

REPORT OF PROCEEDINGS BEFORE

GENERAL PURPOSE STANDING COMMITTEE No. 1

INQUIRY INTO OLYMPIC TICKETING

At Sydney on Monday 22 November 1999

The Committee met at 5.00 p.m.

PRESENT

Reverend The Hon F. J. Nile (Chair)

The Hon. Patricia Forsythe
The Hon. J. R. Johnson
The Hon. A. B. Kelly
The Hon. C. J. S. Lynn
The Hon. P. T. Primrose
The Hon. Dr P. Wong

CHAIR: I welcome the media and members of the public to this hearing of the inquiry by General Purpose Standing Committee No. 1 into Olympic ticketing. I advise that under Legislative Council Standing Order No 252 evidence given before the Committee and any documents presented to the Committee that have not yet been tabled in Parliament may not, except with the permission of the Committee, be disclosed or published by any member of such Committee or other person. Copies of the guidelines covering broadcasts of proceedings are available from the committee table at the rear of the room. I remind press photographers that they can photograph only the participants in the hearing. They are not to photograph anyone waiting in the public area at the rear of the hearing.

RORY O'CONNOR, Chartered Accountant, 24 Ferndale Street, Chatswood, and

JOHN MARTIN SHIRBIN, Solicitor, 35 Dettmann Avenue, Longueville, sworn and examined:

CHAIR: Did you each receive a summons issued under my hand in accordance with the Parliamentary Evidence Act 1901?

Mr O'CONNOR: I did.

Mr SHIRBIN: Yes.

CHAIR: Are you conversant with the terms of reference of this inquiry?

Mr O'CONNOR: I am.

Mr SHIRBIN: Yes.

CHAIR: I advise you both that if you should consider at any stage during your evidence that in the public interest certain evidence or documents that you wish to present should be heard or seen only by the Committee, the Committee will be willing to exceed to your request and resolve into confidential or camera session. I should warn you that Parliament may override that decision at any time and make the evidence public.

Mr O'CONNOR: Mr Chairman, I seek to tender the following document as part of our evidence. That document is the "Independent Review of SOCOG's Ticketing Processes", dated 22 November 1999. That is a joint document authored by Clayton Utz and Deloitte.

Document tabled.

Motion by the Hon. P. T. Primrose agreed to:

That the document be accepted by the Committee.

Motion by the Hon. Patricia Forsythe agreed to:

That, in accordance with the provisions of section 4 (2) of the Parliamentary Papers (Supplementary Provisions) Act 1975 that the Committee authorise the publication of the document.

CHAIR: The Hon. C. J. S. Lynn will replace the Hon. D. F. Moppett for the purposes of the Olympic ticketing hearing being held at 5.00 p.m. on 22 November. That means that the Hon.

C. J. S. Lynn has the standing of a member of the Committee.

Would either of you like to make an opening statement with regard to the report?

Mr SHIRBIN: We would. Considerable public controversy followed SOCOG's notification in October 1999 to successful and unsuccessful ticket applicants in the public ballot. On 25 October SOCOG released information about the number and mix of tickets in the ballot. There remains, however, widespread public concern that the ballot included less tickets than promised, included unacceptably low numbers of tickets for high-demand sessions and was conducted after SOCOG had removed tickets or sold or reserved them for sale at a premium. As a result, the public's faith in SOCOG has been damaged by this controversy. It was for this reason that on 1 November Rory O'Connor and I were appointed to conduct an independent review of the ticketing process.

That review has been intense and thorough. We have interviewed 20 people: SOCOG employees, board members and consultants of SOCOG. We have made inquiries of 100 or more people. We have reviewed SOCOG's board minutes, ticketing subcommittee minutes, board papers and read SOCOG's management files. We have had access to and looked at SOCOG's backup computer files. We have been assisted by SOCOG and its staff. We have received no obstruction within SOCOG and we have been assisted by other resources from our two firms—Clayton Utz and Deloitte—other partners and staff.

We confirm that SOCOG did indeed have less tickets in the public ballot than it promised. SOCOG had consistently held out to the public that there would be 3.5 million tickets in the public ballot, and SOCOG has conceded that they were approximately 3.08 million tickets. No minimum session-by-session quota was established before the public ballot. This contributed to there being in the ballot relatively few tickets for certain high-demand sessions. These low numbers surprised even SOCOG's staff and members of the board.

The decisions on the total and the session-by-session public ballot quotas were made at the middle management level of SOCOG. The way SOCOG's ticketing quota system is structured, the amount of tickets allocated to the public ballot is the balance left after all other ticket quotas have been taken into account, including those mandated by the host city contract, the Olympic Charter and SOCOG's sponsorship and other contracts. By definition, tickets already allocated to the premium ticket and other quotas are not available for the public ballot. However, the review found no evidence of any transfers to the premium ticket quota from the public quota during the public offer and ballot process.

