

The Auditor-General
Audit Report No.39 2005-06
Performance Audit

**Artbank, Department of Communications,
Information Technology and the Arts**

Australian National Audit Office

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of Australia 2006

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Canberra ACT
11 May 2006

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Communications, Information Technology and the Arts in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to Parliament. The report is titled *Artbank, Department of Communications, Information Technology and the Arts*.

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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Abbreviations/Glossary

Accession	A component of the registration process whereby an object is formally included in a collection.
Acquisition	The administrative process of discovering, preliminary assessment, negotiating for, taking custody of and documenting title to, an item bequeathed, transferred, donated or purchased by Artbank.
ANAO	Australian National Audit Office
Artbank	The Artbank programme
Charter	Charter of Operations
Commonwealth Art Advisory Board	A government appointed board established in 1912 to develop a national art collection and, from 1927, to advise on matters relating to the visual arts. The Board was dissolved in 1973.
CEIs	Chief Executive Instructions
CMS	Collection management systems, various software packages used to store and retrieve information about the collections.
CPGs	Commonwealth Procurement Guidelines
DCITA	Department of Communications, Information Technology and the Arts
Digitisation	Converting objects or records to electronic format, usually through digital imaging or recording.
Director	Director of Artbank

Disposal/De-accession	Refers to the permanent removal of an item from the collection, involving the termination of ownership, through sale, destruction or gift.
Documentation	The process of developing records to identify and enhance the knowledge of the collection.
FMA Act	<i>Financial Management and Accountability Act 1997</i>
NGA	National Gallery of Australia (Gallery), previously known as the Australian National Gallery (ANG).
PS Act	<i>Public Service Act 1999</i>
Special Account	A ledger account recording a right to draw from the Consolidated Revenue Fund.

Summary and Recommendations

Summary

Background

1. This audit examined Artbank, an Australian Government arts support programme within the Department of Communications, Information Technology and the Arts (DCITA). In the DCITA 2004–2005 Annual Report, Artbank is described as an art rental scheme aimed at ‘encouraging and supporting contemporary Australian artists by acquiring their work and stimulating a wider appreciation of Australian art by making it available for display in public places’.¹ After twenty-five years in operation, Artbank maintains the original intent and purpose of Artbank as established in 1980.

2. Artbank is the largest Australian contemporary art rental scheme. In the year to 30 June 2005, Artbank had gross revenue of some \$2.3 million and spent approximately \$635 000 on acquisitions. The collection of over 9 300 works is valued at approximately \$24 million and represents the work of over 3 000 artists and crafts people.

Audit objectives

3. The objectives of the audit were to provide assurance that Artbank was effectively meeting its charter of: acquiring art by contemporary artists; expanding the number of public places that Artbank’s collection is rented and displayed; and managing its collection and rental scheme. The audit also examined Artbank’s governance arrangements, and its programmes for marketing, client development, performance management, budgeting, debt management and also sought client feedback on Artbank’s operations via a survey.

¹ Department of Communications, Information, Technology and the Arts, *Annual Report 2004–2005*, Canberra, 2005, p. 55.

Key findings

Organisational Structure and the Status of Artbank (Chapter 2)

4. The Australian Government has implemented a legislative framework that assists in defining the responsibilities of chief executives and their staff, namely the *Financial Management and Accountability Act 1997* (FMA Act) and the *Public Service Act 1999* (PS Act). The ANAO examined Artbank's governance arrangements and their alignment with the current legislative accountability frameworks.

5. Artbank was established by a Charter of Operations (the Charter) that was signed by the Minister responsible at that time. The current Charter was last reviewed and approved by the then Minister in 1991. The Charter sets out Artbank's role, and establishes a Board and its functions. Presently, the Board's role is defined in the Charter as being advisory in nature.

6. The ANAO concluded that although the principle functions of the Board were advisory, some provisions specified in the Charter may suggest a broader governance role in relation to Artbank's policies and administration. In other words, these provisions in the Charter could imply a wider authority for the Board than is provided for in the current legislative framework. Moreover, the Charter may create uncertainty in relation to clear lines of accountability because it is not aligned with the current legislative framework.

7. Ideally, the Charter should have been redrafted when the new legislative framework was enacted to ensure that its contents were in accordance with the legislative framework, including DCITA's Chief Executive Instructions.

8. The ANAO recommended that the Charter be redrafted so that it aligned more closely with the broader legislative and governance frameworks currently in place.

Acquisition of Artworks (Chapter 3)

9. Artbank, as a programme of DCITA, is subject to the Commonwealth Procurement Guidelines (CPGs).² The CPGs establish the core procurement

² Department of Finance and Administration, *Commonwealth Procurement Guidelines, Financial Management Guidance No.1*, Canberra, 2005.

policy framework. Artbank's Charter outlines its acquisition policy, and in addition, Artbank has developed a set of art acquisition criteria.

10. Acquisition policies generally define the particular emphasis of a collection, distinct from other collections. The ANAO concluded that Artbank was meeting its acquisitions policy as stated in its Charter.

11. Artbank's art acquisition criteria underpin the acquisition policy. It is these criteria that are applied when making decisions to purchase artworks. The ANAO considered that these criteria were rather broad. However, the ANAO was informed by Artbank that undocumented criteria were also applied when making acquisitions. The ANAO recommended that Artbank's acquisition criteria could be improved by articulating the full set of criteria currently applied.

12. The ANAO also recommended that Artbank improve its documentation surrounding acquisitions and submissions, including how the artwork meets the acquisition criteria.

13. The ANAO observed that Artbank purchases the majority of artworks directly from galleries. As an institutional buyer Artbank could attract discounts from galleries. However, Artbank rarely accepted or pursued discounts on the purchase price. If discounts were accepted, there would be more money to spend on other acquisitions and, hence, greater value for money.

14. While acknowledging the administrative efficiencies of purchasing primarily from galleries, not all contemporary artists are represented by galleries at any stage of their career. Artbank could consider pursuing more direct approaches to artists either through a set period for submissions, an annual round similar to the Artbank Canada approach and/or a competition. Each of these approaches would enable Artbank to test the market for artworks, while simultaneously raising its profile to artists and potential clients. The ANAO recommended that Artbank, as an art supports programme, could pursue alternative acquisition strategies to engage directly with artists for part of its acquisition budget.

Collection Management (Chapter 4)

15. Collection management is a key mechanism for the care and control of the collection. The unique function of renting art places additional pressures on Artbank's collection management compared to conventional collecting

institutions. In September 2005, Artbank had 6 080 artworks, representing 65 per cent of the total collection, rented out to clients. The constant flow of stock transfers, new acquisitions and de-accessioned items continually challenges Artbank's collection management procedures and practices.

16. The ANAO observed that Artbank's performance in the area of collection management was strong. This view was based on audit observations during the audit of National collections undertaken for the audit of *Safe and Accessible National Collections* (Audit Report No.59 2004–2005). In particular, the care and maintenance of the collection were well performed, documented and appropriate to a rental collection.

17. As part of its review of Artbank's collection management procedures, the ANAO observed that Artbank examined the collection for artworks that were no longer suitable for the collection. For example, artworks were chosen for deaccessioning when the artwork had not rented for a period of years. In addition, artworks that were damaged, lost or stolen and were no longer available for rent were written off. With respect to non-significant works in the collection, Artbank demonstrated an active approach to maintaining the integrity of the collection through its deaccessioning programme.

18. In an historical case study, the ANAO demonstrated how a potentially significant artwork left public ownership in 1992. The case study highlighted that there is still a need for guidance on how significant artworks should be disposed of and, indeed, clearer stipulation on when an artwork becomes significant and is no longer suitable for the rental collection. The ANAO recommended that DCITA develop a consistent framework to classify significant artworks (cultural assets) and govern their deaccessioning.

Client Satisfaction and Management of the Art Rental Scheme (Chapter 5)

19. The ANAO engaged Orima Research, specialist survey and analysis consultants, to construct and monitor an online survey of Artbank's clients to gauge the overall satisfaction levels with Artbank's services. Artbank had never undertaken a formal survey of its clients to measure client satisfaction, although it did collect anecdotal comments from clients, particularly when they ceased renting artworks. A total of 368 clients were contacted by email and 137 responded, which equates to a 37 per cent response rate. The respondents rated Artbank's services highly, with 97 per cent of the respondents indicating that Artbank's overall service was either good or very

good. The survey results were a strong indication that the scheme is well run from a client perspective. The ANAO recommended that Artbank use survey work every 2–3 years to ensure that it continued to meet client needs.

