for most criteria. However, for others such as the Government criterion²⁷ there was only a rating of 'good' or 'average' with no further information provided to qualify either rating. This could have been addressed if a narrative justifying the ratings had been included and would have provided greater transparency of the committees' evaluations. In contrast to these procurements, the documentation supporting the later digital services assessment included narratives and justifications for the scores against each criterion. As a result, the assessment committee was able to provide more detailed information to the Board.

Concerns relating to short-listing process

2.15 The former Minister had concerns about the evaluation process for short-listing submissions and requested PM&C to undertake a review of the creative development and media placement tender process. The concerns related to:

- an evaluation criterion was assessed over one year, when the RFT specified that this would be assessed over two years;
- tender submissions provided some information that was not assessed as specified in the RFT;
- the criterion of awards won by an agency was not sufficient to accurately reflect creativity; and
- the criterion of office location was not sufficient to reflect its ability to service regions and did not have a sliding scale, making it punitive for agencies that did not have geographic representation.

²⁷ The Government criterion includes: proven ability to work collaboratively; proven process for transparency, accountability and procedures; and evidence of financial stability.

2.16 As the results of the original evaluation had been supported by the Board at its meeting on 3 June 2005 and recommended to the former Minister for approval on 6 June, these concerns had serious implications for Tourism Australia and its Board.

2.17 To address the identified issues of concern, Tourism Australia re-evaluated all submissions. PM&C requested that the Board Audit Committee review the re-evaluation process. The evaluation committee met on 4 July to:

- understand the observations and criticism raised;
- establish an evaluation regime, which addressed all concerns;
- re-score the pertinent elements of the submissions; and
- present an updated short list ranking.

2.18 All submissions were re-evaluated, not just the short-listed tenderers and a summary table of 're-evaluated' results was provided to the Audit Committee along with the revised weightings for each criterion. The original ranking of tenderers did not change.

2.19 As the weightings to the awards sub-criteria had also been changed after the initial evaluation process had commenced, the Committee requested a scenario test and additional information on the timing of the decision to establish scoring methodology for this criterion. The scenario test was undertaken on 11 July 2005. Legal advice on the implications of this change to the evaluation methodology indicated that the process followed by the evaluators had minimised the risk of allegations of bias.

2.20 The Committee advised the Board on 12 July 2005 that the re-evaluation and scenario testing had satisfactorily addressed the issues raised and that the Board's recommendation to the former Minister for the appointment of the preferred tenderers was endorsed and should proceed. The former Minister approved entering into global agency arrangements on 13 July 2005.

Weighting applied to the financial viability of tenderers

2.21 Tourism Australia's internal auditor considered that the financial viability of tenderers for all three services was not given adequate emphasis. This issue was raised when consideration was being given to whether the digital services contract could be varied from its original \$4.5 million for Phase One, to \$15.1 million to incorporate Phase Two, as outlined in the RFT.

To address these concerns, the digital services contract was novated to include the Australian parent company as a party to the contract to mitigate any financial risks.

2.22 For the creative development and media placement contracts, financial assessment was part of the government criterion and the weighting applied was a maximum of two per cent of the total score (100 per cent). The RFT documentation outlined that Tourism Australia could conduct a probity inquiry to determine financial viability, corporate history and whether there was any significant litigation – past, present or pending. However, Tourism Australia advised that no probity inquiries were undertaken. Tourism Australia has advised that the financial viability of tenderers was be given greater weighting in the evaluation of the current creative development and media placement tender submissions.

Probity of the evaluation processes

2.23 Probity advisers are typically engaged for high-risk and complex procurements. However, no adviser was engaged at the commencement of the creative development and media placement procurements to advise on probity issues. In response to the concerns raised by PM&C, Tourism Australia appointed its Risk and Administration Manager as its internal probity adviser. The probity adviser was not required to produce a probity plan or report but the re-evaluation report noted that the adviser confirmed and checked the revised scores.

2.24 In contrast, the later digital services procurement process included the appointment of:

- an internal probity adviser who provided ongoing advice that assisted the committee to manage the probity of the process and any issues that arose; and
- an external probity auditor who reviewed the process and reported that probity issues were appropriately managed.

Approval process

2.25 Evaluation reports were provided to the Board for each procurement. For creative development and media placement the information provided did not include any further information than the raw scores and brief descriptions. The Board approved the tenderer for digital services and recommended the selection of preferred tenderers for creative development and media placement to the former Minister, as these contracts were in excess of \$5 million. The

Minister approved the retainer fees for three years and the upper limit for the first year's expenditure. Expenditure for each subsequent year required separate Ministerial approval, which is discussed further in Chapter 3.

2.26 Although the former Minister approved entering into contract negotiations with the preferred providers in July 2005, an internal audit identified that work had commenced before the negotiations were completed and the contracts executed in October 2005. This issue is discussed later in this chapter.

Conclusion

2.27 Tourism Australia's internal procurement guidelines provide a sound basis for undertaking complex procurements. However, these guidelines were not always adhered to, particularly for the media placement and creative development procurements. Although a sound business case was prepared for each procurement, developing a procurement plan that included an assessment of the risks associated with the procurement and an evaluation methodology may have helped to address the following shortcomings:

- lack of transparency in evaluating tenders and not comprehensively addressing all service requirements (criteria that would be assessed and any related sub-criteria);
- insufficient consideration of tenderers' financial viability; and
- campaign work starting before contracts for creative development and media placement services were in place.

2.28 The guidelines were generally followed for the digital services procurement. Although there was no assessment of procurement risks, key decisions and the reasons for these decisions were documented and appropriate records retained. A probity adviser and a probity auditor were appointed to manage and review the probity of the procurement. The better practice processes employed for the digital services procurement provides a sound model for future Tourism Australia procurements. Training provided to staff should also reinforce the importance of following its procurement guidelines.

Developing the contracts

2.29 As part of an RFT, it is important to establish a clear statement of deliverables and an effective performance management regime that flow

through to the subsequent contract. The development of the contract should also incorporate an assessment of risks and appropriate provisions to ensure that the contract meets all legal and policy requirements.²⁸ Applying these practices when developing contracts will help Tourism Australia to ensure delivery against its objectives.

2.30 The ANAO reviewed the development of the contracts for creative development, media placement and digital services.

Creative development and media placement

2.31 Tourism Australia included a draft contract with each RFT but did not include key performance indicators (KPIs). In addition, it did not undertake a thorough assessment of risks during the procurement process or before entering into contract negotiations with the successful tenderers. Nevertheless, to manage some of the risks posed by a service delivery method new to Tourism Australia, it contracted a consultant in May 2005 to review the draft contracts to:

- establish advertising and media agency retainer fee benchmarks;
- provide recommendations on specific agency proposals; and
- recommend contractual amendments that would protect Tourism Australia's interests.

2.32 The consultant recommended that Tourism Australia should:

- ensure particular services were covered in the retainer;
- review the retainer each year against the scope of work prepared by Tourism Australia for each market for that 12 month period;
- check that hourly rates were based on agency cost rate for out of scope projects, not casual rates; and
- review service performance standards within each office every six months against an agreed set of KPIs that were provided by the consultant.

2.33 However, only those recommendations relating to the amounts for, and reviews of, the retainer fees were incorporated in contract revisions. It was not clear from the relevant documentation the reason why Tourism Australia had

²⁸ Australian National Audit Office & the Department of Finance and Administration's Better Practice Guide *Developing and Managing Contracts*, February 2007, p. 16.

rejected the other recommendations so it is difficult to determine whether the full benefits of undertaking the review were realised. The contracts do not have agreed and understood performance information to enable Tourism Australia to evaluate the effectiveness of the contracts and therefore the services provided.

2.34 Responsibility for the success of campaigns is shared between the service providers and Tourism Australia. However, the contracts do not contain performance information to indicate how campaign effectiveness will be measured although this was suggested in the review of the draft contracts.²⁹

Negotiation timeframe

2.35 As previously noted, the original RFTs were advertised on AusTender in late February 2005 and Tourism Australia's goal was to have contracts in place by 1 July 2005. This was an ambitious timeframe for completing the procurement and contract negotiation, particularly because the consolidation of its global marketing arrangements meant that it was a new way for Tourism Australia to deliver its core business. The original evaluation report was submitted to the Board and the former Minister in June 2005 and the re-evaluation report was submitted in July.

2.36 Completion of Tourism Australia's 2005–06 work program required work on a new global campaign to commence in July. This was a contributing factor to Tourism Australia requesting the preferred tenderers to begin work before the contracts were in place. Contracts were not approved by the former Minister until mid-August and were executed by the parties in October 2005.

2.37 Tourism Australia considered it had managed the contracting risk by not paying invoices until the contracts were signed, although it had requested that services commence. The ANAO considers that Tourism Australia's risk mitigation method was ineffective because its request for services to be provided created an obligation whether or not the contracts were executed.

Legal and policy requirements

2.38 The contracts between Tourism Australia and the creative development and media placement service providers included all necessary legal and policy requirements. With assistance from the Australian Government Solicitor, Tourism Australia developed draft contracts that were included as part of the RFT documentation. The potential service providers' ability to meet the draft

²⁹ Measuring and reporting on Tourism Australia's performance is discussed in Chapter 4.

contracts' terms and conditions was also considered by the evaluation committees during tender assessment.

Digital services

2.39 The digital services procurement involved Tourism Australia looking to expand its traditional marketing methods to include the Internet. To manage the risk to Tourism Australia, the contract for digital services was developed as a two-phased approach. Phase One was the comprehensive scoping of the work, which was to be delivered to standards consistent with world's best practice. The contract detailed each step for Phase One including the deliverables, each output and the expected cost. Phase Two was to implement the scope of work determined in Phase One. This work involved building a distributed website and managing third party providers. As was the case with the earlier procurements, the digital services contract met the necessary legal and policy requirements.