As at the date of the public ballot 643,325 tickets were in the premium quota. The Group General Manager, Ticketing, authorised the allocation of 360,000 of those tickets to the premium quota in about March 1999. There is no reliable paper trail that the review could find confirming the purpose of the allocation of the balance. The Program Manager, Ticket Operations, told the review that they were largely tickets for sports passes allocated following the board meetings of 18 February 1999 and 1 April 1999. On the basis of the review's work this is a plausible explanation. Unfortunately, due to the state of the records this explanation is not susceptible to audit.

The other principal findings of the review are as follows. Firstly, the events which resulted in the ticketing controversy were caused by management failures on the part of SOCOG's senior and middle management and oversight failures on the part of the board as a whole. Secondly, management has failed in its responsibility to put in place appropriate and adequate controls for the management of one of its primary assets, namely, its ticket inventory. In many cases key decisions

affecting the public interest such as the determination of the number and mix of tickets in the ballot were left to be made by middle management. The board failed to insist that management provide appropriate reports and information about the ticket inventory so that it would be in a position to properly monitor and guide management.

Thirdly, there is an unacceptable level of knowledge amongst senior management responsible for ticketing as to the operation of the ticketing and quota system. Regular reports as to the numbers and allocations of tickets amongst the various market segments—the various quotas—was never provided to the board or senior management responsible for ticketing and were never called for. There was no audit trail of changes made to the allocation of tickets. Fourthly, there was carelessness on the part of management concerning the accuracy of information being given to the public about the numbers of tickets in the public ballot, both in the ticket book—there were never five million tickets—and in the associated marketing campaign. In relation to the ticket book, the board should have asked for, and obtained, sufficient information to satisfy itself that an appropriate verification process had been managed and signed off.

Fifthly, the primary focus of the board and management in relation to ticketing has been the need to raise revenue from ticket sales. This has contributed to a lack of transparency concerning the manner in which tailored premium packets of tickets were offered to individuals and organisations and about the availability of session-by-session tickets in the public ballot. It has also contributed to management failing to keep the board fully informed. The board did not receive information on the extent of the premium packages and the sales strategy adopted by management for the sale of such packages.

Lastly, the board has been aware since 1998 that tickets would be sold in tailored packages at a premium. It did not formulate any policy governing the pricing and marketing of packages even when it knew that they were available for sale. We have made five recommendations about steps to be taken by SOCOG to address these concerns. They are as follows: firstly, that the board review the existing ticketing management structure and make whatever changes are necessary to ensure that appropriate levels of accountability and reporting, both to the board and to the chief executive officer, are put in place. We are concerned that unless this is done significant issues in ticketing will arise in the future.

The chief executive officer of SOCOG put to us that it was important to maintain SOCOG's present management model, which involves extensive delegation of responsibility. Our findings demonstrate that the model did not work properly in ticketing. It is our opinion that it was the absence of basic management controls combined with the extensive delegation of responsibility that has led to the issues the subject of our review. The board should also consider whether the model is appropriate and, if so, the framework and checks and balances within which it should operate.

Secondly, the board should formulate a comprehensive policy in relation to ticketing. There remain a number of important ticketing tasks to undertake, not least of which is the allocation of seats to ticket holders within the various price categories in the venues. Thirdly, senior management responsible for ticketing should take steps to ensure that regular and sufficiently detailed reports are given to the board and that matters requiring policy decisions are submitted to the board. Fourthly, senior management responsible for ticketing should ensure that basic and appropriate controls are put in place over the ticket inventory. As a minimum, the senior management responsible for ticketing must ensure that the ticketing processes are properly documented, a regime of reporting to senior management in a meaningful and timely fashion is implemented, and proper internal controls are put

in place.

Fifthly, senior management responsible for ticketing should undertake a comprehensive and independent audit of the ticket inventory. We stress that we have no reason to believe that the inventory has been compromised in any way. However, the almost complete lack of controls means that the usual safeguards are not in place and the ticketing system is vulnerable. Mr Chairman, I would like to ask Rory O'Connor to deal with our more detailed findings in relation, firstly, to the public ballot system and then the premium ticketing.

Mr O'CONNOR: Mr Chairman, on page 37 of our report we detail the findings in relation to the public offer and the ballot process. A total of 15 findings are contained in that section. The findings are as follows: John Bosiljevac, who is the manager of ticket operations, and staff in ticket operations determined the total and session-by-session quotas for the public ballot. It is not clear whether John Bosiljevac sought the approval of Paul Reading, the SOCOG Group General Manager, Commercial and Marketing, for the figures prior to the running of the ballot. The decision should have been made at board level.

One of SOCOG's primary assets is its ticket inventory. Despite its importance, reporting to the board on ticketing was inadequate and the information which was reported was of poor quality and often inaccurate or incomplete. Examples of inaccurate or incomplete information being provided to the board include the information presented at the board meeting on 20 May 1999, which stated that more than 3.5 million tickets would be included in the ballot, and the failure to keep the board informed of the number of tickets allocated to the premium quota.

Our third finding is that the ticket inventory has been inadequately controlled. Actions taken by ticket operations are not scrutinised by senior management. The ticketing division lacks checks and balances, including appropriate segregation of duties. In these circumstances decisions about ticket allocations affecting the public interest have been made by middle management. Such decisions should have been made at the level of senior management or the board. Systems documentation is almost non-existent and there are inadequate means of monitoring performance.