20. The ANAO also reviewed elements of the management of the rental scheme, such as rental agreements, budgeting arrangements, financial monitoring processes, marketing approaches and debt management procedures. The rental agreements clearly outlined the parties' obligations and responsibilities, including the handling of artworks, insurance, transportation, and collection of rental receipts. Currently, the rental price for artworks is based on a sliding scale, using a percentage of their current value. These rates are, however, capped at \$5 000 per annum for a single item and reflect what the market will bear based on Artbank's observation of rental trends.

21. The ANAO considered that Artbank employed sound procedures and processes surrounding art rental invoicing, payments for art purchases and bad debts recovery. In addition, the ANAO observed that Artbank had a targeted marketing approach to maintain and grow its rental clients.

22. Artbank has captured digital images of its entire collection (over 9 300 works). The Artbank website also contains digital images of the work of 53 artists for promotional purposes. These images and the accompanying information on the 53 artists, however, are not useful for potential and current clients to view Artbank's collection and to access the potential rental availability of individual works.

23. Artbank advised that it has a non-exclusive license to use digital images, with no fee payable, for 73 per cent (6 794 artworks) of the collection. These images could form a basis for a searchable database for potential and current clients to peruse on the Internet. A searchable database on the Internet would also be consistent with Government policy for broader access to its collections. In keeping with the principles outlined in the ANAO Better Practice Guide—*Internet Delivery Decisions*, April 2001, an appropriate business case should be prepared to assess the merits of establishing such a database. Against this background, the ANAO has recommended that Artbank consider enhancing its Internet presence by implementing a searchable database of its collection, artwork availability and other information to assist clients, particularly those unable to physically visit the showrooms.

Audit conclusion

24. The ANAO concluded that Artbank, as an arts support programme, was meeting its Charter by acquiring art by contemporary artists and placing them for rental and display in public places. Artbank demonstrated particular strengths in managing the collection and rental scheme. The client survey revealed a high level of satisfaction with Artbank's services and provided some valuable feedback on the running of the scheme.

25. The ANAO identified a number of opportunities for improvement in Artbank's governance arrangements and operational matters. The ANAO found that the current accountability arrangements need to be brought into line with legislative requirements and DCITA's CEIs. The ANAO recommended some suggestions for improvements to Artbank's acquisition criteria, their approach to acquiring artworks and the documentation surrounding acquisitions. The ANAO also recommended that Artbank considers implementing a searchable collection database on the Internet, the regular use of survey work to monitor client satisfaction, and that DCITA develop a framework to classify cultural assets and govern their deaccessioning.

Response to the audit

26. DCITA response to the audit is provided below:

Recommendations 1–7

The Department agrees with the recommendations.

The Department has commenced redevelopment of the Artbank Charter in line with Recommendation 1. A number of acquisition-related policies are also under development and, following completion of the Charter, will be finalised and submitted for Ministerial approval. The options for alternative acquisition strategies put forward by ANAO will be considered as part of this policy development process. The Department is in the process of implementing Recommendation 3 b) to report purchases over \$10,000 in AusTender.

Recommendations

Set out below are the ANAO's recommendations with responses from DCITA.

Recommendation No.1
Para 2.12

The ANAO recommends that the Artbank Charter be re-drafted to be aligned more closely to the broader legislative and governance frameworks, including the *Financial Management and Accountability Act 1997*, the *Public Service Act 1999*, and DCITA's Chief Executive Instructions.

Agreed.

Recommendation No.2
Para 3.10

The ANAO recommends that Artbank develops focused and documented acquisition criteria based on Artbank's collection needs and endorsed policy direction. The acquisition criteria should also be publicly available.

Agreed.

Recommendation No.3
Para 3.20

The ANAO recommends that, in order to improve the transparency and accountability of the acquisition of artwork, Artbank should:

- (a) document the reasons that artworks are selected for acquisition against the acquisition criteria. Similarly, submissions by artists should have a documented assessment against the acquisition criteria; and
- (b) report purchases over \$10 000 in AusTender.

Agreed.

Recommendation No.4
Para 3.29

The ANAO recommends that Artbank, as an art supports programme, could consider alternative acquisition strategies to engage directly with artists. This could include, for example, acquisitions arising from a set period for submissions, an annual round similar to the Artbank Canada approach and/or a competition.

Agreed.

Recommendation No.5
Para 4.24

The ANAO recommends that DCITA develop a consistent departmental framework to classify significant artworks (cultural assets) and to govern their deaccessioning.

Agreed.

Recommendation No.6
Para 5.10

The ANAO recommends that Artbank use survey work to assess client satisfaction, such as regular, independent client surveys every two to three years.

Agreed.

Recommendation No.7
Para 5.36

The ANAO recommends that Artbank considers implementing a collection database on the Internet, using the images that Artbank has permission to reproduce.

Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides a short history of Artbank and its current context. This chapter also outlines the objectives, scope and methodology for the audit.

Background

The role and function of Artbank

1.1 Artbank is an Australian Government programme that rents art to the public and private sectors. Artbank was officially opened for business on 8 August 1980 ‘...to co-ordinate all lending programs of Commonwealth-owned artworks and to acquire works of art from Australian artists so that those works can be brought to public notice by placing them on hire in public places...’.³

1.2 The Artbank collection was initially formed from the transfer of approximately 600 works from Commonwealth collections, including from the lending collection purchased by the Commonwealth Art Advisory Board, which at the time was managed by the Australian National Gallery.⁴

1.3 After twenty-five years in operation, Artbank is described as a ‘fully self-funding art rental program of the Australian Government’⁵ yet maintains the original intent and purpose of Artbank as established in 1980. In the DCITA 2004–05 Annual Report Artbank is described as a scheme aimed at ‘encouraging and supporting contemporary Australian artists by acquiring their work and stimulating a wider appreciation of Australian art by making it available for display in public places’.⁶ Artbank is part of the Indigenous Arts and Training Branch within DCITA.

1.4 For much of its history Artbank has been a quasi-autonomous unit, operating with minimal reference to DCITA. However, there has always been a requirement for the Director of Artbank to report to the relevant branch head within the department. Over the last four years DCITA management has taken

³ Australia, Parliament, *Budget Statement No.3—Estimates of Outlays—1980-81*, Canberra, 1980, p. 141.

⁴ Now known as the National Gallery of Australia.

⁵ <<http://www.artbank.gov.au/about.asp>> [accessed on 10 January 2006].

⁶ Department of Communications, Information, Technology and the Arts, *Annual Report 2004–2005*, Canberra, 2005, p. 55.

steps to ensure that Artbank is managed like its other programmes. It has ensured financial delegations are in line with Departmental policies; required Artbank's budgets to be approved by the Secretary; and provided financial, human resources and other support to a far greater degree.

1.5 Artbank was established by a Charter of Operations that was signed by the Minister responsible at that time. The current Charter sets out Artbank's role, and establishes a Board and its functions, to be as follows.

The Artbank scheme is established to:

- encourage contemporary Australian artists by acquiring their work;
- stimulate a wider appreciation of Australian art by making it available for display in public places, particularly work locations, throughout Australia and in official posts overseas;
- operate an art rental scheme directed to both public and private sector clients; and
- manage the Artbank collection on behalf of the Commonwealth.

The function of the Board is to:

- advise the Director on policy issues including marketing and promotion and on financial matters relating to the maintenance of the program;
- consider and recommend to the Minister on policy issues concerning Artbank; and
- assess the suitability of works of art and craft for acquisitions by Artbank and recommend proposed purchases.⁷

A brief history of Artbank

1.6 In the late 1970s, instructions were drawn up for a draft Artbank Bill to create Artbank as a separate statutory authority. This, however, did not eventuate, and the Government decided instead to establish Artbank as an identifiable unit within the then Department of Home Affairs. On its commencement in 1980, Artbank was entirely funded through budget appropriations for both its acquisition budget and operational requirements.

1.7 From 1985, the then Minister for the Arts, Heritage and Environment advocated on behalf of Artbank to establish a Trust Account within the

⁷ Artbank Charter of Operations (Signed 8 February 1991), clause 1.1 and 2.1.

Australian Government's financial framework, which would allow Artbank to use its rental and other receipts to purchase artworks and move to full cost recovery.⁸ The Minister for Finance established Artbank's Trust Account on 1 July 1989 and Artbank began a three year transition to full cost recovery. By 1 July 1992, Artbank no longer received direct annual budget appropriations as it achieved its revenue goals, and relied on the funds credited to its Trust Account.