Conclusion

2.40 Tourism Australia did not undertake an assessment of risks either during the procurement process or when negotiating the contracts. Without attention being given to assessing and analysing risks, the contract may not meet the needs of either party or become unworkable over time.

2.41 The contracts for creative development and media placement accurately reflect the services to be provided, as stipulated in the successful tender. Although Tourism Australia reviewed the draft contracts, the full benefits of undertaking the review were not realised, particularly in relation to incorporating performance information. The lack of performance information makes it very difficult for Tourism Australia to evaluate the effectiveness of the services delivered under these two contracts.

2.42 Tourism Australia is about to enter into new agreements for global creative development and media placement services to commence in August. Tourism Australia has advised that transitional arrangements have been put in place to prevent a recurrence of the situation where work commenced before the contracts were executed.

2.43 The objectives were clearly outlined in the digital services contract. It also included milestones linked to payments, expected service levels and deliverables, which enable Tourism Australia to measure and manage this contract.

Cooperative airline agreements

2.44 As previously noted, Tourism Australia also undertakes joint marketing initiatives formalised through MoUs with two international airlines. Tourism Australia's predecessor established the three-year cooperative partnership agreements in 2002 to provide: matched funding for marketing projects; additional flexibility to existing partnership arrangements; and a global operating framework for partnership management. In June 2005, Tourism Australia extended these arrangements for another three years. The ANAO examined Tourism Australia's processes for entering into these revised arrangements.

2.45 Before extending an agreement, it is common practice to incorporate any lessons learned by evaluating the existing agreement. Tourism Australia did not formally evaluate its existing arrangements to determine whether they had achieved value for money and the advice provided to the former Minister seeking approval for the new partnership agreements made no reference to value for money. However, the MoUs are not exclusive and Tourism Australia may choose to jointly fund and deliver marketing projects with other airlines.

2.46 The former Minister approved the new partnerships in July and September 2005. The new MoUs clearly outline the requirements that enable Tourism Australia and the airlines to manage their partnerships. The agreements were based on the previous partnerships and met necessary legal and policy requirements.

2.47 Prior to March 2008, there was no mechanism to reconcile the contributions from the partners to the cost of the marketing projects. Tourism Australia has advised that it has implemented a new system that is now able to do this. The transactions entered into the new system are able to be recorded against the overarching marketing contract and also linked to the appropriate MoU. Tourism Australia is now able to report to the airlines on the projects' performance against the MoUs. It also provides a direct link to Tourism Australia's financial system to report on actual costs against each MoU. The improved reconciliation process will result in more transparent reporting to the airlines.

3. Managing Service Delivery

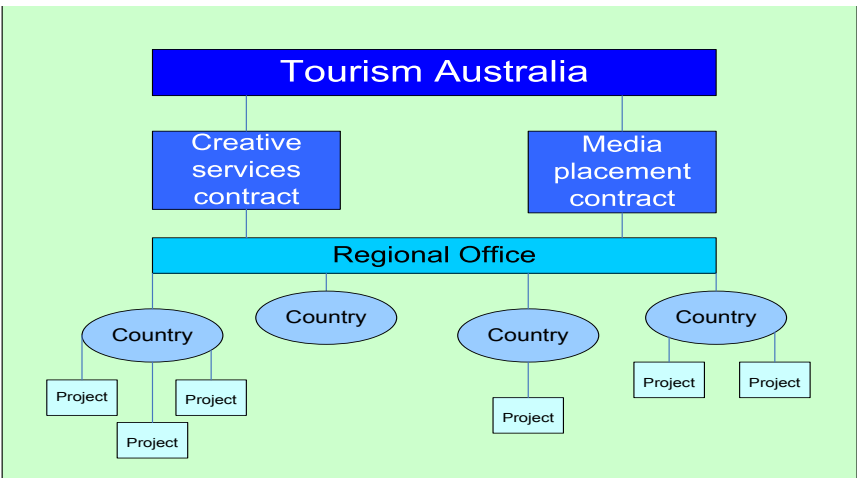
This chapter assesses whether Tourism Australia has effective arrangements in place to manage and evaluate the delivery of key services contracted to external providers.

Introduction

3.1 As previously noted, Tourism Australia depends on external providers to deliver its marketing activities. It has three major contracts in place to provide creative development, media placement and digital services, including the tourism website *australia.com*. These three contracts consumed approximately thirty five per cent of Tourism Australia’s annual budgets of \$167.8 million in 2005–06 and \$158.6 million in 2006–07.³⁰ The creative development and media placement contracts are also drawn on by Tourism Australia’s regional offices to deliver projects in their respective markets. These relationships are illustrated in Figure 3.1.

Figure 3.1

Relationships between projects and the global marketing contracts



Source: ANAO analysis of Tourism Australia Data

3.2 A number of the regional projects may be jointly funded by Tourism Australia and an international airline or State and Territory Tourism Organisation (STO). There may also be a digital services component included.

³⁰ In February 2008, Tourism Australia issued a Request for Tender for the creative development and media placement contracts.

For example, one of the projects reviewed included a competition that was entered via Tourism Australia's website.

3.3 The ANAO examined the two global marketing contracts to assess:

- how they were managed by Tourism Australia;
- how effectively they were used to deliver the projects in the regions; and
- if contract requirements were met.

3.4 For this assessment, the ANAO selected an indicative sample of projects in four of Tourism Australia's six regions. A description of the projects and the rationale for selecting the regions is outlined in Table 3.1

Table 3.1

Regional project sample

Regional Office	Project
New Zealand—which has the highest number of visitors to Australia but is the smallest regional office. (1.1 million visitors, 20 per cent of total visitors).	<i>G'day Australia Week</i> —which was designed to invite New Zealanders to trial Australian experiences that lead to '... deeper and longer conversations about Australian experiences.'
United Kingdom—which is the largest regional office and has the highest marketing expenditure. Tourists from the UK also have the highest spend and dispersal. (733 000 visitors, 7.5 per cent of total visitors)	<i>Brand Australia</i> —which was designed to '... protect and grow Australia's position among first time visitors as a preferred destination and increase the number of first time visitors seriously considering Australia.'
Singapore—which services India, an emerging market. (India is included in southern and central Asia 112 000 visitors, 2 per cent of total visitors)	<i>Cricket Australia</i> —designed to attract more travellers to Australia for the cricket series (this involved media, competitions and website advertising); inspire travellers to stay longer; and increase India's affinity for future travel.
Japan—which services a traditionally large but shrinking market. (610 200 visitors, 11 per cent of total visitors)	<i>World Heritage</i> —designed to get holiday makers to rethink their next trip, take affirmative action and go to Australia.

Source: ANAO analysis of Tourism Australia data

Note: The number of visitors is taken from the 2006–07 ABS Tourism Satellite Accounts, referred to previously.

3.5 The ANAO also reviewed Tourism Australia's contract for the provision of digital services to assess whether the contract requirements had been met and how Tourism Australia evaluated the effectiveness of the services provided.

3.6 In addition, Tourism Australia's media services provider entered into contracts on its behalf with National Geographic and Discovery Communications Incorporated, through the Discovery Channel. These partnerships were aimed at consolidating and adding value to its annual advertising spend. The ANAO reviewed a Discovery Channel project —*American Chopper Down Under*—to assess how Tourism Australia managed these contracts and the delivery of the project.

Managing overarching creative development and media placement contracts

3.7 As discussed in Chapter 2, the creative development and media placement contracts required annual Ministerial approval for the upper limits of funding that could be incurred by Tourism Australia, each year.

Approval process

3.8 The upper limit of expenditure was calculated on the total amount of all projects, detailed in the respective annual operating plans. In 2004–05 and 2005–06 this total was included in Schedules attached to the contracts and provided to the contractors at the commencement of each year. In 2007–08, the Schedule includes all approved projects and their approved budgets, which cannot be exceeded without varying the Schedule. Any additional projects that are approved throughout the year are added to the Schedule.

3.9 When the former Minister was requested to approve the annual upper limit of expenditure in June 2006, Tourism Australia was asked to provide the following information to assist her in approving the funding for each contract:

- a fully completed internal assessment of the 2005–06 contracts with providers;
- an assessment completed by an independent expert on whether or not the creative and media buying activities for 2005–06 represented value for money; and
- details of mechanisms instituted by Tourism Australia to monitor and manage the contracts for 2006–07.

3.10 Pending receipt of this information, and to avoid disruption to the international marketing campaign (*A unique Australian invitation*), the Minister agreed to expenditure of \$25.8 million for the two contracts. An independent

assessor and Tourism Australia's internal auditor reviewed the contracts. The reviews of creative development were based on:

- assessing the processes and controls that had been established to ensure that production costs were valid and reasonable;
- quantitative measures which included the benchmarking of creative materials production rate cards; and
- qualitative measures which included the level of account servicing, strategic support and accuracy of reporting and documentation.

3.11 The reviews for media placement were based on

- quantitative measures that included an evaluation of prices negotiated against industry benchmarks; and
- qualitative measures that included the quality of strategic input, account servicing and reporting.

3.12 Tourism Australia informed the former Minister that the reviews would not be completed until September and, delaying the approval of funding while awaiting the requested information, could lead to a loss of discounts worth \$6.7 million. In light of this, the former Minister felt she had no option but to approve (in July 2006) the total annual expenditure of \$82.6 million³¹, and stipulated the following two conditions:

- that the Board be satisfied that the evaluative material demonstrated that taxpayers had received value for money; and
- that the equivalent request for approval of funding for 2007–08 also be accompanied by appropriate evaluative material.