The fourth finding is that the board failed to insist that management provide reports about the ticket inventory so that it would be in a position to properly monitor and guide management. Finding five is that ticketing senior management did not understand the detailed mechanics and complexity of the ticket quota allocation system and the potential for the numbers and quality of tickets available to the public to be adversely affected by the allocation of tickets to other quotas. Finding six is that a large number of management and staff of SOCOG to whom the ticket book was circulated knew that there were not five million tickets in the public ballot, yet that figure remained in the ticket book, despite its being provided to them in draft for their review.

It is difficult to understand how the incorrect figure of five million was not noticed by anybody given the extensive checking process undertaken. It is likely that the error in the ticket book would have been picked up if the verification process proposed by the legal division had been properly followed. There was a lack of understanding by both ticketing senior management and ticket marketing of appropriate processes to ensure the accuracy of the statements in the ticket book. Good corporate governance, in the review's opinion, would have meant treating the ticket book like a prospectus. At the time the ticket book was distributed the tickets available for allocation to the public should have been known and any statements made in the ticket book assessed for accuracy against the tickets which were available.

Reporting by John Bosiljevac to Paul Reading and by Paul Reading to Sandy Hollway and the board as to the allocations of tickets to the public and other quotas and movements between the quotas was almost non-existent. If reports had been required and the contents of such reports scrutinised, the accuracy of information given to the public could have been checked by ticketing senior management and by the board. As it was, neither ticketing senior management nor the board were in a position to assess the accuracy of such information.

The ticketing subcommittee of the board did not meet regularly. It was not a standing committee of the board; it was an ad hoc committee without a clearly defined role. It did not have sufficient rigour in its processes to compensate for the lack of checks and balances in the ticketing management structure. The review has received conflicting accounts as to whether ticket operations ever communicated its concerns about the five million figure in the ticket book to any other area of SOCOG. This highlights how the serious communication problems existing between ticket marketing and ticket operations during the preparation of the ticket book contributed to the incorrect figure being printed in the ticket book. The poor levels and quality of communication need to be addressed urgently given the significance of the ticketing functions yet to be undertaken and the importance of good communication between the areas for these functions. Ticketing senior management is responsible for the levels and quality of communication and should have addressed these problems before now.

There is concern on the part of management about the readiness of board members to keep commercially sensitive information confidential. Insofar as this has led to the deliberate withholding of information from the board, such conduct is unacceptable. Examples of the withholding of information include the failure on the part of ticketing senior management to obtain a board sign-off on the public quota for the ballot and the failure of Paul Reading to inform Sandy Hollway and the board of the significant number of tickets allocated for tailored premium packages. The review has not discovered any evidence of transfers to the premium ticket quota from the public quota during the period of the public offer and ballot. However, the public quota was created after the premium quota was created and, to the extent that the premium quota drew tickets from the available tickets, this reduced the tickets available for the public quota.

The internal auditors did not obtain the board-sign off on the public quota in the ballot as required by their terms of engagement. In the review's opinion, the internal auditors should have obtained such a sign-off prior to the running of the ballot or, failing that, immediately thereafter. On finding no such sign-off was forthcoming, they adopted the alternative procedure of including reference to the number of the tickets in the ballot in their report to the board dated 1 October 1999. After the sign-off was refused to them at the meeting with Paul Reading on 6 September 1999, had the internal auditors immediately reported this to the Audit Committee and Sandy Hollway, this would have put the committee and Sandy Hollway on notice of the lower public ballot quota. The internal auditors were not responsible for ensuring that any particular number or mix of tickets were included in the public ballot. That was the responsibility of ticketing senior management and the board.

In section 7, at page 49, are the 11 detailed findings in relation to premium packages:

The premium ticket revenue budget was set in June 1998 at \$35.3 million. The average markup achieved on the face value of the tickets varies from sale program to sale program. The highest markup was achieved for tailored Premium Packages where multiples of up to 6.2 times have been negotiated; the average markup is 2.6 times. The revenue has been achieved with limited resources (only one staff member has been involved full-time in the selling of tailored Premium Packages).

The Review does not consider that a premium ticket program is of itself inappropriate. Indeed, it is a legitimate way for SOCOG to maximise its revenue and reduce its exposure to a shortfall in the funding of the Games, which shortfall would

Inquiry into Olympic Ticketing

ultimately be borne by the New South Wales public.

The Board has been aware since 1998 that tickets would be sold in tailored packages at a premium. It failed to formulate any policy given the pricing and marketing of packages even when it knew that they were available for sale.

The key performance indicator taken into account by the Board and Ticketing senior management in relation to the Premium Package Program was revenue.

Both the Board and Sandy Hollway knew in mid 1999 that the tailored Premium Package program was developing. Neither the Board nor Sandy Hollway sought information regarding the number or type of tickets being sold or committed pursuant to the program.