1.8 Trust Accounts were abolished after the introduction of the *Financial Management and Accountability Act 1997* (FMA Act) and replaced by Special Accounts. Artbank now operates through a Special Account. All expenditure from the Special Account is an expenditure of public money and is subject to the requirements of the Australian Constitution, the FMA Act, the Financial Management and Accountability Regulations 1997 and other relevant legislative instruments.⁹

1.9 In 1996–97 Artbank was subject to an Australian Government scoping study to examine, among other things, whether Artbank should be sold. The outcome of the scoping study was that Artbank would continue its operations as a public programme. The study also concluded while there was opportunities for improvement in relation to certain aspects of its operations, Artbank, as an arts support programme, was an efficient and effective means of achieving government policy.

Current context

1.10 Artbank is the largest Australian contemporary art rental scheme. It purchases artworks in the primary market¹⁰ in all States and Territories—principally through galleries. Through these purchases, Artbank supports not only the artists, but also the associated industry, such as framers, fine-art freighting companies and galleries. For the artists, an Artbank purchase will often be the first sale to a public institution. Artbank usually purchases artwork at the earlier stages of the artist's career and at commensurate prices.

⁸ Cost recovery in this context does not equate to the Australian Government's current formal cost recovery policy, which was first adopted in 2002 as articulated in Department of Finance and Administration, *Australian Government Cost Recovery Guidelines, Financial Management Guidance No. 4*, Canberra, 2005.

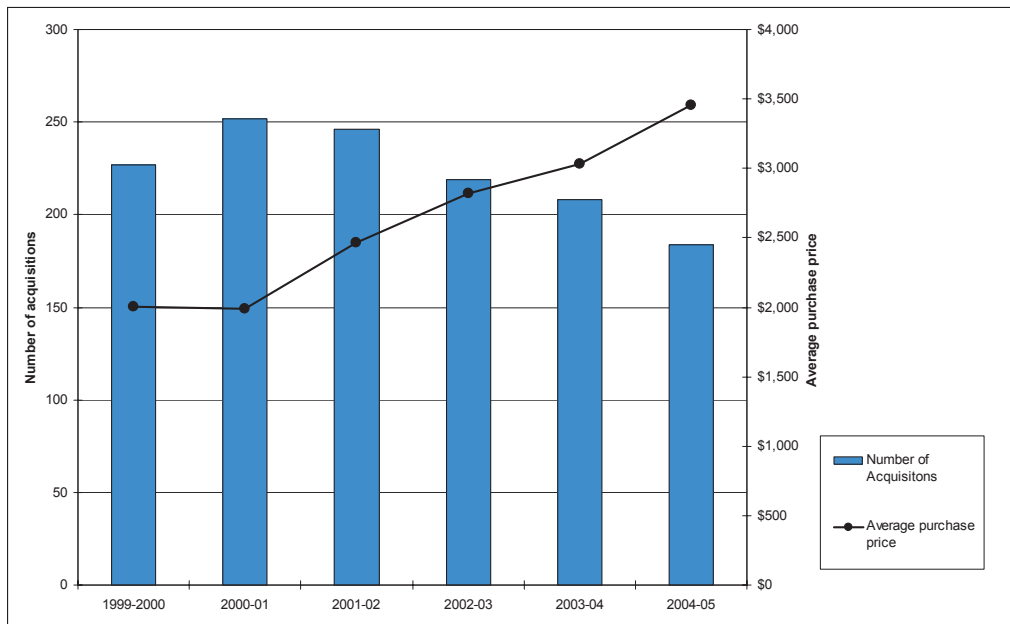
⁹ Department of Finance and Administration, *Guidelines for the Management of Special Accounts, Financial Management Guidance No. 7*, Canberra, 2003, p. 7.

¹⁰ The primary market is for new artworks, usually the first sale, as opposed to the secondary market, for example, selling previously-owned works through auction houses.

Figure 1.1 shows the number of acquisitions from 1999–2000 to 2004–05 charted against the average purchase price. The average price of artworks purchased in this period ranged from \$2 004 in 1999–2000 to \$3 452 in 2004–05.

Figure 1.1

Artbank art acquisitions 1999–2000 to 2004–05



Source: ANAO based on information provided by Artbank.

1.11 In the year to 30 June 2005, Artbank had gross revenue of some \$2.3 million and spent approximately \$635 000 on acquisitions. The collection has over 9 300 works, representing over 3 000 artists and crafts people, and the collection is valued at approximately \$24 million.¹¹

1.12 Since 1980, Artbank has been located in Sydney. In 1991–92 Artbank established an ongoing arrangement with a hotel in Perth to display art. In February 2005, Artbank opened a showroom in Melbourne primarily aimed at developing client growth. As shown in Photo 1.1 the new showroom has street access and has a gallery style display area, compared to the Sydney premises, which is essentially a storage facility.

¹¹ Department of Communications, Information, Technology and the Arts, op. cit., p. 55.

Photo 1.1**Interior of Melbourne showroom, Armadale, Victoria**

Source: ANAO.

1.13 Pursuant to the Charter, Artbank rents its artwork to a combination of public and private clients. As at August 2005, Artbank had a total of 228 Government clients (comprising Australian Government, State and Local Governments) and 375 private sector clients. The clients rented 6 080 artworks, representing 65 per cent of the total collection.¹²

1.14 Artbank has a large collection of Australian contemporary art, tailored to a particular market and purpose. For example, artworks need to be transportable, durable and affordable to be suitable purchases. In addition, client preferences may also influence the type and subject of artworks purchased. For example, Artbank advised that there is currently a rental trend away from smaller artworks for staff areas toward larger artworks for foyers and board rooms.

¹² Artbank Board Meeting Number 112, 2 September 2005.

Audit objectives and scope

1.15 The objectives of the audit were to provide assurance that Artbank was effectively meeting its charter of:

- acquiring art by contemporary artists;
- expanding the number of public places that Artbank's collection is rented and displayed; and
- managing its collection and rental scheme.

1.16 The audit also examined, as part of the above objectives, Artbank's governance arrangements, its programmes for marketing, client development, performance management, budgeting, debt management and also sought client feedback on Artbank's operations. With regard to financial transactions, the ANAO examined a sample of art acquisition payments only and did not examine other corporate purchasing undertaken by Artbank.

Audit methodology

1.17 The audit methodology included:

- researching the history of Artbank and its impact on current operations;
- examining key corporate documents and information, including those in relation to Board arrangements, collection management, marketing, client development, budgeting and financial reports;
- interviewing key staff from Artbank and other relevant areas of DCITA;
- examining processes and procedures in place in the control and management of the collection;
- testing a statistical sample of acquisitions from 2000 to 2005; and
- undertaking a survey of Artbank's clients to gain information about various aspects of Artbank's performance and current practices.

1.18 Orima Research (Orima) was selected to design and monitor an independent survey of Artbank's clients. Orima was selected because of its specialist skills in undertaking electronic surveys and expertise in survey design and analysis.

1.19 The ANAO noted that during the course of the audit Artbank was simultaneously subject to a DCITA internal audit. The internal audit report was not completed at the time of writing and as a consequence the ANAO did not incorporate the internal audit findings into its assessment of Artbank.

1.20 The audit was conducted in conformance with ANAO auditing standards and cost \$230 000.

2. Organisational Structure and the Status of Artbank

This chapter examines the governance and accountability arrangements of Artbank. It also examines the status of Artbank as a 'self-sufficient' programme.

Public sector governance and accountability

2.1 The Foreword to the ANAO Public Sector Governance Better Practice Guide, states that 'Good public sector governance is important to provide adequate accountability to its many stakeholders, including taxpayers, and to encourage performance improvement while satisfying control and compliance requirements'.¹³

2.2 Accountability is a key principle underpinning sound corporate governance in the public sector. A clear understanding and appreciation of roles and responsibilities within a governance framework are key elements of sound accountability.

2.3 The Australian Government has implemented a legislative framework that assists in defining the responsibilities of chief executives and their staff, namely the FMA Act and the PS Act.

2.4 The FMA Act was enacted to establish:

the regulatory/accounting/accountability framework for dealing with and managing the money and property of the Commonwealth. It specifies responsibilities and powers necessary for the efficient, effective and ethical use of the resources lawfully available to the Commonwealth to carry out its programs; and it provides for appropriate mechanisms to ensure that the stewardship and management performance of those who are responsible for those resources can be made visible and, thereby, allow them to be held accountable.¹⁴

¹³ ANAO Better Practice Guide—*Public Sector Governance*, Volume 1, July 2003, p. iii.