3.13 On completion of the reviews, Tourism Australia advised the Board that the overall performance of the service providers was satisfactory and, that where weaknesses in processes had been identified, adjustments had been put in place to ensure continued improvement. In October 2006, the Board provided its assurance to the former Minister, that the contracts represented value for money. In the two subsequent years of the contracts, the annual reviews were completed and provided to the former Minister when seeking approval for funding.

³¹ This figure included the \$25.8 million approved in June 2006.

Contract reviews

3.14 The creative and media contracts require an annual review of the provider's performance. There have been four internal audits and four external reviews of different aspects of the contracts since they were executed in 2005. Broadly, the reviews covered quality of service delivery and whether the services provided were appropriately billed and had not already been paid under the retainer fee. However, they did not include an assessment of whether: the objectives of the contract had been achieved; or the various projects undertaken within the contracts were effective.

3.15 The reviews identified some aspects of good performance and, overall, the services provided were assessed to be delivered at least to a satisfactory level. The reviews also identified areas where performance improvements were recommended, particularly in relation to financial management and communication between the parties involved in delivering services. Table 3.2 summarises the key findings of the reviews.

Table 3.2

Summary of performance review key findings from May 2005 to May 2007

Creative development contract	Media placement contract
<i>Financial management</i> <ul style="list-style-type: none">the need for the media placement provider to re-issue rate cards to all offices and to clarify their applicationinvoices raised before contract signed <i>Communication</i> <ul style="list-style-type: none">opportunities for the media placement provider to improve communication between head office and regions, and to better integrate the delivery of creative and medial placement services	<i>Financial management</i> <ul style="list-style-type: none">the price paid for some specific areas was more expensive than the benchmarkan underspend by Tourism Australia of \$3.9 million in 2006–07 that had not been reported to the Board <i>Communication</i> <ul style="list-style-type: none">online media processes within the network needed to be documented and re-communicated by the media services provider

Source: ANAO analysis based on Tourism Australia data

Improvements in managing the contracts

3.16 To address some of the financial issues raised by the reviews, Tourism Australia implemented a monthly reconciliation process in February 2006. This measure was recommended as a means of providing greater assurance over the completeness and accuracy of expenditure recorded and reported. In addition, financial information on actual expenditure against contract value

and variance is now provided quarterly to the Board, as recommended in one of the reviews.

3.17 Since July 2007, Tourism Australia has also improved its financial management processes. It now requires expenditure for all major contracts to be authorised by the appropriate delegate when each region draws against their allocated budget, as set out in the creative development and media placement contracts for their marketing projects. As part of this change, the financial thresholds for authorisation have been aligned to the thresholds for exercising delegations. This process was implemented to allow more transparent tracking of project expenditure and is supported by the ANAO.

3.18 Previously, regions were able to spend against the contracts without requiring any further authorisation other than the initial approval of the overarching contract by the Managing Director, Board and Minister. This practice increased the risk of work being conducted, which may not have been within the terms of the contract. In one known case, this resulted in the purchase of \$500 000 worth of fixed assets³², which was not permitted under the contract. During the ANAO's audit, Tourism Australia was undertaking a stock-take of assets in all regional offices to ensure they were all registered and to identify whether any other inappropriate purchases had been made.

3.19 Notwithstanding the actions that Tourism Australia has taken to tighten its financial controls, it was unable to demonstrate whether all recommendations from the internal and external reviews, which were agreed to, have been properly implemented. For example, the communication issues that were raised (Table 3.2). The ANAO considers that a more transparent and timely process for implementing agreed review recommendations would provide assurance to the executive leadership team and the Board; and lead to better outcomes for Tourism Australia.

Evaluation of creative and media contracts

3.20 As discussed, there have been reviews of the creative and media contracts since they were executed in 2005. However, Tourism Australia has yet to formally evaluate whether the services provided under these contracts (to date worth \$184 million) are contributing towards Tourism Australia achieving its statutory objectives, as outlined in the contracts. Such evaluations

³² The purchase was for software and hardware to display imagery at promotional events.

could have informed Tourism Australia's recent approach to the market and development of subsequent contracts, in line with the CPGs.

3.21 As noted in Chapter 2, Tourism Australia issued an RFT for these two contracts in February 2008. It also advised the ANAO that responsibility for the effectiveness of marketing campaigns is shared between the service providers and itself. An additional requirement included in the new RFTs was that the successful tenderer is to be required to meet 50 per cent of the cost of the implementation of a third-party evaluation system. There will be a mutual six-monthly evaluation process against agreed criteria and scores. Tourism Australia may take into account the agency's performance ratings in its review of the retainer fee.

Conclusion

3.22 Tourism Australia and its service providers are generally complying with contract requirements. The contracts for creative development and media placement services have been subject to various reviews that have identified the need to improve contract management arrangements. Some process improvements have been made following these reviews.

3.23 To successfully implement the proposed evaluation processes in its new contracts, Tourism Australia will require performance indicators that measure the effectiveness of its contracts and each project. The contracts should clearly outline each participant's responsibilities for delivery, measurement and reporting against performance indicators.

Delivery of regional projects through the overarching contracts

3.24 The majority of marketing projects are delivered in the regions using the global creative development and media placement contracts. The ANAO assessed how the projects and supporting contracts were managed. Table 3.1 explains these projects and why the regions were selected. Each project was included in Tourism Australia's operating plan and a project plan that should have included objectives, KPIs, the target market, estimated budget and risks, was developed for each project.

3.25 The ANAO assessed whether key contract requirements and internal procedures were met. For Tourism Australia, this meant submitting a brief to the provider for each project, which incorporated the project objective and KPIs. The service providers are to deliver the required services and provide an

itemised invoice to Tourism Australia, consistent with agreed contract rates. In each of the four regional projects examined, Tourism Australia had checked the service providers' invoices to confirm that the required services had been provided, and billed at the appropriate rates.

3.26 A brief was developed for each project reviewed by the ANAO. In each case, the brief set out the objective of the project and included KPI's that were to be used to measure the success of the project. However, these were not consistent across the regions. For example, only one of the four offices was able to provide evidence that the risks to the success of the project had been considered and incorporated into the project plan or in a supporting document.

3.27 There were also shortcomings in the specification of project objectives and in the identification of their KPIs. For example, the *G'day Australia Week* campaign had an objective that was difficult to measure, namely, '....deeper and longer conversations about Australian experiences.' Yet, the project brief for this campaign included a range of specific KPIs and targets that were used to measure the success of the campaign. These included targets for: the number of articles produced; number of attendees and number of phone, mail and email enquiries.

3.28 By contrast, the objective for *Brand Australia* was clear and specific, namely: 'To protect and grow Australia's position amongst first time visitors as a preferred destination and increase the number of first time visitors seriously considering Australia.' However, some of the KPIs for this campaign did not lend themselves to easy measurement. These included: 'the intention to travel to Australia' and 'strength of association with core experience'.

3.29 Tourism Australia does not systematically evaluate the effectiveness of its projects and, currently, is unable to demonstrate what impact these projects have had on their target markets. It also means that Tourism Australia is not identifying the factors impacting on the success, or otherwise, of the projects or lessons learned that could be incorporated into future projects. The effectiveness of each project is central to how Tourism Australia assesses its overall performance in meeting its outcome and statutory objectives. Performance management is discussed in Chapter 4.

3.30 There was also variability in the quality of record-keeping among the regional offices, which impeded the ANAO's examination of whether contract requirements had been complied with. Although all key documents were

eventually provided to the ANAO, this required considerable effort on the part of some regions as the information was not always readily available.

Conclusion

3.31 At the regional level, there needs to be greater consistency in the preparation of project briefs and assessment of the risks to projects when preparing project plans. In addition, if Tourism Australia is to be in a position to demonstrate the impact of its marketing projects it requires measurable objectives and appropriate KPIs.

Digital services contract

3.32 In 2006, Tourism Australia signed a contract for the provision of digital services. It has implemented a number of better practice processes in managing this contract:

- the contract contains performance information, milestones, and outputs that measure the objectives;
- there were three risk assessments of the digital services contract; and
- the service provider has a comprehensive risk management plan that covers the development and delivery of requirements against the statements of works (SoWs).

3.33 Tourism Australia has developed a detailed list of milestones and schedule of fees that are outlined in the contract and the SoWs. These were reviewed by the ANAO to determine whether the requirements were met, payments made were appropriate and reconciled. Generally, the contract is well managed and payments appropriately made and reconciled. The terms of the contract and the SoWs were also met by Tourism Australia and the service provider.

Conclusion

3.34 The digital services contract is being effectively managed. The better contract management practices that are in place for this contract suggest that Tourism Australia has progressively improved its approach to managing external service providers and has applied some 'lessons learned' from its earlier contracting experiences. For example, the contract was developed with appropriate milestones and payments that were linked to these were not made unless the milestone was met. In addition, risk assessments were conducted by Tourism Australia and the contractor and these have been updated as

necessary. Performance information enables Tourism Australia to assess whether the contract is meeting the stated objectives. The ANAO considers that Tourism Australia's management of its contracts would be improved if these practices were adopted for all contracts.

Global media contracts

3.35 In 2005, Tourism Australia assessed a range of options to enter into agreements or contracts with selected global media, with the aim of consolidating and adding value to its annual advertising spend. The review resulted in Tourism Australia's media placement contractor entering into contracts on its behalf with National Geographic and Discovery Communications Incorporated, through the Discovery Channel. These contracts were developed to enable Tourism Australia to negotiate and leverage world-wide programs, editorial placements, publicity, sponsorship and advertising deals.

3.36 In examining the global contracts, the ANAO focussed on Tourism Australia's contract arrangements with the Discovery Channel for three episodes of the *American Chopper Down Under* television program, which were filmed in Australia in 2007.³³ This program was chosen by Tourism Australia because it represented a different marketing approach. Also, as one of Discovery's flagship programs, viewing numbers were expected to be around 300 million households in over 160 countries, which is a huge market for Australia to tap into.