Paul Reading reporting to Sandy Hollway and to the Board in relation to the revenue aspects of the Premium Package program. Paul Reading decided that he would not report on, nor seek Board approval regarding, the number or type of tickets that were being sold under the tailored Premium Package program.

The Review considers that the detail of reporting to the Board and to Sandy Hollway in relation to the tailored Premium Package program was inadequate.

Both the Board and Sandy Hollway knew in mid 1999 that the tailored Premium Package program was developing. Neither the Board or Sandy Hollway sought information regarding the number or type of tickets being sold or committed pursuant to the program.

Access to tailored Premium Packages was limited to organisations and individuals who became aware of the program through word of mouth. The tailored Premium Package program was not formulated or managed in a way which took proper account of the public interest in having access to tickets.

Inventory management is critical to SOCOG given that it is seeking to generate in excess of \$600 million through ticket sales. The Review considers that SOCOG's inventory management has been inadequate for the following reasons:

no formal communication or reporting channels were established between Ticket Marketing and Ticket Operations to enable ticket inventory to be determined at any given time;

there has been no periodic reconciliation of the number of tickets sold by Ticket Marketing with the records maintained by Ticket Operations;

there has been no formal requirement that Ticket Marketing or Ticket Operations report to the Group General Manager, Commercial and Marketing regarding inventory; and

no inventory management procedures have been documented.

The Hon. C. J. S. LYNN: These questions are not in order of priority. You make the statement:

Access to tailored Premium Packages was limited to organisations and individuals who became aware of the program through word of mouth.

I would have thought that a program that had a goal of raising \$35.3 million to achieve its target would have been part of a very specialised, targeted marketing program to select companies, given that we have to take into account the protection of sponsors, and that that marketing program would have been developed, approved by senior management, and then put out. But to say that it was based on word of mouth, for an organisation of this scale, I find remarkable.

The Hon. J. R. JOHNSON: What is the question?

The Hon. C. J. S. LYNN: The question is: Was there a specific targeted marketing program that identified potential clients, that was approved by senior management and the board, and

that went out into the marketplace, to ensure that we got maximum value from the premium ticket package?

Mr O'CONNOR: I draw your attention to section 7.15 of our report, which deals with the referral process for premium packages. I would also draw your attention to our findings in that section, where we talk about the need to develop a policy in that area. I would also draw your attention to the recommendations that we have made. As my colleague John Shirbin has said, we made five key recommendations. Recommendation 2 is that the board formulate a comprehensive policy in relation to ticketing, and that that needs to happen as soon as possible.

The Hon. J. R. JOHNSON: Where, in your view, does the chief responsibility lie for SOCOG's whole ticketing debacle?

Mr O'CONNOR: I would draw your attention to the executive summary and our first principal finding:

The events which resulted in the ticketing controversy were caused by management failures on the part of SOCOG's senior and middle management and oversight failures on the part of the Board as a whole.

That should be read in conjunction with the first of our five major recommendations, which is:

That the Board review existing Ticketing management structure and make whatever changes are necessary to ensure that appropriate levels of accountability and reporting, both to the Board and to the CEO, are put in place.

Again we would state: Unless this is shown, the review is concerned that significant issues will arise in the future.

CHAIR: It seemed as if the SOCOG board had almost a superficial role, that it did not actually take account of the detail and have detailed reports from the heads of different departments?

Mr SHIRBIN: We have addressed in section 5.7 on page 17 of our report the various roles and responsibilities of the board and management. Whilst the board of directors is SOCOG's supreme governance body, it is impossible for the board of a large corporation to manage the day-to-day business activities of the corporation. It must rely on management to do that and is entitled at law to rely on its advice and information about it. However, the board has obligations of oversight. It must know sufficient about the business to ask for the right information so that it is properly informed and can then monitor management. Secondly, it has an obligation to set policy.

CHAIR: So the SOCOG board did not have an agenda where it could systematically tick off the various heads of senior management reporting to the board meeting by meeting?

Mr SHIRBIN: There was that, but in relation to the ticketing system, it was inadequate.

The Hon. PATRICIA FORSYTHE: In relation to that issue, in your opinion have the chairman and the board fulfilled their obligations as directors of the board?

Mr SHIRBIN: It is a matter of degree. We have highlighted oversight failures. The concentration of everyone at SOCOG was on how to sell that tickets. They were concerned that they

had an enormous number of tickets in worldwide terms that they would never, ever, ever be able to sell. Their concentration was on the revenue. Management took its eye off the other side of the ledger, that is, what it had to sell—the ticketing inventory. The board's oversight failure was a failure to detect that management did not have its handle on the ticket inventory and it did not seek and insist on the right information coming to the board so that it could monitor that.

The Hon. Dr P. WONG: You were saying that the SOCOG board was concentrating on how to sell the tickets, yet at the same time you seem to imply it had no strategy, no plans, no detailed discussions. How can the SOCOG board concentrate on how to sell the tickets yet have no idea how to sell them?