¹⁴ Australia, Parliament, Financial Management and Accountability Bill Second Reading Speech, Hon. John Fahey, Minister for Finance, 12 December 1996.

2.5 The PS Act was enacted to:

promote higher performance in the APS [Australian Public Service] by devolving management responsibility to individual agencies and, at the same time, ensure that public interest objectives are maintained through enhanced accountability.¹⁵

2.6 Under the typical accountability framework established by the FMA Act and PS Act, the Chief Executive Officer is accountable to the responsible Minister, including for the efficient, effective and ethical use of resources for which they are responsible.

2.7 The ANAO noted that Artbank's operations are underpinned by its Charter, which was last amended by the then Minister in 1991. The ANAO examined Artbank's governance arrangements and their alignment with the current legislative accountability frameworks.

Artbank's Charter of Operations

2.8 As mentioned in Chapter 1, the Charter establishes the Board and outlines its functions, which are to, among other things:

- advise the Director on policy issues including marketing and promotion and on financial matters relating to the maintenance of the programme;
- consider and recommend to the Minister on policy issues concerning Artbank; and
- access the suitability of works of arts and craft for acquisition by Artbank and recommend proposed purchases.¹⁶

2.9 These three primary functions outlined in the Charter establish the Board's role as advisory in nature, however, certain provisions specified in the Charter suggest a broader governance role in relation to Artbank's policies and administration areas. In other words, these provisions in the Charter could imply a wider authority for the Board than is provided for in the current legislative framework. In particular, the Charter states that:

¹⁵ Australia, Parliament, Public Service Bill Second Reading Speech, Hon. Peter Reith, Minister of Industrial Relations, 26 June 1997.

¹⁶ Artbank Charter of Operations (signed 8 February 1991), clause 2.

- the Director has responsibility for 'preparation of reports for Board meetings covering finance, marketing and staff and any other matters as the Board may direct'(clause 4.2);
- 'the Board shall consider and make recommendations to the Minister on the form of rental, rental agreement and sale agreements'(clause 7.1);
- 'the Board shall develop policies for the proper preservation and protection of the holdings, particularly in relation to the appropriate placement of works on display having regard to environment and security'(clause 9.1);
- 'the Board shall develop policies for the public display of works in exhibitions...'(clause 10.1); and
- 'the Board shall recommend to the Minister policies concerning disposal of an artwork no longer required for the Artbank collection' (clause 13.1).

2.10 The ANAO considered that the arrangements specified in the Charter could imply a wider authority for the Board than is provided for in the current legislative framework. The Charter does not make reference to DCITA's CEIs, which govern, among other things, how moneys can be spent by officers of the department. When the FMA Act was enacted it would have been beneficial for the Charter to have been redrafted to ensure that its contents were in accordance with the Act and DCITA's CEIs. This did not take place.

2.11 The Charter and governance arrangements for Artbank should be more closely aligned to the broader legislative and governance frameworks. There is scope to present the Charter in two parts: a terms of reference for the board and a programme guideline, specifying how and why Artbank operates. The programme guideline part of the Charter could be made publicly available to better inform stakeholders and the public about Artbank's purpose and role.

Recommendation No.1

2.12 The ANAO recommends that the Artbank Charter be re-drafted to be aligned more closely to the broader legislative and governance frameworks, including the *Financial Management and Accountability Act 1997*, the *Public Service Act 1999*, and DCITA's Chief Executive Instructions.

Agency response:

2.13 Agreed.

Artbank's self-sufficiency

2.14 Information in the public domain about Artbank is that it is self-sufficient, and has been since 1992. In his press release in 1997, following the finalisation of the Government's scoping study, Senator Alston said that '...Artbank has been self-sufficient and operates at no direct cost to the Budget'.¹⁷ Further, celebrating Artbank's 25 year anniversary, the current Minister said 'For the past 13 years Artbank has been financially self-sufficient...'.¹⁸ Artbank's website and DCITA's website respectively state that Artbank is 'self-sufficient' and 'self-supporting'.

2.15 The ANAO observed that while Artbank was self-sufficient in terms of art acquisitions and general operational costs, DCITA provided certain corporate services to Artbank, which were not charged to the Artbank Special Account. The ANAO concluded that there is ambiguity in the terminology used in representing the operational status of Artbank.

2.16 While Artbank has not been allocated budget funding to its Special account as a program within the department, it received corporate and management services from DCITA that are budget funded. A more factual statement could be that Artbank's investments in artworks are self-funding. The ANAO suggests that the public representations made about Artbank should be clear and accurate in the use of terminology.

¹⁷ Media Release A58/97, the Hon Senator Alston, 29 June 1997.

¹⁸ Media Release, the Hon Senator Kemp, 11 October 2005.

3. Acquisition of Artworks

This chapter outlines Artbank's policy, criteria, application and systems for the acquisition of artworks.

Acquisition policy and criteria

3.1 Artbank, as a programme of DCITA, is subject to the Commonwealth Procurement Guidelines (CPGs).¹⁹ The CPGs establish the core procurement policy framework, including for the acquisition of Artworks, and state that 'Value for money is the core principle underpinning Australian Government procurement'.²⁰ The CPGs further state that 'Value for money is enhanced in Government procurement by...making decisions in an accountable and transparent manner.'²¹

3.2 Artbank's Charter outlines its acquisition policy and Artbank has also developed a set of art acquisition criteria. In addition to the CPGs, Artbank's acquisition framework is required to comply with DCITA's Chief Executive Instructions (CEIs).

Acquisition policy

3.3 Acquisition policies generally define the particular emphasis of a collection, distinct from other collections. Artbank's acquisition policy is encapsulated in its Charter.

Artbank acquires artwork:

- by Australian artists;
- representative of (and relevant to) contemporary art practice indicative of outstanding artistic achievement;
- including both emerging and established artists;
- without gender bias;
- illustrating wide variety in styles, media, philosophy and technique;
- covering all states and territories;

¹⁹ Department of Finance and Administration, *Commonwealth Procurement Guidelines, Financial Management Guidance No.1*, Canberra, 2005.

²⁰ *ibid.*, p. 4.

²¹ *ibid.*

- reflective of the nation's multi-cultural population;
- representative of the achievements of Aboriginal and Torres Strait Islander artists;
- appropriate for rental to public and private sector clients;
- intrinsically sound in condition and reasonably immune to deterioration in routine operations of display, packing and transportation; and
- acquired from bona fide dealers and galleries (except where the artist does not have a professional agent).²²

3.4 As evidence of fulfilling its acquisition policy, Artbank regularly reported to the Board on particular elements of the acquisition policy. This included an analysis of purchases by:

- indigenous/non-indigenous artists;
- gender;
- residence of artist;
- medium; and
- location of gallery.

Acquisition criteria

3.5 Artbank's acquisition criteria underpin the acquisition policy. It is these criteria that are applied when making decisions to purchase artworks. Artbank has documented two broad criteria to assess its purchase decisions.

3.6 The criteria as at 25 October 2005 were that artwork:

- is potentially rentable as assessed by the Director/Curator within Artbank's broad cultural perspective; and
- is in sound condition and able to withstand the rigours of a mobile rental collection, which includes interstate and international transportation.²³

²² Artbank Acquisition Policy < http://www.artbank.gov.au/acq_policy.htm > [accessed 14 December 2005].

²³ Artbank, *Acquisition Policy*, 2005.

3.7 The ANAO considered that these criteria were rather broad. However, the ANAO was informed by Artbank that undocumented criteria were also applied when making acquisitions.

3.8 As the acquisition policy is set in the Charter, the criteria allows for greater refinement of Artbank's approach and for the acquisitions to be targeted at specific areas of the collection's needs. The criteria should form the basis of all art acquisitions and for an audit trail.

3.9 In addition, appropriately documented acquisition criteria supports succession planning by documenting the rationale for future art acquisitions, and at the same time informs artists, intent on submitting artwork, by what criteria their artwork will be judged.

Recommendation No.2

3.10 The ANAO recommends that Artbank develops focused and documented acquisition criteria based on Artbank's collection needs and endorsed policy direction. The acquisition criteria should also be publicly available.