3.37 The following three agreements were developed for the production of the three episodes:

- the original contract that was developed between Discovery and the media placement provider was to cover any collaboration;
- a second agreement between Discovery and Tourism Australia for development of the programs; and
- a third was a limited promotional and bike build agreement between Orange County Choppers and Tourism Australia.

³³ American Chopper programs are usually based around Orange County Choppers Inc (OCC) building custom motorcycles. They are usually filmed in the OCC workshop or in various locations in the United States. Filming has only occurred in two overseas locations, including the Australian episodes.

3.38 Although the three episodes of *American Chopper Down Under* met Tourism Australia's expectations in terms of worldwide viewing audiences, the Board put the global contracts program on hold in March 2007. The Board took this decision when it became aware of a number of issues relating to the management of the contracts. In particular, an accounting issue arose over the purchase and sale of the custom-built motorcycle, built as part of the program. The issue was how Tourism Australia would record the motorcycle as an asset and for what value. In turn, the accounting issue stemmed from the confusion surrounding the multiple contracts that were in place when the program was produced. For example, although Tourism Australia's contribution was US\$150 000, the actual cost of the program or the custom built motorcycle was not clear from these contracts.

Conclusion

3.39 The ANAO considers that this project underlines the need for Tourism Australia to improve its contract management processes. For example, having three different agreements covering different aspects of the one project caused uncertainty when accounting for the costs of the program and the motorcycle.

4. Governance Arrangements

This chapter examines the governance framework supporting Tourism Australia in achieving its outcomes and measuring and reporting on its performance.

Introduction

4.1 Governance is the combination of responsibilities, practices, policies and procedures exercised by an agency's executive to provide strategic direction, and to ensure that objectives are achieved, risks are managed and resources used responsibly.³⁴

4.2 Tourism Australia's legislative and policy framework largely determines its governance arrangements. The *Commonwealth Authorities and Companies Act 1997* (CAC Act) and regulations outline reporting requirements, corporate planning obligations including the setting and reporting of objectives (including outcomes), assessment of the operating environment, strategies and the necessity of adequate record keeping. Under the *Commonwealth Authorities and Companies (Report of Operations) Orders 2005*, Tourism Australia must report annually on its outcomes and outputs and other statutory requirements. The *Tourism Australia Act 2004* (the Act) outlines the requirements of Tourism Australia and its Board in relation to governance activities.³⁵

The Uhrig Review

4.3 Following the Australian Government's acceptance of the Uhrig Review's³⁶ recommendations in 2004, Tourism Australia was assessed by the then Department of Industry, Tourism and Resources against the Review's governance templates and principles. The then Minister for Small Business and Tourism accepted the recommendation that the Board template³⁷ be applied to

³⁴ Australian National Audit Office and the Department of the Prime Minister and Cabinet, *Implementation of Programme and Policy Initiatives*, ANAO, Canberra, 2006, p. 13.

³⁵ These activities include: the powers of the Board and agency; membership of and appointments to the Board; Board procedures; the role of advisory panels; planning and accountability (both content and reporting procedures); the appointment and duties of the Managing Director; and financial arrangements.

³⁶ The *Review of the Corporate Governance of Statutory Authorities and Office Holders* (the 'Uhrig Review') was initiated by the former Government in 2002 and its report was released in August 2004.

³⁷ The Board template is where the government takes the decision to delegate full powers to act to a board including the ability to appoint, supervise and remove senior management as well as approve strategy.

Tourism Australia and this was agreed to by the then Minister for Finance and Administration.

4.4 In line with the recommendations in the Uhrig Review, the former Minister issued the first *Statement of Expectations* to the Chair of the Board in September 2006.³⁸ The Board responded with its *Statement of Intent* in November 2006. In October 2007, the former Minister extended the timeframe of the Statement to March 2008 and Tourism Australia reported its progress in implementing its Statement of Intent in September 2007.

4.5 The new Minister for Tourism issued his *Statement of Expectations* in April 2008 and the Board responded with its *Statement of Intent* in May 2008. The first quarterly report against this Statement is due in August/September 2008.

4.6 Within this broad legislative and policy context, the ANAO reviewed:

- the role, responsibilities and operations of the Tourism Australia Board (the Board); and
- Tourism Australia's planning and performance management framework, including its risk management strategies

The Tourism Australia Board

4.7 The Board comprises a Chair, Deputy Chair, the Managing Director of Tourism Australia and six non-executive directors. The Board's role and responsibilities, collectively and as individual directors, are clearly defined in its Charter. The Charter was approved in October 2006 and updated in February, August and November 2007. It is a comprehensive document that, generally, establishes a clear governance framework for the agency and the Board, drawing as appropriate from legislative requirements and the Uhrig report. Changes to the Charter introduced in 2007 were designed to reflect Uhrig report recommendations and tailor these to the operational needs of the Board and agency.

4.8 The governance framework established by the Charter provides guidelines for selecting Board members, including the Chair and Managing Director of Tourism Australia. It also provides for regular dialogue between, and formal reporting to, the Minister and department to encourage open

³⁸ The Statement of Expectations covered the following topics: strategic direction; accountability arrangements; financial reporting; communication; research; roles, responsibilities and training; performance reviews; and succession planning.

communication on both specific and general matters. For example, monthly reports provided to the Board by Tourism Australia cover major projects, trends, the operating environment and recognition of the Australia brand. However, these reports and the quarterly reports provided to the department do not include an assessment of the impact of Tourism Australia's projects.

4.9 Effective communication between the Board and Tourism Australia is provided for by the Charter specifying that the minutes of Board meetings should record all decisions taken, that attendance of staff of Tourism Australia at Board meetings be routine and by enabling the Managing Director to be a full member of the Board. Executive staff of Tourism Australia make regular presentations to the Board to report on new initiatives, what is occurring in their areas of responsibility or for other purposes.

4.10 The responsibilities and accountabilities of the Managing Director and the Board as set out in the Charter help to distinguish their respective roles. Currently, the Managing Director covers the day-to-day management of the agency, the measurement and reporting of performance, implementation of strategies and policies approved by the Board, maintenance of effective risk mechanisms and the organisation structure. The Board, and more particularly, the Chair, has responsibility for strategic direction, good corporate governance, effective risk management, legal compliance, appropriate structure, management of the interests of stakeholders and the wider public interest.

Annual board assessment

4.11 Under the previous Minister's *Statement of Expectations*, the Board's performance was to be regularly assessed. The Board has been in existence since July 2004 and the former Minister requested an assessment of the Board's performance by the end of 2006. However, Tourism Australia advised that the first formal assessment of the Board's performance was undertaken in February 2008. The Board was given an oral briefing on the summary of findings of this review in April. The ANAO was advised that the following areas were covered:

- relationship between the Board and management;
- Board processes and composition;
- relationship between the Board and stakeholders; and
- continuous education requirements of the Board.

Tourism Australia further advised that the Board met in June to discuss the review's findings and recommendations. As a result, the Board secretary has advised that, the Board will increase its involvement with the industry and its interaction with senior executives. Board reviews will also be regularly undertaken and there is a commitment by the Board to continuing education.

Procedures for dealing with potential conflicts of interest

4.12 The experience of the Board members indicates skills across many of the areas suggested in the Act³⁹, although its composition is more weighted towards members with expertise in tourism or hospitality than the other areas listed. In discussions with industry, and through survey responses from STOs, a number of stakeholders expressed the view, to the ANAO, that the perceived conflicts of interest of Board members are a major risk to Tourism Australia's reputation.

4.13 The protocols for dealing with potential conflicts of interest are outlined in the Board's Charter. All Board members are required, annually, to complete a declaration of interest, which lists members and their immediate family's business interest. New Board members complete the form on appointment. The Charter states that:

A material personal interest includes, as well as pecuniary (financial) interests, advancing the interests of friends and colleagues even if there was no pecuniary gain in doing so.

4.14 Existing Board members complete their forms at the end of the relevant financial year, although it is expected that members will disclose any additional interests, as a minimum, at the beginning of the next Board meeting. Every Board member has disclosed interests. The minimum number of interests declared for an individual Board member was four and the maximum number of interests disclosed by a Board member was 71. For the remaining Board members, the number of interests declared ranged from seven to 20. It is therefore important, that protocols are in place that will support the effective management of potential conflicts of interest.

4.15 The protocols for dealing with potential conflicts of interest in the original Charter required the Chairman and the Board Secretary to review the meeting agenda to assess whether members may have potential and actual

³⁹ There are 14 areas of expertise listed in the Act. Broadly, these are: tourism; hospitality; corporate governance; financial management; marketing and promotion; economic analysis; environmental management; and indigenous tourism and culture.

conflicts of interest. Board papers were not to be distributed to those members considered to have a conflict of interest. However, in practice, all members received all papers and generally any potential or actual conflict of interest would be declared at the Board meeting. When a review of the Charter was conducted in late 2007, the Charter was amended to reflect this practice, rather than procedures being changed to meet the requirements of the original Charter.

4.16 It would be preferable if Board members were required to declare their interests on appointment and annually at the beginning of each financial year. Members should also advise the Board Secretary of any new interests as they arise, rather than waiting until the Board meeting, to prevent Board papers being distributed inappropriately. The meeting practices outlined in the Charter relating to declaring potential conflicts of interest would continue to apply.

Declaring conflicts of interest

4.17 The ANAO reviewed the minutes of all Board meetings from July 2004 to September 2007. The total number of declarations of potential conflicts at the Board meetings was 20. Only on one occasion during the three year period, was a Board member absent for the duration of an agenda item and decision making process.