Mr SHIRBIN: The SOCOG board did have policies in relation to pricing of tickets. It had policies in relation to social access. You will be aware of its resolutions to put aside the Olympic Opportunity tickets. It also set out the policy for the structuring of the public ballot and the cascading of the tickets and the like. So, it did have a policy. It did not have a comprehensive policy across all aspects of ticketing and, in particular, the premium packages.

The Hon. P. T. PRIMROSE: Obviously I have not been able to read your review in detail yet, but did you find anything that, in your opinion, you would regard as either fraudulent or criminal?

Mr O'CONNOR: We did not find anything untoward in terms of fraud or matters of that nature.

The Hon. C. J. S. LYNN: Mr Shirbin, you mentioned the obligations of the board to set policy and some failures of oversight, but there was a ticketing subcommittee established and the chairman of that was a member of the board. I would assume that his responsibility in that position was to monitor very, very closely all aspects of ticketing, including the premium tickets. Was there a dereliction of duty by that member of the ticketing committee?

Mr SHIRBIN: There is no ticketing committee, it is a subcommittee.

The Hon. C. J. S. LYNN: Subcommittee, yes.

Mr SHIRBIN: It was different from the standing committees of the board. The finance committee and the audit committee are standing committees. They have, by their nature, a disciplined structure. They have a charter and the subcommittee was different. I think as a result it had an indistinct, an imprecise, role. It did not meet often as a result and its processes were never enough to counterbalance the lack of checks and balances in the management structure.

CHAIR: It was more an ad hoc committee?

Mr SHIRBIN: It was an ad hoc committee.

The Hon. A. B. KELLY: Who was responsible for reducing the public quota from 3.5 million to that which was finally allocated and balloted, 3.08 million? Was the board told about this fall? If not, why not?

Mr O'CONNOR: I am happy to take that question. I guess the question is: Who is responsible for reducing it? I guess probably another way of looking at it is, Who is responsible for building up the figure in the first instance? Ticketing operations were the technical side of the ticketing and they effectively did a lot of the initial work in terms of tickets available for the public quota. In terms of who was responsible of 3.5 million or 3.1 million, the answer lies in how the process works in terms of how the tickets were organised in the first instance. What we found over the last three weeks, and they were pretty intensive weeks, is that ticketing is a very complex process. We have tried to outline in chapter 5 the details of how those figures were actually put together. You will note from there the various requirements, such as the requirements under the Olympic Charter and the requirements of various groups and individuals.

The 3.5 million figure was what we have found to be an error in terms of how it was being communicated and in fact 3.1 million was the figure on 31 August when the ballot was run. In terms of were the figures ever in the ballot or whether they were out of the ballot, I believe my colleague John Shirbin has already spoken to, that we did not find any evidence during the period from May to August that any premium tickets were taken out of the public offer process. The responsibility in terms of setting those figures is contained in our findings. Again I refer you to the executive summary, which you will see there that effectively those decisions were taken at a middle management level within SOCOG.

The Hon. PATRICIA FORSYTHE: I may be paraphrasing you slightly, but in your opening statement you made the statement, "There was no reliable paper trail in relation to one aspect." Then I think the words you said were, "Therefore, it was not susceptible to audit." Broadly in relation to audit, if this were a public company, would you have to qualify your audit?

Mr O'CONNOR: It would be dependent on what I was having to give an opinion on. Looking at the controls, we would certainly be looking to raise and we have raised in our report the issue of controls. It would be dependent on what we have been asked to give an opinion on. We recognise the fact that inventory and ticket inventory is a very complex process and we have recommended, you will note as our last recommendation, the need to have an audit carried out of the various quotas.

CHAIR: On page 41 section 7.8 it refers to a board minute of 19 June 1998, which stated in part that no sales of Stadium packages to competitors of IOC or SOCOG sponsors. From your review can you tell us whether any premium packages have been sold to competitors of IOC or SOCOG sponsors? If so, what would be the implications for a breach of such a guideline that had been laid down by the board?

Mr O'CONNOR: John Shirbin can correct me if I am wrong, but we have not seen a detailed listing of those IOC sponsors or SOCOG sponsors. So, we would not be in a position to give an opinion on that in terms of whether it has actually happened. In relation to if the contract exists, I would refer to my colleague on my right-hand side in terms of legal advice and how you would have to deal with it from a contractual point of view.

CHAIR: So you were not provided with a list of sponsors?

Mr SHIRBIN: No, we have not seen a list of sponsors, either the IOC or the Australian.

CHAIR: Do you not think that was part of your audit, part of your review?

Mr SHIRBIN: What was not possible for us was to audit all of the precommitment of SOCOG. It was not possible to audit all of the commitments under rule 66. For example, a lot of the commitments to the IOC are imprecise; they are ruled by precedent, they are non-specific, they are negotiated. Part of the problem is that it is very difficult to monitor whether the negotiation of those entitlements is being done conservatively or aggressively. It is not possible for us to audit that. As to the sponsor contracts, we have not had access to them; they are confidential to SOCOG. But in the limited time we had, we took the view that it was not possible to do an audit of all the precommitments. We had to concentrate on the public ballot and the premium quotas.