Agency response:

3.11 Agreed.

Documenting and reporting purchases

3.12 The ANAO further examined the formal processes around the purchase of art, such as submissions to the Board, the presence of invoices and appropriate documentation to support the acquisitions. In addition, the ANAO tested a statistical sample of artworks purchased over the last five years. For all of the purchases in the sample, details of the artwork had been presented to the Board, some with images of the artwork, and an invoice for the correct amount was present. Based on the results of the sampling of the last five years of acquisitions, the ANAO is confident that there are no material errors in invoice amounts and the details reported to the Board.

3.13 In achieving value for money, the CPGs specify the need for accountability and transparency in all purchasing decisions.

In all cases, officials need to ensure there is sufficient documentation to provide an understanding of the reasons for the procurement, the process that was followed and all relevant decisions, including approvals and authorisations, and the basis of those decisions.²⁴

3.14 Although the Board minutes contained listings of the artworks for proposed purchase and purchases within the Director's allowance, there was little other documented information about why a certain artwork was purchased or proposed for purchase.

3.15 Artbank advised that in some cases there were meetings and discussions regarding proposed acquisitions, however, these were not documented. The ANAO considered that the documentation justifying individual artwork purchases could be improved.

3.16 In addition, Artbank has a provision for artists to directly submit art to be considered for acquisition. An examination of these submissions revealed that none had been selected and the reasons for this were not documented.

3.17 A documented acquisition process would assist in providing evidence to support compliance with Artbank's acquisition criteria and the CPGs. Records maintained need not be lengthy, the key test is that the records are fit for their purpose. Artbank advised, at the time of the audit, it was in the process of developing a pro forma to capture information about purchasing decisions.

3.18 Furthermore, the Board minutes did not contain evidence that any proposed acquisitions were rejected when they were being assessed for suitability. Artbank advised that artworks that might not meet with the Board's approval were discussed outside board meetings and were not recorded in the minutes. These discussions, if documented, would further demonstrate the Board's role in providing advice about art acquisitions.

²⁴ Department of Finance and Administration, *Commonwealth Procurement Guidelines, Financial Management Guidance No.1*, Canberra, 2005, p.18.

3.19 The ANAO also examined the AusTender contract reporting system to test compliance with the CPGs for Artbank's purchase contracts over \$10 000.²⁵ Under the CPGs, agencies are required to report all contracts with a value over \$10 000, within six weeks of entering into the agreement. The ANAO reviewed Artbank's acquisitions in the year ending 30 June 2005 and noted that there had been purchases over this threshold. However, the ANAO was unable to find that any of these purchases had been reported in AusTender. DCITA confirmed that this information had not been kept up-to-date.

Recommendation No.3

3.20 The ANAO recommends that, in order to improve the transparency and accountability of the acquisition of artwork, Artbank should:

- (a) document the reasons that artworks are selected for acquisition against the acquisition criteria. Similarly, submissions by artists should have a documented assessment against the acquisition criteria; and
- (b) report purchases over \$10 000 in AusTender.

Agency response:

3.21 Agreed.

Value for money

3.22 Value for money is one of the core principles underpinning the CPGs. Overall, Artbank demonstrated a judicious approach to art acquisitions, by buying artworks with an average price of under \$3 500. However, the ANAO was unable to determine whether Artbank ever requested, or took when offered, discounts on purchases. The majority of purchases were from galleries operating in the primary market (new artworks). These galleries charge commissions ranging from 10-50 per cent of the purchase price for an individual artwork. As Artbank is an 'institutional' buyer it should be able to attract discounts from galleries.

3.23 Comments from Artbank staff about discounts indicated a reluctance to accept or pursue them. The reason given for this approach was that the artist typically would receive less for the artwork purchased. Given Artbank's representations that an artist benefits from being in the collection, the ANAO considered that taking a discount on the purchase price would not necessarily

²⁵ <<http://www.contracts.gov.au>> [accessed 20 December 2005].

be detrimental to the artists in the long term. In addition, if discounts were accepted, there would be more money to spend on other artworks and, hence, Artbank would achieve greater value for money for the Australian Government.

3.24 The ANAO further noted that the Charter states that Artbank can purchase directly from 'artists or their appointed agents'.²⁶ The ANAO reviewed Artbank's earlier acquisition practices and noted purchases directly from artists as well as from galleries. However, the current acquisition policy on the Artbank website states that Artbank acquires artwork 'from bona fide dealers and galleries (except where the artist does not have a professional agent)'.²⁷ The ANAO noted that in accordance with this policy Artbank bought the majority of its artworks directly from galleries and not from artists.

3.25 The ANAO noted that this approach to acquisitions may be more administratively efficient because galleries are set up for sales at a commercial level. The galleries act as quality gatekeepers in that they will only sell or exhibit artwork that they think is likely to sell. There are also accounts processing efficiencies, because more than one artist may be purchased at the one time.

3.26 While acknowledging the administrative efficiencies of purchasing primarily from galleries, not all emerging or established artists are represented by galleries at any stage of their career. Artbank has provided an avenue for artists to submit work for purchase consideration via email or post. However, the ANAO did not find any examples of purchases from artists who had submitted their artwork in this way.

3.27 A comparative scheme, Artbank Canada, buys directly from artists. The ANAO considers that Artbank could pursue alternative means to increase the direct support it provides to artists. For example, Artbank Canada usually purchases through a 'round', where it stipulates its criteria and calls for submissions from artists or gallery representatives at a certain time of year.

²⁶ Artbank Charter of Operations (Signed 8 February 1991), Clause 6.3.

²⁷ Artbank Acquisition Policy < http://www.artbank.gov.au/acq_policy.htm > [accessed 14 December 2005].

3.28 Similarly, Artbank could consider pursuing more direct approaches to artists either through a set period of submissions, an annual round similar to the Artbank Canada approach and/or a competition. Each of these approaches would enable Artbank to test the market for artworks, while simultaneously raising its profile to artists and potential clients. All of the approaches would allow for more of the funds spent on acquisitions to go directly to artists. If part of Artbank's acquisition budget was dedicated to one of these approaches, it could be a measurable outcome in addressing Artbank's artist support objectives.

Recommendation No.4

3.29 The ANAO recommends that Artbank, as an art supports programme, could consider alternative acquisition strategies to engage directly with artists. This could include, for example, acquisitions arising from a set period for submissions, an annual round similar to the Artbank Canada approach and/or a competition.

Agency response:

3.30 Agreed.

Conclusion

3.31 The ANAO concluded that Artbank was meeting its acquisitions policy as stated in its Charter. However, the ANAO observed that the current acquisition criteria, and level of documentation for acquisitions and assessments of artists' submissions, could be improved. The ANAO recommended that Artbank further develop focused and well-documented acquisition criteria, and use them to appropriately document its acquisitions. Artbank should also report its purchase decisions over \$10 000 to AusTender.

3.32 The ANAO observed that Artbank purchases the majority of artworks directly from galleries. As an institutional buyer Artbank should attract discounts from galleries, thereby increasing their value for money. However, Artbank rarely accepted or pursued discounts on the purchase price. While acknowledging the administrative efficiencies of purchasing primarily from galleries, not all emerging or established artists are represented by galleries at any stage of their career. As an art supports programme, the ANAO considered that Artbank could consider alternative acquisition strategies to engage directly with artists.

4. Collection Management

This chapter discusses collection management, including the de-accessioning of artwork from the collection.

Introduction

4.1 Effective collection management is essential for the continuous operation of the Artbank programme. Collection management for an art collection generally involves: a well documented art collection; a thorough accessioning policy and deaccessioning policy; appropriate storage and maintenance of the collection; and, appropriate controls over the collection with regards to stock movements and security.

4.2 The unique function of renting art places additional pressures on Artbank's collection management. Most cultural collecting institutions will have less than 10 per cent of their collection on display at any one time. In September 2005, Artbank had 6 080 artworks, representing 65 per cent of the total collection, rented out to clients. The constant flow of stock transfers, new acquisitions and de-accessioned items continually challenges Artbank's collection management procedures and practices.

Collection management systems

4.3 Collection management systems (CMS) are a key mechanism for collecting institutions to catalogue and control their collections as well as providing a repository for information about the collection. These are in essence databases, which contain records about the collections. Some proprietary CMS used by museums and galleries have facilities that enable the databases to be searched online via the Internet, and for digital images of the collection to be viewed by users.