4.18 Board minutes showed that declarations were not made consistently so the number of declarations may not reflect the full extent of the potential conflicts. There were occasions between July 2004 and June 2007 when potential conflicts of interest had been disclosed but when similar issues were raised or related items were being discussed, potential conflicts were not declared. For example, there were two occasions when a member reported shareholdings in a particular company but the minutes do not reflect a discussion relating to the company. However, there were three other occasions, between these two instances, when a potential conflict of interest was not declared but contract decisions were made in relation to this same company. In addition, the minutes do not reflect if the potential conflicts of interest were discussed after they were declared, or whether any action was proposed or taken. Tourism Australia has advised that, if there had been any discussions surrounding the potential conflicts, these would have been reflected in the minutes.

Conclusion

4.19 The Charter provides a good governance framework for the Board and Tourism Australia. Accountabilities and areas of responsibility are defined and processes are in place to facilitate communication and reporting between the Board, the Minister, Tourism Australia and the department. The Board has recently been assessed and the ANAO has been advised that the Board met in June to discuss the reviews findings and recommendations.

4.20 It is important, particularly in a competitive tourism industry, that the decisions of the Board are transparent and that any perceived or actual conflicts are being (and are seen to be) appropriately addressed. The current arrangements for dealing with potential conflicts of interest could be improved given:

- the changes to the procedures in the original Charter in relation to potential conflicts of interest;
- the large number of interests declared by members and the inconsistent disclosure of potential conflicts of interest at Board meetings;
- one instance in three years of a Board member declaring an actual conflict of interest and being absent while the discussion and subsequent decision was made;
- the lack of documentation surrounding any discussion by the Board relating to potential conflicts of interest; and
- the perception of stakeholders that a relationship exists between business interests, share holdings, and Board approvals and decisions.

4.21 Documenting in the minutes of Board meetings any discussions or actions surrounding potential or actual conflicts of interest will also improve the transparency of the Board's operations.

Recommendation No. 1

4.22 To enable the Tourism Australia Board to appropriately manage potential conflicts of interest, the ANAO recommends that the Board:

- (a) reinstate the procedures in the original Charter covering potential conflicts of interest; and
- (b) document in the minutes of its meetings any discussions or decisions in relation to potential conflicts of interest.

Tourism Australia response

4.23 Agreed. The Tourism Australia Board is currently reviewing its Board Charter so as to appropriately reflect procedures dealing with potential Board conflicts of interest. The Board's current process follows the standard practice where the Chairman seeks declarations of conflict or interest in any matter by any Board member for any issue to be discussed and then, depending on the nature of such conflict or interest, the Board member concerned is asked to vacate the room while the matter is discussed. The minutes of Board meetings reflect this practice.

Tourism Australia's planning and performance framework

4.24 Under the *Commonwealth Authorities and Companies (Report of Operations) Orders 2005*, Tourism Australia's annual report must review how it has performed during the financial year in relation to its:

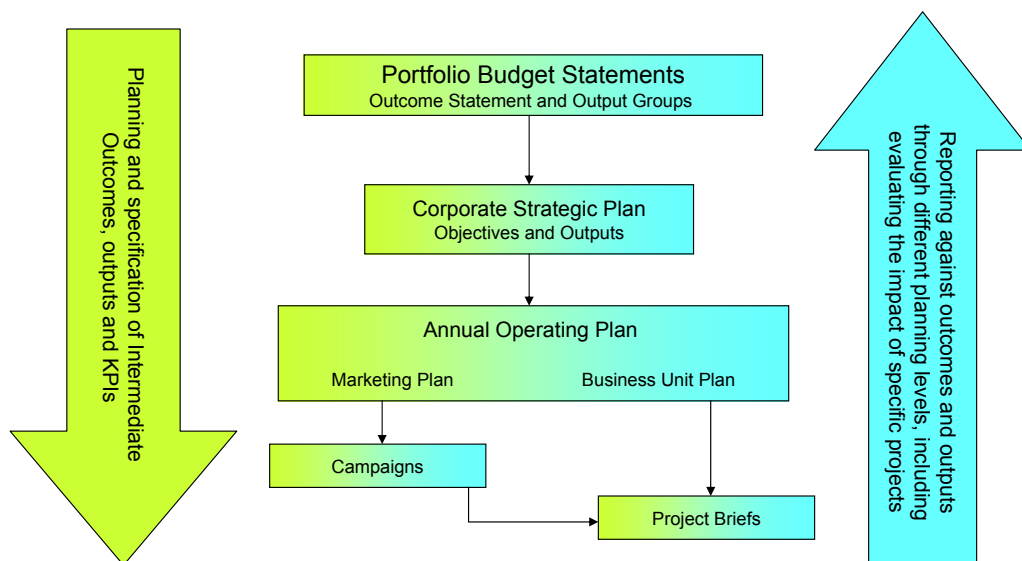
- statutory objects⁴⁰ and functions;
- corporate plan, where applicable; and
- principal outputs and contribution to outcome/s.

4.25 To achieve this, Tourism Australia needs a well integrated planning and performance management framework that facilitates transparency and internal and external accountability and reporting. Top-down planning focuses on maintaining transparency and achieving stated outcomes. Reporting of activities that contribute progressively to the agency's outputs, output groups and outcome provides continuous integrated performance information for managing the organisation. For Tourism Australia, this framework is illustrated in Figure 4.1.

⁴⁰ Tourism Australia's statutory objects are outlined in Chapter 1 (Paragraph 1.6).

Figure 4.1

Planning and performance reporting model for Tourism Australia



Source: ANAO analysis of Tourism Australia information

Tourism Australia's planning framework

4.26 Tourism Australia undertakes planning at the strategic and operational levels. The corporate plan provides a strategic overview and the annual operating plan and project plans provide detail on activities at the operational level. Both the corporate and operating plans are developed by Tourism Australia, approved by the Board and endorsed by the Minister. In preparing its corporate plan, Tourism Australia consults widely, including with industry representatives and all STOs.

Tourism Australia's corporate planning

4.27 Tourism Australia's corporate plan is for three years, and is updated annually as required by its Charter. The plan outlines a strategy map, which includes: foundations for success; core enabling and marketing platforms; and Tourism Australia's objectives and purpose. The strategy map is shown at Appendix 2. Tourism Australia's role and mission; organisation and statutory objectives; target markets; challenges; key areas of focus, and its performance framework are also outlined in the corporate plan. In addition, information is provided about the environment in which the agency is operating and an assessment is given of the outlook for the tourism industry up to 2009–2010.

Operational planning

4.28 The operating plan reproduces the strategy map and outlines the challenges and marketing strategies for each region. It lists the projects that Tourism Australia will focus on for the year ahead, in order to deliver against the requirements in the corporate plan. A project plan is then developed for each project listed in the operating plan.

4.29 The project plan outlines the objectives, budget, risks and performance indicators for the project. In reviewing a sample of project plans, the ANAO found that there was considerable variation across the organisation, particularly in terms of clearly defining objectives, assessing risks and developing performance indicators to measure the effectiveness of these projects. These plans are discussed in more detail in Chapter 3.

Alignment between key planning documents

4.30 The corporate plan does not show how Tourism Australia intends to meet its statutory objects in the Act or outcome in its PBS. The strategy map (in both the corporate and operational plans) does not reflect the agency's outcome as outlined in the PBS. There is also no clear alignment between the projects outlined in the operating plan and the 'foundations for success' in the strategy map. Project plans need to be linked to the map and the map needs to show the full PBS outcome statement, if Tourism Australia is to demonstrate through its planning and performance framework how its individual marketing projects (the agency's lower level outputs) are contributing to its outcome.

4.31 A better alignment between plans would also be achieved, in part, by adopting consistent language across all of Tourism Australia's strategic and planning documents. For example, the core marketing and enabling platforms⁴¹ are considered to be 'outcomes' in the corporate plan but these do not relate to the PBS output groups or outcome. There are also 'outcomes' under each platform such as 'Consumers are able to access and buy Australian travel experiences more easily', under trade development, which also does not directly link to the PBS output groups or outcome.

⁴¹ The core marketing platforms are: consumer marketing, trade development; and Australian experiences. The core enabling platforms are: stakeholder engagement; insights and planning; information and communications technology; finance, governance, administration and risk; and people and culture.

Incorporating risk into the planning process

4.32 Tourism Australia's strategic and operational planning includes an environmental analysis and identified marketing challenges and opportunities. Some operational risks are identified in the operating plan and at the individual project level. The ANAO appreciates that the Board would have considered the risks facing both Tourism Australia and the industry before approving these plans. However, there have been no documented assessments of Tourism Australia's strategic risks or the mitigation strategies developed to address these risks. A stronger focus on managing risk is needed to enhance Tourism Australia's planning processes.

4.33 Tourism Australia undertook its first assessment of risks in February 2007 and developed a risk matrix. The matrix details a number of organisation-wide risks (for example, intellectual property, legal, resources) and their impact on each of the organisation's functional areas. It does not identify the source of risk, treatment strategies, or who is responsible for managing and treating each risk. The ANAO was advised that the risk ratings are not based on analysis but rather on perceptions. Tourism Australia has been unable to provide documentation to support the development of this matrix. In addition, the assessment does not contain information on how operational risks may effect identified organisation-wide risks.

4.34 During the audit, Tourism Australia initiated a review of its strategic risks as part of developing a risk management framework, supported by a risk management plan.

Conclusion

4.35 Tourism Australia has a cascading planning framework in place however, the relationships between the different levels of planning, the outputs and outcome in the PBS and statutory objects in the Act are not clear. This lack of alignment presents difficulties for Tourism Australia in demonstrating that it is contributing to achieving its outcome. Better alignment would be facilitated by using the strategy map in the corporate and operating plans to link Tourism Australia's outputs to its outcome and by using consistent language across all documents.⁴²

4.36 As part of the planning process, there was no documented assessment of the strategic risks facing Tourism Australia, although there is some

⁴² Paragraph 4.53 and Recommendation 3 (paragraph 4.55) also address alignment between key planning documents.

assessment of risks at the operational level. Tourism Australia has initiated a review of its risk management framework. It is important in developing this framework and documenting its analysis in a risk management plan that Tourism Australia:

- identifies significant risks at all levels – strategic, operational and project;
- analyses these risks and develops appropriate mitigation strategies; and
- regularly reviews these risks, taking into account any changing or emerging issues.