The Hon. J. R. JOHNSON: In your view were any tickets taken out of the public quota for use in premium packages?

Mr O'CONNOR: I am happy to take that question, Mr Chairman. As we have said already, we found no evidence and, if I may, I will go into a little bit of the detail on how we were able to conclude on that item. We found no evidence that tickets were taken out of the public quota during the period of the public offer or/and the running of the public ballot. How we were able to conclude on that matter was that we sought and received backup computer files from the outside organisation which SOCOG uses as a backup facility for its computer disks.

We applied expertise within Deloitte, computer audit expertise, to interrogate those files and track the movements of the premium tickets against the public quota offer. Based on that information we concluded that we have not observed any movements from the public quota figures to the premium tickets. However, in our report we state that the very nature of having premium tickets to one side, by definition will have an impact on the public quota. The issue is one of timing.

The Hon. PATRICIA FORSYTHE: You have included on page 43 under the heading "Press Releases and Memos" a memo dated August 1998. One could draw the inference that there was clearly discussion which seems to involve a memo from Paul Reading to the Minister, John Coates and Graham Richardson that they would draw the necessary tickets from the public allocation in order to develop the additional packages. It seems to me that in August there was a suggestion that there was an understanding that you could take tickets.

Mr O'CONNOR: That is August 1998. The ballot was run between May 1999 and August 1999.

The Hon. PATRICIA FORSYTHE: Is there any evidence that this memo was acted on?

Mr SHIRBIN: In the last sentence you will see that it is not clear. We put that section in for completeness, because, obviously, the words are so relevant to the issue we were looking at. A number of the people we interviewed said that the proposals were not acted on and those movements of tickets never occurred.

The Hon. Dr P. WONG: You mentioned in your report that some premium packages were sold up to 6.2 times the face value with an average mark-up of 2.6. Are you satisfied that proper criteria has been applied to those packages, or has favouritism been given to certain people?

Mr O'CONNOR: We did not see any evidence that favouritism had been applied, except for the fact that those people were aware of how to apply for those tickets in the first instance. In terms of the pricing range we did not see any evidence of favouritism being applied.

CHAIR: In your report, section 7.21, mentions mark-ups. It states "(only one staff member has been involved full-time in the selling of tailored Premium Packages)", which you acknowledge as a very important part of the review. Does that appear strange? Who was that one staff member?

Mr O'CONNOR: If you look at section 7.16 on page 46 we mention the manager, Selina Herlihy, and the work that she was doing. She was that one staff member. Again, it was put to us that it was a timing issue as well. Again, that probably reflects the level of resource that was applied.

The Hon. C. J. S. LYNN: Given that the purpose of this Committee and its process is to restore public confidence in the organisation and management of the Games, I am concerned about how this word of mouth system operated. Did you find any evidence of who the word of mouth was that identified the companies? Did the companies come to SOCOG through word of mouth? Were there any records of verbal conversations in this word of mouth process? In your view, was it the most effective way of maximising the revenue for the sale of premium tickets?

Mr O'CONNOR: We talk in one of our findings of the need to develop performance indicators so one can assess the performance of the sale of premium packages. I draw your attention to 7.15 on page 45 of our report, which talks about the referral process. From there you can read that they were number of sources of referrals of respective purchasers of tailored premium packages, including from some board members. Prospective purchasers were referred to Paul Reading, who would instruct his staff to follow up on referrals. In some cases Paul Reading would pass a hand-written note, with a name and a number, to the relevant staff. The files of Selina Herlihy contain several hand-written notes and references from and to Paul Reading. Paul Reading told the review that he did not keep in his files a written record of referrals received by him.

The Hon. P. T. PRIMROSE: Before the public ballot allocation did any board member, including the chief executive officer, know the complete breakdown of session by session quotas?

Mr SHIRBIN: All the evidence to us is that no board member or the chief executive officer knew the breakdown, session by session, or the total. Indeed, it is quite possible that Mr Reading did not know. The decision was made at a lower level.

The Hon. A. B. KELLY: In your opinion what impact did the poor performance of the stadium gold packages and the Olympic Club have on the decision to make public the details of the premium packages?

Mr O'CONNOR: In terms of the impact of the relatively limited success of the stadium gold packages, we have referred to that in our report at section 5.4 on page 15. Again, a reading of that would indicate that because of the relatively limited success of the prospectus for the Stadium Australia process, combined with other issues such as the limited success or otherwise of the Olympic Club, there were reasons that focused and provided the board and the management team with a greater focus on the revenue and pricing issues as opposed to the inventory and quantum issues.

The Hon. PATRICIA FORSYTHE: To help me understand where the process might ultimately go, could you outline the role of Dr Richmond and Mr Sloman in relation to your work in the review team?

Mr SHIRBIN: David Richmond and Jim Sloman from SOCOG were what is called a joint directorate; they met a number of times during our review in the nature of a quality control process. They stood back from the process and assessed whether the methodology that was being followed was correct or whether our conduct followed the preset methodology. Anna McNicol sat in on those sessions. We would have had four or five meetings with the joint directorate during the three weeks.