4.4 Integral to an effective CMS is the appropriate input of information. To ensure the adequacy of Artbank's information input, the ANAO reviewed Artbank's CMS guidelines and adherence to them. Artbank has thorough instructions for data entry of acquisitions into their CMS. It was a detailed document with walk through instructions for the entire process. The ANAO noted that this document was last reviewed in 2000, and could benefit from a rewrite to closer align it to changes in the CMS system. Artbank advised the ANAO that they were in the process of updating the document.

4.5 The ANAO reviewed Artbank's CMS database and found that there was a high level of detail in mandatory fields identified by Artbank, including artist, medium and dimensions of an artwork. As discussed in Chapter 3, the ANAO also conducted testing of a statistical sample of acquisitions. The ANAO found that the CMS database had accurate records for each purchase tested.

Collection controls

4.6 An effective means of testing the systems of control over a collection is by conducting a stocktake. Artbank conducts regular stocktakes throughout the year to maintain the accuracy of its system by ensuring any discrepancies were investigated and rectified. This has led Artbank to develop comprehensive guidelines regarding its processes for stocktakes, including misplaced, lost and incorrectly recorded artworks.

4.7 The ANAO conducted a sample stocktake of Artbank's artworks in both their Sydney and Melbourne storerooms. Artbank's storerooms were clean and artworks were clearly labelled and accessible. The result of the sample stocktake in the Sydney storeroom was 100 per cent accurate, indicating that Artbank's procedures and practices were sound.

Photo 4.1

Artbank's Sydney storeroom



Source: ANAO.

Care and maintenance

4.8 The ANAO observed that the general security over the collection was good, with a current Australian Protective Service risk review in place and a new assessment pending.

4.9 Artbank advised the ANAO that the Sydney storeroom is air conditioned and storage temperature conditions were monitored monthly, though the temperature levels were not recorded. There was no humidity control in the storeroom, but this was acceptable given that Artbank's collection was for rental purposes and artworks were frequently displayed in uncontrolled environments. However, care was taken to ensure that works were acclimatised to the storeroom before unpacking and some consideration was given to display spaces when placing artworks with clients.

4.10 Recording the condition of artworks before they leave to go to a client and when they return was an important aspect of Artbank's collection management strategy. Any concerns about the condition of artworks were noted in the CMS and action taken to remedy it. Conservation histories were also noted in the CMS. Presentation of the artwork was also important and re-framing was scheduled, within budget limitations, to ensure an artwork was maintained in a rentable condition.

4.11 The Sydney showroom also had a quarantine area for artworks returning from overseas and Artbank consulted with the Australian Quarantine and Inspection Service when necessary, regarding quarantine issues.

4.12 Based on its earlier work on the *Safe and Accessible Collections* (Audit Report No.59 2004–2005), the ANAO considered that the above care and maintenance practices were both well performed and appropriate to the collection.

De-accessioning of artworks

4.13 As part of its collection management procedure, the ANAO noted that Artbank examined the collection for artworks that were no longer suitable for the collection because:

- the artwork was outdated;
- the condition had deteriorated;
- the artwork had not been rented for a significant period of time;
- the cost of restoration of a damaged work was greater than the value of the artwork;
- the artwork was too fragile for transport;
- the artwork was portable and attractive and, hence, a security risk; or
- potentially, the artwork was too valuable and no longer brought in a viable rental return in relation to its value.

4.14 Pursuant to clause 13 of the Charter, Artbank is able to dispose of artworks no longer required for the collection, although as set out in the current CEIs, disposal must be approved by the Secretary or the Chief Financial Officer. However, according to the Charter, Artbank's disposal policy is to be approved by the Minister.²⁸ The ANAO was able to evidence only one disposal policy approved by a previous Minister in 1991. Later disposal policies appear to be approved by the Board. However, recent actual disposals were approved by the Secretary. Deaccessioning (disposal) can be achieved through write off of damaged artworks and/or the sale of artworks. For the first ten years of operation, however, the ANAO found no evidence of sale of artworks by Artbank.

4.15 Artbank first sold its artworks following the introduction of its Trust Account. Prior to this date there was no real impetus for sale, as Artbank would not have received the proceeds from the sales to purchase more artworks. Since the introduction of the Trust Account, Artbank has been regularly selling work, and retaining the proceeds of its sales and reinvesting them into the scheme.

²⁸ Artbank Charter of Operations (Signed 8 February 1991), clause 13.1.

4.16 Artworks were chosen for deaccessioning when the artwork had not rented for a period of years. In addition, artworks that were damaged, lost or stolen and were no longer available for rent were written off. For works that were lost, stolen or damaged by a client, Artbank received the book value through its insurance arrangements.

4.17 With respect to non-significant works in the collection, Artbank demonstrated a vigorous and strategic approach to maintaining the integrity of the collection through its deaccessioning programme.

Background to case study

4.18 This case study discusses the deaccessioning of a significant artwork. As mentioned in Chapter 1, the foundation works for the Artbank collection came from the Commonwealth Lending Collection, then managed by the National Gallery of Australia (the Gallery). The logistics of this transfer were somewhat cumbersome, particularly in light of the manual systems in use at the time to record the collection and maintain control over it. In addition, a major recall of works was required in order to assess whether particular items were suitable for the National Collection²⁹ and, therefore, to be transferred to the Gallery. Not all works were sighted and many hundreds were transferred on paper only and not actually seen by curators or the Gallery's registrars.

4.19 During this process some works were inadvertently given to Artbank. The Gallery, to this day, is still dealing with the location and ownership issues surrounding these artworks. In the early days of the establishment of Artbank, the Gallery only had to contact the then Director to ask for a work to be returned, so that it could be included in the National Collection. This transfer of artworks ceased over time as Artbank became settled and Directors changed. One particular artwork, formerly from the Commonwealth Lending Collection is the subject of this case study.

²⁹ Pursuant to section 6 of the *National Gallery Act 1975*, the National Collection is owned, developed and maintained by the National Gallery of Australia.

Case Study No.1 – Half Caste Woman

The Half Caste Woman, a painting by Sir Russell Drysdale was included in the works transferred to Artbank from the Commonwealth Lending Collection. On 8 June 1990 legal title in this painting was transferred from the Commonwealth to the Gallery, along with hundreds of other artworks. The painting, Half Caste Woman, was not in the Gallery's possession and nor did the Gallery at the time note that the artwork had been transferred and that it did not have possession of it.

In 1991 Artbank had a requirement to meet revenue targets by selling artworks. The Half Caste Woman was one of the artworks put up for sale, though not through auction, which was in accordance with the approved disposal policy at the time. This painting was placed in a gallery in Melbourne and instructions given to find a buyer using discretion. Regional art galleries were approached to purchase the artwork, but none were interested at the advertised price. Later, two much lower bids were received from members of the public and these were considered.

While the painting was on display at the private commercial gallery, a long-standing former chair of the Commonwealth Advisory Board, saw it and contacted Artbank, stating that this painting should not be sold and that it belonged in the National Collection. According to file records this notification was not followed up. Subsequent to the sale, the then director of Artbank indicated in correspondence to DCITA that Artbank did not wish to approach the Gallery about the proposed sale of former Commonwealth Lending Collection artworks.

According to file records, the departmental branch head verbally approved the sale of the Drysdale painting in July 1992, at a much lower price than the artwork was originally offered to the regional galleries. The then Minister was advised that the sale was to occur. At no time, according to the documentation, was the Gallery ever advised that the painting was to be sold. Had it been sold at auction, it is likely that the Gallery would have found out about the sale and possibly either purchased the work or sought to reacquire it as the legal owner.

As a result, this artwork now resides in a private collection.

4.20 There was an intention when Artbank was formed that artwork, which appreciated in value or became otherwise significant, would be upgraded to the National Collection. Again in 1991, a paragraph addressing this subject was contained in a rewrite of the Artbank Charter, but it was removed from the final version. No information on file discusses why this requirement was no longer required. Unlike the Gallery, Artbank did not need Ministerial permission to dispose of artworks. In fact, according to the records examined the then Director of Artbank stated that the delegation to dispose of artworks in 1992 rested with the Director's position.

4.21 This case study illustrates the need for some guidance on how significant artworks should be disposed of and indeed, clearer stipulation on when an artwork becomes significant and is no longer suitable for the rental collection. The ANAO acknowledges that Artbank needs to maintain a certain number of significant artworks as 'show pieces' in its collection to retain and attract clients.

4.22 This guidance is necessary to prevent a repeat of the situation illustrated in Case study No. 1 and the loss of a potentially significant work from public ownership.