Recommendation No. 2

4.37 In developing and implementing its risk management framework and supporting plan, the ANAO recommends that Tourism Australia:

- (a) identifies all significant strategic, operational and project level risks;
- (b) analyses these risks and develops appropriate mitigation strategies; and
- (c) regularly reviews its risks and updates its plan.

Tourism Australia response

4.38 Agreed. The ANAO has acknowledged that during its performance audit, Tourism Australia has initiated a review of its strategic risks as part of developing a risk management framework, supported by a risk management plan. The risk management framework and plan will facilitate Tourism Australia being able to formally assess and mitigate risks at the strategic, operational and project levels.

Performance management and reporting

4.39 Tourism Australia needs to balance operating in a commercially competitive environment with its mandate as a government agency, working within an accountability framework and being responsible to the Minister for Tourism, and through the Minister, to Parliament. As previously noted, it is a requirement under the CAC Act that Tourism Australia reports against its legislative requirements, corporate plan and outcome and output groups in its PBS, in its annual report. These are outlined in Figure 4.2 and are important elements of the government's Outcomes and Outputs framework. The

outcome specifies what the government is seeking to achieve and the outputs are the deliverables that will assist in achieving this outcome.⁴³

Figure 4.2

Tourism Australia’s Outcome and Output Groups

Outcome	Description	Output Groups
Outcome 1 Increased economic benefits to Australia underpinned by a sustainable tourism industry	Tourism Australia seeks to stimulate sustainable international and domestic demand for an Australia tourism experience, and maximise the return on investment of the tourism and travel industry’s total marketing effort, as measured by total visitor spend and dispersal of that spend.	Output 1 Industry and market development through strategic insights. Output 2 Increased distribution of Australian tourism product and facilitation of niche, events and regional tourism growth. Output 3 Consumer travel demand stimulation.

Source: Industry, Tourism and Resources Portfolio Budget Statement 2007–08

Performance data collection and analysis

4.40 Tourism Research Australia⁴⁴ collects, analyses and reports on a wide range of data from a number of sources including the Australian Bureau of Statistics Tourism Satellite Accounts and Tourism Australia’s brand tracking, international and domestic visitors’ surveys. This data is collected at regular intervals and baseline, trend and forecasting information is well established for the industry.

Special purpose surveys

4.41 The annual International Visitor Survey (IVS) has been conducted for over 30 years and surveys 40 000 international visitors departing Australia. The National Visitor Survey is the major source of information on the characteristics and travel patterns of domestic tourists within Australia. The survey data is collected from an annual sample of 120 000 Australian residents. Both surveys ask respondents about where they found the information for their travel and if they were positively influenced by a particular source of

⁴³ Other key elements of this framework include: identifying expenses, revenues, assets or liabilities, establishing a performance management regime; and reporting agencies’ contributions to the achievement of outcomes and delivery of outputs. Australian National Audit Office, Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*, p. 15.

⁴⁴ Tourism Research Australia is a business unit of Tourism Australia and provides a range of independent specialist research services to the tourism industry and support organisations.

information. Results from these surveys are published each quarter and annually.

Brand tracking

4.42 Tourism Australia also surveys people in market specific regions overseas to test their perceptions of the 'Australia brand'. This information is used for tracking the effectiveness of current promotional campaigns and for the purpose of planning new campaigns. The results are publicly available.

Current performance reporting by Tourism Australia

4.43 In its annual report, Tourism Australia reports its performance against a number of objectives that are broadly aligned to the statutory objects in the Act and its outcome. The indicators used to measure its performance are primarily for the tourism industry as a whole and measure activity rather than the impact of Tourism Australia's projects. In its corporate plan, Tourism Australia reports against its core marketing platform 'outcomes' of consumer marketing, trade development and Australian experiences at the industry level. It also reports organisational performance against its core enabling platform 'outcomes' of stakeholder satisfaction, budget control, compliance and the tourism industry's contribution to the environment and the economy.

4.44 Tourism Australia does not report against the outcome and output groups in its PBS. Reporting within this outcome and outputs framework is difficult for Tourism Australia as, currently, there is no clear alignment between the statutory objects (in the Act), its performance framework in the corporate plan and annual report and the outcome and output groups in the PBS.

4.45 The ANAO recognises that many factors impact on the tourism industry, particularly on international tourism, and are outside Tourism Australia's control. It is difficult for Tourism Australia to determine key performance indicators (KPIs) to measure the effectiveness of its performance on achieving the current outcome without separating out its own activities from these influences. One way to demonstrate the impact that Tourism Australia has is to use intermediate outcomes to link the output groups to the outcome statement.

Improving Tourism Australia's performance reporting

4.46 Intermediate outcomes are often used when it is hard to align agency outputs to an outcome statement that is difficult to measure such as Tourism Australia's. Intermediate outcomes are partial outcomes, which can be achieved in a shorter timeframe and for which relevant effectiveness indicators can be more easily developed. The use of intermediate outcomes enables the better identification of those impacted by the outcome and provides a more appropriate basis for developing output groups.

4.47 Three assumptions currently underline any link between the agency's activities, statutory objects, outputs, and its outcome. First, that a growing tourism industry is likely to provide economic benefits to Australia. Secondly, that maximising the tourist spend and its geographic dispersal will result in a sustainable tourism industry. Thirdly, changes in either of the first two may be attributable to the efforts of Tourism Australia. The first assumption is easily understood while the second requires longitudinal research evidence and analysis. The third needs to be supported by precise and measurable intermediate outcomes and performance indicators that flow through from the projects in the operating plan to the higher level of statutory objects and the outcome in the PBS.

4.48 In developing intermediate outcomes, Tourism Australia could consider the example outlined in Appendix 3. This example is developed from the Outcome statement for Tourism Australia, the statutory objects in legislation and the Output Statement in the PBS.

Measuring Tourism Australia's performance

4.49 In spite of the comprehensive nature of the data collected by Tourism Australia, information that relates specifically to its activities, in contrast to those of the industry as a whole, is currently not always identified and analysed. To demonstrate that it is achieving its outcome in the PBS, as a first step, Tourism Australia needs to be able to assess the performance of its marketing projects.

4.50 The flow chart at Appendix 4 demonstrates how data collected to measure the effectiveness of a specific marketing activity may be used to evaluate that activity and determine Tourism Australia's impact. The example also demonstrates that, even when visitor numbers fall, a campaign can still be viewed as positive as it may have alleviated a greater drop in demand. In this way, the specific influence of Tourism Australia's activities can be isolated

from that of the rest of the industry. By aggregating the performance of its individual projects, Tourism Australia will be in a better position to provide an assessment of its performance against its intermediate outcomes, when they are developed. To achieve this, the performance data collected for projects needs to be consistent and coverage extended across all activities of the organisation.

Performance data

4.51 Accordingly, where more specific performance data is needed to assess projects, the questions in the tourism surveys relating to Tourism Australia's activities may need to be revised to target specific aspects of the agency's performance. Project-specific responses do help to provide a comprehensive picture of Tourism Australia's impact, whatever the situation in the industry as a whole, however, information collected for different projects also needs to be comparable. In addition, to better demonstrate Tourism Australia's contribution to the sector, more specific trend information will be needed. This information can demonstrate the effects of specific agency programs over time, by area, project and against industry benchmarks. The information may also be used to help set realistic performance targets over short, medium and long term timeframes.

Developing performance indicators

4.52 Currently, the performance indicators that Tourism Australia reports against are a combination of activities, outputs and some outcomes. These have all been assessed as KPIs. Ideally, KPIs should measure the effectiveness of an agency's contribution to its PBS outcomes. When reviewing its performance management framework, Tourism Australia needs to give specific attention to how it develops, measures and links its higher level KPIs and lower level performance indicators.

Conclusion

4.53 Overall, the lack of integration between the various levels of planning and reporting has made assessing Tourism Australia's performance against its PBS outcome difficult. This is exacerbated by the broad nature of the outcome and the fact that it is not clearly related to the statutory objects and functions in the Act and corporate plan. Nevertheless, to meet its statutory obligations, Tourism Australia is expected to demonstrate that its outputs are contributing to achieving this outcome.

4.54 By measuring the effectiveness of its projects (at the lower level) and aggregating the results, Tourism Australia should be able to assess its performance against its output groups. Developing intermediate outcomes will put Tourism Australia in a better position to link its performance against its output groups to its outcome. In addition, developing consistent performance indicators will enable meaningful comparisons of performance over time. Tourism Australia has a strong and established survey methodology for collecting and analysing tourism data. Improvements in measuring Tourism Australia's performance will require minor revisions to existing surveys and re-assessing how the performance data relating to Tourism Australia is analysed and reported.

Recommendation No. 3

4.55 To enable Tourism Australia to more effectively meet its legislative reporting requirements, the ANAO recommends that it review its planning and performance management framework to:

- (a) align, where relevant, its corporate and operational planning documents;
- (b) develop, where applicable, measureable intermediate outcomes linked to its overall outcome, outputs and statutory objects;
- (c) align the performance indicators in its Portfolio Budget Statements, Corporate Plan and Operational Plan; and
- (d) review, where necessary, the performance data it collects through its surveys.

Tourism Australia response

4.56 Agreed. The overall alignment of plans and performance indicators is essential for Tourism Australia to achieve its goals and objectives. The development of measurable intermediate outcomes will help facilitate this process. Tourism Australia has already initiated a review of its overall vision and values through its global management team.