The Hon. PATRICIA FORSYTHE: You said that there was obviously no obstruction from SOCOG. What does quality assurance or quality control mean? Did they seek to give you advice on where information may be found or who you should interview?

Mr SHIRBIN: No. The accessing of all the information of all the people we interviewed and all the inquiries we made were at our instigation.

The Hon. PATRICIA FORSYTHE: What do you mean by the quality assurance process?

Mr O'CONNOR: Oversighting the project plan—and I believe that a copy of the project plan was made available to the Committee—and oversighting the time frame. You will note that we needed an extension of time, given the intensity of the work. But to perhaps answer your question in another way, we made it very clear on day one, and we put on the record, that our review was an independent and objective review and that it was our review, not the joint directorate's review.

CHAIR: Section 7.10 on page 42 contains a quote from a document entitled "SOCOG Distribution Policy", as follows:

If directly asked, SOCOG will reveal Premium Packages, but will only reveal general details—telephone number will be provided should people wish to call for more details.

Does that seem to you to be a transparent operation, or is that a degree of secrecy which has created some of the problems or the mistrust in the community?

Mr O'CONNOR: We have raised in the executive summary and also detailed in the report the issue of transparency. I would draw your attention to one of our principal findings, which is principal finding listed (e). We have said:

The primary focus of the board of management in relation to ticketing has been a need to raise revenue from ticketing sales. This has contributed to the lack of transparency.

Over the page we talk about the need to have that comprehensive policy in relation to ticketing and the need to make sure that that has been communicated. So we did see an issue in transparency, and we have raised it in our report.

CHAIR: What do you think SOCOG should do now—put advertisements in the

newspaper saying "This is our ticketing policy"? How does the public learn what is this new, transparent method of handling tickets?

Mr O'CONNOR: I am afraid that was not the subject of our scope or brief. As to what SOCOG does now, I would hope—and I am sure John would hope—that they read our recommendations carefully and that they go forward on that basis. But I cannot speak for what SOCOG will do now.

The Hon. Dr P. WONG: I draw your attention to section 7.17 on page 46. The column headed "Individuals" shows that 13 people purchased 819 tickets, that is, an average of 63 tickets per person. From your comments, some of them paid between zero and three times their face value for premium packages. Firstly, do you know who these people are, and secondly, is it a little unusual that premium packages sell at face value?

Mr O'CONNOR: Under 7.16 we say:

In three of the tailored Premium Package deals, the tickets were sold at face value. In two of these deals, SOCOG was contractually obliged to provide the tickets to the purchaser pursuant to a separate contract under which the purchaser provided services to SOCOG.

I would also refer you to the bottom of page 46, which states:

The Review has not disclosed the names of the purchasers referred to in the above table for privacy and SOCOG's commercial reasons.

I do understand, however, that the Committee is looking, through a separate process, to address that particular matter.

CHAIR: And those names have been made available to the Committee for us to examine?

Mr O'CONNOR: That is my understanding.

The Hon. C. J. S. LYNN: The separation of power and responsibility in regard to board and management has evolved since the Industrial Revolution, I suppose.

The Hon. J. R. Johnson: Charlie, ask the question, will you? We continue to get these preambles.

The Hon. C. J. S. LYNN: I will ask the question, and you will get the preamble. So just listen; you might learn something. It has evolved since the Industrial Revolution—

The Hon P. T. Primrose: So we are back to the Industrial Revolution?

CHAIR: We are running out of time; we need concise questions.

The Hon. C. J. S. LYNN: I want to preface the question. If you will just be quiet and let me get on with it. I know you have got a vested interest in hiding what has been going on—

The Hon. J. R. Johnson: Mr Chairman, I object to that statement. We have no vested interest in hiding anything.

The Hon. C. J. S. LYNN: Well, be quiet and let me ask the question then.

The Hon. J. R. Johnson: Ask the question.

The Hon. C. J. S. LYNN: I will, if you shut up.

The Hon P. T. Primrose: Either that is withdrawn, Mr Chairman—

CHAIR: You must control yourself at this Committee hearing.

The Hon P. T. Primrose: How about withdrawing the allegation?

The Hon. C. J. S. LYNN: This separation of powers is very important. A lot of the management matters to which you refer in your report are, I would have thought, self-evident. We have the experience of Atlanta, the IOC, and the establishment of SOCOG to get the best management brains in the country, and yet when we need something that is worth \$35 million we revert to a word-of-mouth policy. Did you address in your report the need to re-establish that separation between management and board, and also because the taxpayer is carrying the risk, if you like, between board and government?

Mr SHIRBIN: Yes, we have highlighted that the board failed to make a comprehensive policy in relation to ticketing, and the most glaring spot was in relation to the tailored premium packages. Its role was to make that policy. We then had failures compounded by the lack of checks and balances within the management system and, in the case of tailored premium packages, not just lack of checks and balances but a lack of total transparency at all. So the position is highlighted, and clearly it is not acceptable.