4.23 There does not appear to be an impediment to significant artworks acquired and owned by the Commonwealth being offered to the National Collection Institutions before they are offered elsewhere. The ANAO also observed that there does not appear to be a consistent deaccessioning policy for artworks across the department, for example in the National Portrait Gallery or Old Parliament House. Moreover, across the DCITA portfolio there are varying standards regarding deaccessioning. DCITA advised that the issue of acquisition and disposal of cultural assets extended beyond the DCITA portfolio and potentially involved the whole of government. Consequently, the ANAO suggests that DCITA should consider fostering discussions with the aim of assessing the need for broader Commonwealth policies for acquisition and disposal of cultural assets. In Artbank's case, the ANAO suggests the National Collecting Institutions should be given the first option to acquire a 'significant' artwork scheduled to be sold.

Recommendation No.5

4.24 The ANAO recommends that DCITA develop a consistent departmental framework to classify significant artworks (cultural assets) and to govern their deaccessioning.

Agency response:

4.25 Agreed.

Conclusion

4.26 The ANAO observed that collection management was a key mechanism for the care and control of the collection. The ANAO concluded that Artbank's performance in this area was strong. In particular, the care and maintenance practices over the collection were well performed and appropriate to a rental collection.

4.27 The historical case study demonstrated a weakness in the protocols relating to the sale of high value or culturally significant works. The ANAO concluded that the potential for this situation to arise under the current arrangements still exists. The ANAO suggested that DCITA should consider fostering discussions with the aim of assessing the need for broader Commonwealth policies for acquisition and disposal of cultural assets.

4.28 With respect to non-significant works in the collection, the ANAO concluded that Artbank demonstrated a vigorous and strategic approach to maintaining the integrity of the collection through its deaccessioning programme.

5. Client Satisfaction and Management of the Art Rental Scheme

This chapter discusses client satisfaction with Artbank's services, the management of the art rental scheme, in particular client rental agreements and financial procedures, marketing, and Artbank's use of the Internet environment.

Introduction

5.1 Artbank is a unique program within Government and, as such there is no established government model against which to assess its performance. Also, there was no real comparative private sector equivalent to use as a model. The ANAO determined that, in general, the effective management of Artbank's rental scheme was dependent on having an attractive selection of artworks, maintaining strong client relationships, excellence in service, and robust practices and procedures surrounding client rental agreements and financial procedures.

5.2 The ANAO sought to gauge the level of client satisfaction with Artbank's services. As Artbank had not undertaken an independent survey of its own, the ANAO, in consultation with Artbank, used a consultant, Orima Research (Orima), to design, conduct and collate an independent survey of Artbank's clients. The ANAO also examined documents and procedures surrounding rental agreements, budgeting, debt management and marketing.

Client services

5.3 Artbank has three main client groups, and each client within these groups represents one rental agreement. There were 603 client rental agreements as at 31 August 2005 of which 38 per cent were Australian, State and Local Government, 54 per cent were private sector and 8 per cent were individuals³⁰. Orima identified 419 separate clients from the 603 rental agreements and a small number of past clients were included in this number. Of these, 368 were contactable via email and 137 responded, which equates to a 37 per cent response rate.

³⁰ Figures taken from Artbank Board Minutes meeting number 112, 2 September 2005.

5.4 The ANAO considered that this response rate was sufficient to reasonably estimate the level of client satisfaction and provide adequate data to assist with its analysis. The response rate from the private sector, individuals and past clients is sufficiently representative of a cross section of Artbank’s clients. The client representation in the survey is shown in Table 5.1.

Table 5.1
Break up of survey respondents

Type	Number	Percentage
Government	70	51
Private Sector	51	37
Individual	6	4
Past Client	9	7
Not identified	1	1
Total	137	100

Source: ANAO

5.5 There were twenty one questions in the survey, targeted at four areas, as follows:

- the nature of the client and knowledge of contemporary art;
- client satisfaction with distinct areas of service, such as access to artwork, invoicing, delivery and change over of artwork;
- understanding of Artbank’s role and organisational status; and
- response to marketing, including Artbank’s website.

5.6 Most questions required the respondents to rate Artbank’s performance on a five point scale, with the rating of very good being the highest possible rating.

Survey results

5.7 The overall result for client satisfaction was that 97 per cent of survey respondents rated Artbank’s general performance as good or very good. In each area of individual service, such as initial contact for telephone service, personal meetings and timeliness the responses for good or very good ranged from 90 to 100 per cent. Other areas of service which attracted a 80 to 90 per cent rating as good or very good, were selection of artwork, change over of

artwork, complaint handling and invoice layout. Open ended responses were also received relating to the above areas, which also generally provided positive comment.

5.8 Survey work can provide a basis for an independent view of an entity's service delivery to be canvassed and an avenue for client feedback.

5.9 The ANAO considered that a good time for Artbank to regularly assess its performance is when a client ceases its relationship with Artbank at the end of their rental agreement. This would allow Artbank to capture the reasons why the client no longer rents artwork and allow any issues with client service to be identified. The feedback received at this time should enable Artbank to better analyse its service delivery and market trends.

Recommendation No.6

5.10 The ANAO recommends that Artbank use survey work to assess client satisfaction, such as regular, independent client surveys every two to three years.

Agency response:

5.11 Agreed.

Management of the art rental scheme

Rental agreements

5.12 When renting artwork, both parties need to have a clear understanding of their rights and obligations, preferably set out in a written agreement. Underpinning this agreement should be a risk-based approach to balance the policy objectives of Artbank, care of the artwork, its transport, the rental amount and client satisfaction.

5.13 Artbank used a generic rental agreement for the art rental programme developed with the assistance of legal advice. As Artbank has been in operation for 25 years, it has this length of experience reflected in the content of its current agreement. The rental agreement clearly outlined the parties' obligations and responsibilities, including the handling of artworks, insurance, transportation, and recovery of sums. The rental agreement term was generally for a minimum of one year and payment was required in advance of each rental term.

5.14 In pursuit of its objectives, Artbank has, on limited occasions, rented out works for lesser periods for specific projects. This has included for film shoots and display properties where there was a direct promotional benefit for Artbank to justify the shorter rental periods.

5.15 An important transparency measure for Artbank was to ensure that the rental agreements were accessible for the clients. In the client survey, 93 per cent of respondents to the question, found the accessibility of terms and conditions to be good or very good. The ANAO considered that the generic Artbank art rental agreement was appropriate for its operations.

Additional materials

5.16 In addition to the rental agreement, Artbank also provided clients with care instructions and where relevant, instructions on return of artworks from overseas posts. Artbank advised the ANAO that these notes usually complemented phone or email instructions provided by Artbank at the time of initial rental.

Pricing structure

5.17 Underpinning the financial terms and conditions of the rental agreement was Artbank's pricing structure. The pricing structure was also the pivotal component to how Artbank prepared its budgets. Historically, the pricing structure had been set as a percentage of the value of the artwork. At the time of the audit, the rental price for artworks was based on a sliding scale, using a percentage of their current value. There was also a price cap of \$5 000 per annum for a single item on the rental fee for some of the higher valued works. These rates reflected what the market would bear based on Artbank's observation of rental trends. The ANAO consulted with a private art consultancy firm who corroborated that there was market pressure for an upper limit to an art rental fee for the higher valued artworks.

5.18 The ANAO noted the unique role of Artbank as an arts support programme, yet acknowledged that it was largely dependant on rental revenues for its continued operations. The current pricing structure, therefore, needed to maintain a balance between affordability for clients and ensuring that Artbank retained sufficient funds to continue to be able to purchase new artworks. The size and nature of Artbank's current operations also precluded a more rigorous pricing structure in accordance with the Australian Government's competitive neutrality policy.

5.19 Following the completed transition to the Trust Account in 1992, the pricing structure enabled Artbank to meet its policy objectives of being an arts support and art rental programme. However, the ANAO considered that the pricing structure could be more closely aligned to a documented strategy of meeting its objectives. This may include targets for the percentage of artworks rented and targets for funds for the purchase of new artworks.

Financial procedures

5.20 To operate effectively and to stay in business, Artbank needed robust financial management procedures. It required an administrative framework to collect rent, buy artwork, maintain the collection and accommodate staff and the collection among other things. Artbank was also required to estimate its revenue and expenditure by formulating a budget and have underlying systems to correctly bill its clients and receive rental payments.