Ian McPhee
Auditor-General

Canberra ACT
6 August 2008

Appendices

Appendix 1: Tourism Australia's Response



14 July 2008

Mr Matt Cahill
Group Executive Director
Performance Audit Services
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Cahill

PERFORMANCE AUDIT – TOURISM AUSTRALIA

Thank you for your letter of 12 June 2008, providing Tourism Australia the opportunity to comment on the proposed report prepared by the Australian National Audit Office (ANAO) on the completed performance audit on Tourism Australia.

Response to Proposed Report of Performance Audit

The ANAO performance audit notes that Tourism Australia's policies and guidelines are consistent with the *Commonwealth Procurement Guidelines, 2005* (the CPGs) and provide a sound framework for undertaking complex procurements and managing its contracts.

Tourism Australia acknowledges the ANAO's assessment of the procurement and contract management processes related to the three major contracts reviewed in the performance audit, being the creative development and media placement contracts entered into in 2005 and the digital service agreement entered into in 2006.

It is important to note that the creative development and media placement services contract process was reviewed in June 2005 by the Department of Prime Minister & Cabinet on the request of the former Minister. That review did not change the outcomes of the short-listing process and the advice provided by Tourism Australia to the Minister on recommending approval of the tender outcomes.

Tourism Australia notes the ANAO's assessment that the Request for Tender (RFT) documentation for the three contracts was generally appropriate and outlined the criteria for assessing the submissions, and that the ANAO has acknowledged that Tourism Australia and its providers are generally complying with contract requirements.

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The ANAO has noted risk assessment processes were not followed, procurement plans were not developed and performance information was not included for the creative development and media placement contracts which were entered into in 2005. Tourism Australia took action to improve its contracting processes, including the development of performance information and measurement, risk assessment and risk management and these were reflected in the digital services contract entered into in 2006. Both the creative development and media placement services contracts were the subject of a number of internal and external reviews. Process improvements were made as the result of each review's recommendations.

Tourism Australia announced on 4 July 2008 that it had selected DDB Worldwide as its global creative services agency for a three year period, succeeding the contract with M & C Saatchi entered into in 2005 and which concluded on 30 June 2008. Tourism Australia carried out an open tender process in full accordance with the CPGs which was reviewed by a probity advisor from the Australian Government Solicitor and a probity auditor from KPMG. Tourism Australia is engaging a performance management consultant to assist with the development of key performance indicators that will be incorporated in the contract.

With cooperative airline agreements, Tourism Australia has commenced a process to reconcile partner contributions to the costs of individual marketing projects. Transactions can now be linked to the overarching marketing contract and the relevant Memorandum of Understanding.

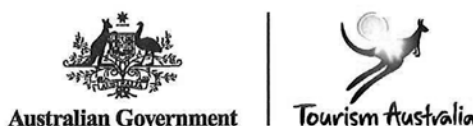
Tourism Australia has been implementing improvements in its governance processes since 2005. A monthly contract reconciliation process was implemented in February 2006. From July 2007 Tourism Australia has also strengthened its contract financial management processes.

The Tourism Australia Board is currently reviewing its Board Charter so as to appropriately reflect procedures dealing with potential Board conflicts of interest. The Board's current process follows the standard practice where the Chairman seeks declarations of conflict or interest in any matter by any Board member for any issue to be discussed and then, depending on the nature of such conflict or interest, the Board member concerned is asked to vacate the room while the matter is discussed. The minutes of Board meetings reflect this practice.

The ANAO acknowledged during its performance audit that Tourism Australia has initiated a review of its strategic risks as part of developing a risk management framework which is supported by a risk management plan. The risk management framework and plan will enable Tourism Australia to formally assess and mitigate risks at the strategic, operational and project levels.

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Tourism Australia is working to better align its corporate planning and performance management framework to more effectively meet its legislative reporting requirements, including the development of measurable intermediate outcomes.

Response to Recommendations

Tourism Australia accepts each of the three recommendations of the performance audit on Tourism Australia and is taking action to give effect to the ANAO's recommendations.

Recommendation 1:

To enable the Tourism Australia Board to appropriately manage potential conflicts of interest, the ANAO recommends that the Board:

- a) Reinstate the procedures in the original Charter covering potential conflicts of interest; and*
- b) Document in the minutes of its meetings any discussions or decisions in relation to potential conflicts of interest.*

Agreed. The Tourism Australia Board is currently reviewing its Board Charter so as to appropriately reflect procedures dealing with potential Board conflicts of interest. The Board's current process follows the standard practice where the Chairman seeks declarations of conflict or interest in any matter by any Board member for any issue to be discussed and then, depending on the nature of such conflict or interest, the Board member concerned is asked to vacate the room while the matter is discussed. The minutes of Board meetings reflect this practice.

Recommendation 2:

In developing and implementing its risk management framework and supporting plan, the ANAO recommends that Tourism Australia:

- a) identifies all significant strategic, operational and project level risks;*
- b) analyses these risks and develops appropriate mitigation strategies; and*
- c) regularly reviews risks and updates its plan.*

Agreed. The ANAO has acknowledged that during its performance audit, Tourism Australia has initiated a review of its strategic risks as part of developing a risk management framework, supported by a risk management plan. The risk management framework and plan

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will facilitate Tourism Australia being able to formally assess and mitigate risks at the strategic, operational and project levels.

Recommendation 3:

To enable Tourism Australia to more effectively meet its legislative reporting requirements, the ANAO recommends that it review its planning and performance management framework to:

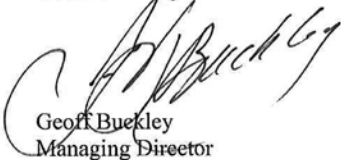
- a) align, where relevant, its corporate and operational planning documents;*
- b) develop, where applicable, measurable intermediate outcomes linked to its overall outcome, outputs and statutory objects;*
- c) align the performance indicators in its Portfolio Budget Statements, Corporate Plan and Operational Plan; and*
- d) review, where necessary, the performance data it collects through its surveys.*

Agreed. The overall alignment of plans and performance indicators is essential for Tourism Australia to achieve its goals and objectives. The development of measurable intermediate outcomes will help facilitate this process. Tourism Australia has already initiated a review of its overall vision and values through its global management team.

A summary of Tourism Australia's comments to be used in the report summary and brochure is attached.

In conclusion, I would like to extend my appreciation for the guidance and assistance provided by officers of the ANAO in the course of this performance audit.

Yours sincerely

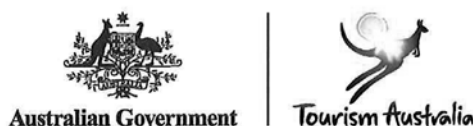


Geoff Buckley
Managing Director

Attachment – Summary of Tourism Australia's Response to the Performance Audit Report

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Attachment

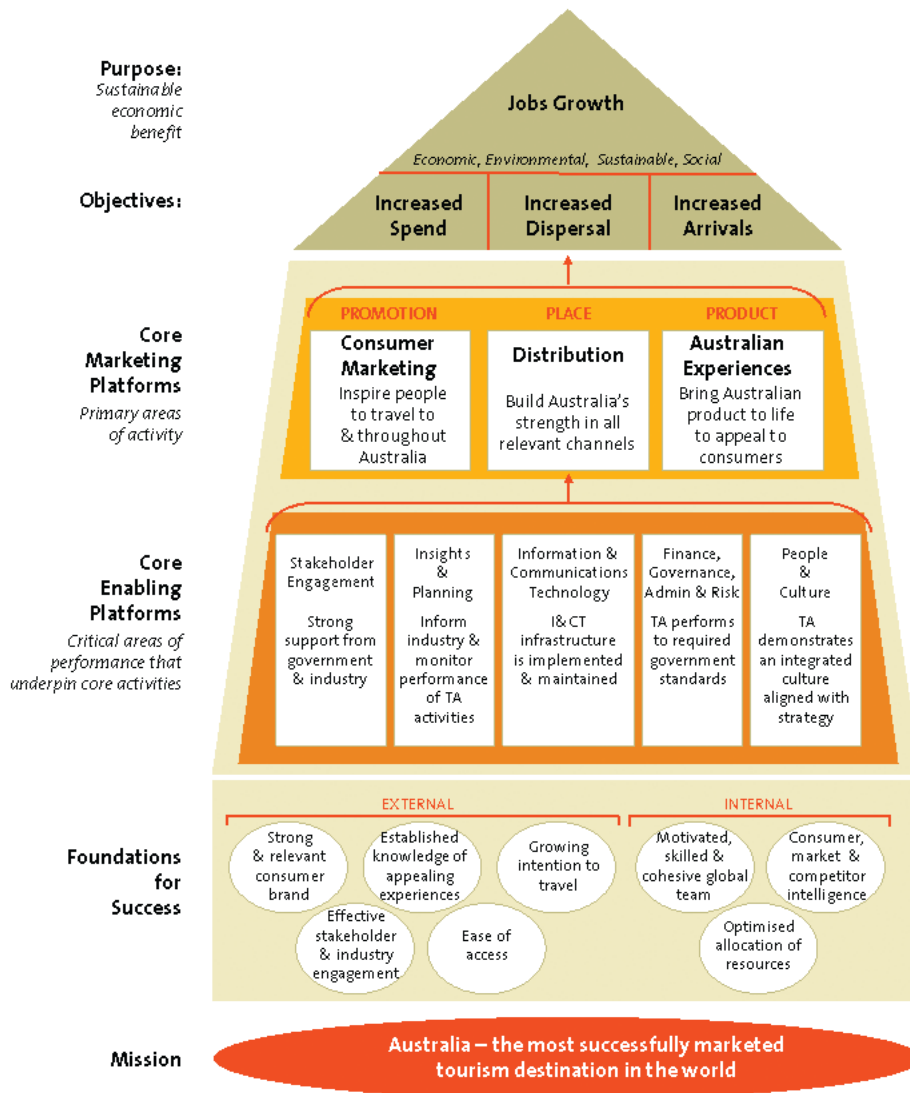
Summary of Tourism Australia's Response to the Performance Audit Report

Tourism Australia accepts the recommendations of the ANAO performance audit and is taking action to give effect to them. The ANAO report notes that Tourism Australia's policies and guidelines are consistent with the Commonwealth Procurement Guidelines (CPGs) and provide a sound framework for undertaking complex procurements and managing its contracts. Tourism Australia progressively improved its processes to address the issues raised in relation to the creative development and media placement contracts which were entered into in 2005. The selection process for new creative and media placement contracts that commenced in February 2008 was rigorous, transparent and conducted in full accordance with the CPGs. The Tourism Australia Board is currently reviewing its Board Charter to appropriately reflect procedures for dealing with potential conflicts of interest. The Board's current process follows the standard practice where the Chairman seeks declarations of conflict or interest in any matter by any Board member for any issue to be discussed and then, depending on the nature of such conflict or interest, the Board member concerned is asked to vacate the room while the matter is discussed. The minutes of Board meetings reflect this practice.