The Hon. J. R. JOHNSON: How and why were Olympic opportunity tickets included in the public ballot?

Mr O'CONNOR: I would direct your attention to 6.7, which talks about Olympic opportunity tickets, and 6.5, which deals with the running of the ballot. You will note that at the end of 6.5 on page 24 we have noted:

Incorrectly included in the quota file were 51,975 Olympic Opportunity tickets for various events which could never have been sold through the ballot process because they were not offered for sale in the Ticket Book. They were intended to be sold at a later time as part of the Olympic Opportunity program. At the request of Michael Knight, Arthur Andersen provided the following reconciliation . . .

So this is a reconciliation in those figures. You can see there that in one instance there were Olympic opportunity tickets, but that is because there were only Olympic opportunity tickets available full-stop for that particular sport or event. You need to turn to the definition of "Olympic Opportunity" which we have included, and I acknowledge that in looking at ticketing one of the challenges is to have a glossary of terms. The term "Olympic Opportunity" means:

tickets to approximately 17 of the 28 sports priced between \$10 and \$19, intended to enhance community access to Games events.

One of the issues is that, depending on the sport or the event, the only tickets that are available are tickets within that price range. That is why we needed to include some of those tickets in the public ballot; otherwise you would not have had tickets available for sale in every event and session.

CHAIR: Page 49 contains the following statement made by you:

Paul Reading decided that he would not report on, nor seek Board approval regarding, the number or type of tickets that were being sold under the tailored Premium Package program.

Is there any explanation as to why, or did Paul Reading not trust the SOCOG board that it would reveal the information?

Mr O'CONNOR: I draw your attention to a meeting held on 6 September between Paul Reading and the internal auditors. Section 6.9 on page 34 states:

The Review was told by Arthur Andersen that at the meeting on 6 September 1999, Paul Reading informed them that no approval would be obtained from the Board, as the Board was not aware of the ticketing allocations and was not going to be made aware. Arthur Andersen said that the reason given to them by Paul Reading was that the Board "leaked like a sieve" and that the information was too commercially sensitive for them to be trusted with it.

We put that to Mr Reading and he expanded his response in the sense that at that time he did not believe that the amount of tickets available to the public at the end of the day, that is, when the total amount of tickets are allocated both through the public offer process and subsequently through any other offer processes, will be under the \$3.5 million figure.

CHAIR: Mr Reading did not indicate whether it was one or more people in the board to whom he was referring?

Mr O'CONNOR: He did not indicate whether it was on an individual basis or the board collectively as a whole.

The Hon P. T. PRIMROSE: In relation to your comments that you read out earlier about the internal auditors, can you say when you believe the internal auditors were aware of the number of tickets in the ballot? When did they advise the board? Do you regard that practice as being acceptable for what occurred?

Mr O'CONNOR: I draw your attention to the last finding on page 38 which is finding 13 on the public offer and public policy process which states in relation to internal auditors:

The internal auditors did not obtain the Board sign-off on the public quota in the ballot as required by their terms of engagement. In the Review's opinion, the internal auditors should have obtained such a sign off prior to the running of the ballot or, failing that, immediately thereafter. On finding no such sign off was forthcoming, they adopted the alternative procedure of including reference to the number of tickets in the ballot in their report to the Board dated 1 October 1999. After the sign off was refused to them at the meeting with Paul Reading on 6 September 1999—

that is the meeting I have just referred to—

had the internal auditors immediately reported this to the Audit Committee and Sandy Hollway, this would have put the Committee and Sandy Hollway on notice of the lower public ballot quota. The internal auditors were not responsible for ensuring that any particular number or mix of tickets were included in the public ballot. That was the responsibility of Ticketing senior management and the Board.

CHAIR: Did the internal auditors fail in their legal requirements?

Mr O'CONNOR: I have not said that.

Mr SHIRBIN: They did fail to satisfy the terms of their engagement.

CHAIR: That magnified the problem down the line in that the board was not aware—

Mr SHIRBIN: Yes, compounded the chain of events that led to the problem.

The Hon. PATRICIA FORSYTHE: Throughout the report you have referred to inadequate documentation at different times. In view of that, how confident can sponsors be that their needs and interests have been properly looked after by either the board or the staff of SOCOG?

Mr O'CONNOR: In terms of the sponsors and for that matter everybody else, I would draw your attention to the principle findings where we do talk about the documentation, and then draw your attention to the recommendations on page 3. We talk about the need to have documentation. We talk about the need to have regular reporting which includes reporting on those controls, and that would ensure that the appropriate stakeholders have the confidence in the process, and that will include the documentation and their interests.

CHAIR: Unfortunately that brings us to the end of the scheduled time for this hearing. Some members of the Committee have indicated they wish to move, once you have left, to call you back again. I put you on notice that that almost certainly will be required at a convenient time for the Committee and for you. Thank you for your appearance, your co-operation and the detailed report that will greatly assist our Committee in its work. Your efforts and those heavy periods which you have been working are all appreciated.

(The witnesses withdrew)

(The Committee adjourned at 6.03 p.m.)

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