5.21 As part of the client survey, respondents were asked various questions surrounding the billing process. It is important to note that the survey was distributed to the contact person for the rental agreement, who was not necessarily the person responsible for dealing with the financial matters. Hence, only 82 per cent of respondents answered the billing questions, although 90 per cent of those respondents found the timeliness of billing as good or very good and 91 per cent assessed the accuracy of billing as good or very good.

5.22 As discussed earlier in this Chapter, as per the standard rental agreement, payment is required in advance of each rental period. Artbank employed debt management controls to ensure that bad debts were appropriately tracked, followed up and finalised. This included: a systematic approach to outstanding balances; documented communication; a centralised database; and referral to debt collectors where appropriate.

5.23 The ANAO considered that Artbank employed sound procedures and processes surrounding art rental invoicing, payment for art purchases and bad debts recovery.

Marketing and promotion

5.24 For a business to grow it is required to build its client base, particularly where there is a turnover of clients. In Artbank's case, it may lose clients for a variety of reasons, including a change in clients' budget, clients moving

premises, clients ceasing business and clients choosing to buy their own artwork.

5.25 Prior to the commencement of the Artbank rental scheme, the Australian Government maintained a lending collection, for which government departments paid little or no rental fee. On the establishment of Artbank, a rental fee was introduced. Anecdotal evidence suggests that as departmental budgets became tighter over time, one of the first things to be trimmed from budgets was expenditure on artwork rental. In the early 1990s, to assist in maintaining its viability, Artbank was tasked with building a private sector client base. This was achieved through marketing Artbank to the corporate sector to gain clients. To continue its operations, Artbank is still required to continue marketing itself to new and old clients.

5.26 Artbank used a targeted marketing approach. Rather than bulk mail outs and telephone marketing strategies, Artbank used select types of promotions. This material was targeted to existing clients and newly identified categories of potential clients, such as legal firms, accounting firms, interior designers. For example, Artbank:

- published a glossy newsletter, marketing new acquisitions and promoting selected artists;
- mailed out a calendar, showcasing the collection, to existing and potential clients;
- produced greeting cards containing graphics of selected artworks;
- published a book on Artbank's history and collection;
- held promotional events; and
- sponsored certain industry specific events.

5.27 A number of questions in the survey sought feedback on Artbank's branding and marketing approach. The highest number (55 per cent) of respondents said they were a client because their firm had an existing relationship. The second highest response was referral and word of mouth (29 per cent). These responses indicated that good client service and promotional events were likely to be Artbank's most successful marketing tools.

5.28 Artbank's Internet marketing and promotional approach was being developed at the time of the audit (see below). Artbank was taking steps to implement an e-mail newsletter. During the course of the audit, the ANAO also noted that Artbank had introduced a survey feedback form on its website.

5.29 Specified in Artbank's charter is a requirement for the Board to develop an exhibition policy, which is not to impinge upon Artbank's primary functions. This was an area that had not been strongly developed in the past, apart from Artbank releasing works to appear in exhibitions when requested. However, in the last five years, Artbank co-developed the *Kiripuranji: Contemporary Art from the Tiwi Islands* exhibition, which is touring overseas missions. It has also planned an exhibition to celebrate its 25 year anniversary. Artbank was successful in its application for Visions of Australia³¹ funding to assist with the costs of mounting this travelling exhibition.

Internet accessibility

5.30 At the time of the audit, Artbank possessed digital images of its entire collection. It used these images to inform clients about artworks, when they were unable to visit the showroom in person. For promotional purposes, there were also images by 53 artists available on Artbank's website.³² As expressed in the following media release excerpt, it is stated Government policy to digitise its collections and make them available online.

The Government believes there are strong arguments for digitising Artbank's collection and linking it to the Australian Cultural Collection. This is in line with the Government's policy to put all National Collections online, making them more accessible to all Australians, particularly those in regional and remote areas.³³

5.31 The ANAO considered that Artbank could do more to participate in the Internet environment. The presence of a searchable database on the Internet would facilitate access to information about the rental collection for current and potential clients. This demand was also supported by comments received from the ANAO sponsored client satisfaction survey.

³¹ Visions of Australia is an administered programme of DCITA, which funds eligible organisations to develop and tour exhibitions of Australian cultural material across Australia.

³² <<http://www.artbank.gov.au/artworks.htm>> [accessed 10 January 2006].

³³ Media Release A58/97, the Hon Senator Alston, 29 June 1997.

5.32 One of the issues Artbank has faced, which prevented the implementation of a database on the Internet, was the unresolved discussions about copyright over the images and the *Copyright Amendment (Digital Agenda) Act 2000*, which created new rights over the transmission of images via electronic means. Artbank had sought legal advice on this issue, and to address legislative changes, it attempted to obtain non-exclusive licenses (permission) to use digital copies of the artwork it owns in order to promote the work, and hence the artist.

5.33 While seeking the non-exclusive licenses to reproduce digital images of the artwork as the Commonwealth, the Visual Arts Copyright Collection Agency (Viscopy) raised objections to Artbank's approach. Artbank paid Viscopy fees for the use of the images it displays on its website. Artbank advised it would be beyond Artbank's budget to pay a license fee for all Viscopy managed artworks to be displayed in a searchable database.

5.34 The ANAO acknowledges that the cost of paying for the images may be prohibitive. However, Artbank could still implement its Internet database without these images. For example, Artbank advised that it held non-exclusive licenses to use digital images, with no fee payable, for 73 per cent (6 794 artworks) of the collection. These images could contribute to a searchable database on the Internet for potential and current clients. Where a non-exclusive license had not been obtained, entries could contain standard information about the artist, the artwork, the medium, the dimensions, rental cost and availability.

5.35 Furthermore, Artbank uses a proprietary product for its CMS, which contains information about the artwork and its associated digital image. The ANAO considered that as this CMS is web enabled, placing this information on the website, as a searchable database is relatively attainable at minimal cost. However, in keeping with the principles outlined in the ANAO Better Practice Guide—*Internet Delivery Decisions*, April 2001, an appropriate business case should be prepared to assess the merits of establishing such a database.

Recommendation No.7

5.36 The ANAO recommends that Artbank considers implementing a collection database on the Internet, using the images that Artbank has permission to reproduce.

Agency response

5.37 Agreed.

Conclusion

5.38 The client survey conducted by the ANAO demonstrated that the overall satisfaction levels with Artbank's services were rated highly, with 97 per cent of the 137 respondents indicating that Artbank's overall service was either good or very good. The survey results were a strong indication that the scheme was well run from a client perspective. The ANAO recommended that Artbank conduct regular independent surveys to ensure that it continued to meet client needs.

5.39 The ANAO reviewed elements of the management of the rental scheme such as rental agreements, budgeting, financial monitoring, marketing and debt management. The ANAO concluded that Artbank's practices and procedures surrounding these elements were sound.

5.40 Artbank possessed digital images of its entire collection (over 9 300 works). Artbank's Internet website contained digital images of the work of 53 artists for promotional purposes. However, these images were not useful for potential and current clients to thoroughly investigate Artbank's collection and the potential rental availability of individual works. Implementation of a searchable Internet database would be consistent with Government policy for access to its collections. Therefore, the ANAO recommended that Artbank enhance its Internet presence by considering the implementation on its website of a searchable database of its collection, providing information on artwork availability and other information to assist clients, particularly those unable to physically visit the showrooms. However, in keeping with the principles outlined in the ANAO Better Practice Guide—*Internet Delivery Decision*, April 2001, an appropriate business case should be prepared.



Ian McPhee
Auditor-General

Canberra ACT
11 May 2006

Appendices

Appendix 1: Agency response



Australian Government
**Department of Communications,
Information Technology and the Arts**

our reference

Secretary

Helen Williams AO

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

Dear Mr Crossley

AUSTRALIAN NATIONAL AUDIT OFFICE PERFORMANCE AUDIT ON ARTBANK

Thank you for your letter of 15 March 2006 in which you provided the proposed audit report on *Artbank*. As requested I provide the following departmental response on each of your recommendations.

Recommendations 1-7

The Department agrees with the recommendations.

The Department has commenced redevelopment of the Artbank Charter in line with Recommendation 1. A number of acquisition-related policies are also under development and, following completion of the Charter, will be finalised and submitted for Ministerial approval. The options for alternative acquisition strategies put forward by ANAO will be considered as part of this policy development process. The Department is in the process of implementing Recommendation 3 b) to report purchases over \$10,000 in AusTender.

Yours sincerely

A handwritten signature in black ink that reads "Helen Williams".

Helen Williams
12 April 2006

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