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Appendix 2: Tourism Australia's Strategy Map



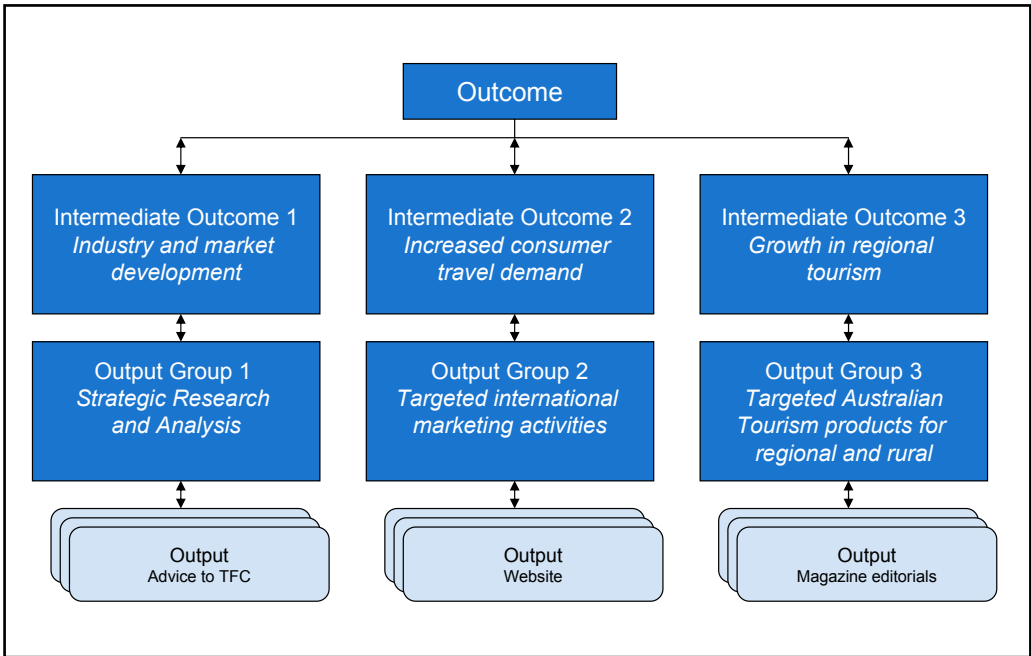
Source: Tourism Australia Corporate Plan 2007–2010

Appendix 3: Intermediate Outcomes - Example

The following example is based on the outcome statement for Tourism Australia, the statutory objects in the legislation and the output groups in the PBS. Three possible intermediate outcomes are:

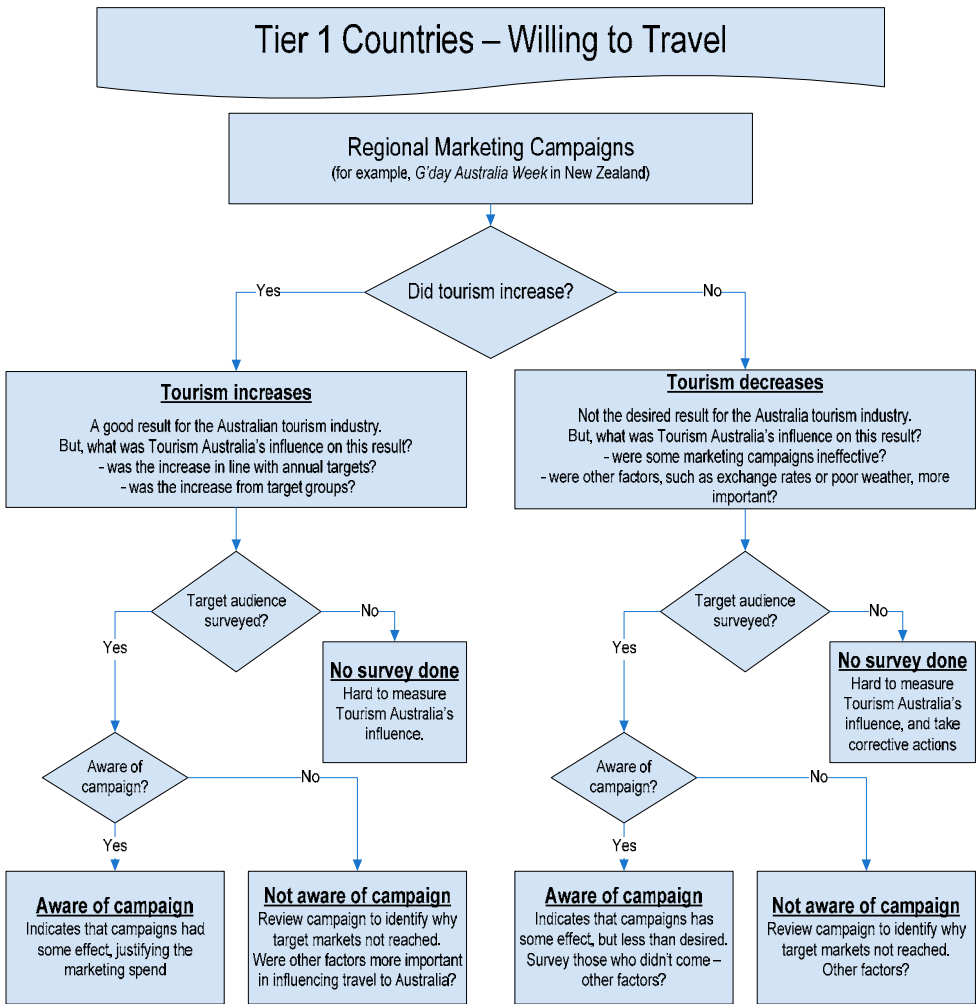
- industry and market development (contributing to sustainability);
- growth in consumer travel demand (contributing to economic benefits);
- regional tourism growth (contributing to economic benefits).

The relationship between the outcome, intermediate outcomes, output groups and outputs is shown in the following figure. The output groups contain Tourism Australia’s outputs such as marketing campaigns, research projects and promotional publications.



Source: ANAO analysis of Tourism Australia data

Appendix 4: Assessing Tourism Australia’s Impact on the Tourism Industry



Source: ANAO analysis of Tourism Australia data

Index

A

Annual Operating Plan, 7, 23–24, 27–28, 56, 72, 76

Audit Committee, 20, 47, 93

C

Commonwealth Companies and Authorities Act 1997, 7, 13, 17, 25, 34, 65, 75

Commonwealth Procurement Guidelines, 7, 18–19, 23, 43, 45, 60

cooperative partnerships, 19, 40

corporate plan, 18, 25–28, 65, 71–73, 75, 77, 79

creative development, 9, 16, 18–23, 37, 42, 44, 46, 48–52, 54, 56–60

E

evaluation, 16, 19–24, 44–49, 51, 52, 53–54, 57, 59–61, 78

experience seeker, 37, 39

G

global programs, 39

M

media placement, 9, 16, 18–23, 25, 37, 42, 44, 46, 48–52, 54–60, 63

O

objectives, 15, 17–19, 23–24, 26–28, 30, 33–34, 37, 40, 42, 50, 52, 58–63, 65, 71–80, 89, 93–94

P

performance information, 16–17, 22, 24, 30, 50–52, 60, 62, 71, 73, 77–80

Portfolio Budget Statements, 8–9, 18, 26–28, 30, 73–75, 77–80, 89, 93

probity, 9, 21, 46, 48–49

R

risk, 27, 74–75

S

service providers, 15–6, 19, 21, 23–24, 40, 42–43, 51, 56–57, 60, 62

State and Territory Tourism Organisations, 8, 35, 54

T

The Department of the Prime Minister and Cabinet, 8, 20–21, 46–48

The Minister, 7–10, 14, 16, 17, 20, 23, 26–27, 34, 43–44, 46–49, 51, 53, 56, 57, 59, 65–67, 70, 72, 75

Tourism Australia Act 2004 (Amended 2007), 7, 13, 17–18, 27–28, 34, 65, 68, 73–74, 77, 79

Tourism Australia Board, 5, 7, 14, 17–18, 20, 25–27, 29, 34, 40–41, 44–48, 51, 57–59, 64–72, 74

Tourism Research Australia, 16, 27, 76

U

Uhrig Review, 65–66

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Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Commonwealth Agency Energy Management	June 1999
Security and Control for SAP R/3	Oct 1998
Controlling Performance and Outcomes	Dec 1997
Protective Security Principles(in Audit Report No.21 1997–98)	Dec 1997

