



Government  
of South Australia

# Report of the Auditor-General

February 2016

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of the *Adelaide Oval Redevelopment and Management Act 2011*

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Report on the Adelaide Oval redevelopment pursuant  
to section 9 of the *Adelaide Oval Redevelopment  
and Management Act 2011* for the designated  
period 1 July 2015 to 31 December 2015

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Dear President and Speaker

**Report of the Auditor-General: February 2016: Report on the Adelaide Oval redevelopment pursuant to section 9 of the Adelaide Oval Redevelopment and Management Act 2011 for the designated period 1 July 2015 to 31 December 2015**

Pursuant to section 9 of the *Adelaide Oval Redevelopment and Management Act 2011* (the Act), I present to each of you a copy of my report - 'Report of the Auditor-General: February 2016: Report on the Adelaide Oval redevelopment pursuant to section 9 of the *Adelaide Oval Redevelopment and Management Act 2011* for the designated period 1 July 2015 to 31 December 2015'.

As Parliament is not sitting at the time of submission of this report, section 9(8) of the Act provides that this report will be taken to have been published under section 9(6)(a) of the Act at the expiration of one clear day after the day of receipt of this report.

**Acknowledgements**

The audit team for this Report was Salv Bianco, Philip Rossi, Martin Diegmann and Maxine Zucco.

I also express my appreciation for the cooperation and assistance provided by the Department of Planning, Transport and Infrastructure staff during the course of the audit.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson'.

Andrew Richardson  
Auditor-General



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# **Report on the Adelaide Oval redevelopment pursuant to section 9 of the *Adelaide Oval Redevelopment and Management Act 2011* for the designated period 1 July 2015 to 31 December 2015**

## **1 Executive summary**

### **1.1 Introduction**

This is the ninth Report to the Parliament on the Adelaide Oval Redevelopment project.

On 29 September 2011 the *Adelaide Oval Redevelopment and Management Act 2011* (the Act) came into operation. It incorporates requirements for the financial management of the Adelaide Oval Redevelopment project and the financial supervision and reporting for the project by the Auditor-General. This ninth Report, consistent with previous Reports, discharges the requirements of the Act. It follows Reports of:

- 29 February 2012
- 30 August 2012
- 28 February 2013
- 30 August 2013
- 28 February 2014
- 29 August 2014
- 27 February 2015
- 31 August 2015.

In addition to the specific reporting obligations of the Auditor-General pursuant to section 9 of the Act, the Auditor-General has other responsibilities under the Act. These include:

- pursuant to section 9(3) of the Act, to audit the accounts of the Adelaide Oval SMA Limited (AOSMA) and include a report on that audit in the Auditor-General's Annual Report to Parliament
- pursuant to section 6 of the Act, to audit the accounts of the sinking fund established by AOSMA and report to the Parliament if necessary on its operations.

The Auditor-General's obligations and responsibilities under the Act are additional to those responsibilities pursuant to the *Public Finance and Audit Act 1987* (PFAA) to audit the financial operations of the public authorities that have or had involvement in the Adelaide Oval Redevelopment project. These include the Department of Planning, Transport and Infrastructure (DPTI), the Department of Treasury and Finance (DTF) and the South Australian Government Financing Authority (SAFA).

### **1.2 Structure of the Report**

This Report provides an executive summary of the matters arising from the audit for the three reporting terms of reference provided for in the Act.

Following this executive summary, I have provided my substantive Report in three sections, which correspond to the three terms of reference. In addressing each term of reference I have provided an overview of my understanding of, and the approach taken to address, each term of reference and the outcome of my audit. I have also provided comment on matters that I consider should be brought to the attention of the Parliament.

### **1.3 Requirements of the Act relevant to this Report**

The Act limits the amount of State Government money that may be made available or expended by the responsible Minister, or other entity acting on behalf of the State, on the Adelaide Oval Redevelopment project. The Act limits the appropriation of monies to be made available and expended with respect to the project to \$535 million during the period from 1 December 2009 to 1 December 2019. The Commonwealth Government and the Australian Football League (AFL) have also made available funds for application to the project as discussed in section 5.3 of this Report.

Section 9 of the Act provides for financial supervision of the Adelaide Oval Redevelopment project by the Auditor-General. It requires the Auditor-General to report to the Parliament on what is considered are three terms of reference, for each six month period, beginning on 1 January and 1 July in each year.

I provide below some commentary to explain the audit approach that I have taken in addressing the terms of reference and reporting on them.

### **1.4 Comment on the terms of reference**

The terms of reference for the Auditor-General's supervision and reporting on the financial management of the Adelaide Oval redevelopment incorporate certain unique provisions.

The Auditor-General is required by the Act to report on the extent to which money appropriated has been made available or expended on the Adelaide Oval Redevelopment project within the \$535 million limit specified by the Act.

In considering this term of reference I note that, within the South Australian jurisdiction, public money may only be made available through an appropriation process which provides Parliamentary authorisation for the application of money from the Consolidated Account. While it is a necessary first step, the appropriation process in itself does not make funds available to agencies. Indeed, money will only be available for expenditure by agencies when agencies draw down appropriation funding from the Consolidated Account and both agencies and officers of DTF exercise some discretion in determining if, and when, appropriation funding is drawn down.

For this reason, in considering and reporting on this matter, money has been recognised as made available when it has been paid from the Consolidated Account to relevant agencies' special deposit accounts. Money has been considered to be expended when the entity holding the money has disbursed the money and not on an accrual basis. This basis of recognising money expended reflects a common definition of expended as paid out, disbursed or spent.

To determine the funds that have been made available and expended within the approved limit, as at the end of the current designated period, consideration is given to both the financial activity for the redevelopment project in the current designated six month period ended 31 December 2015 and before the commencement of the period.

While not required by the Act to do so, for completeness of accountability, I also report on the money received from the Commonwealth Government and the AFL and made available or expended on the project.

The terms of reference are also unusual because they require the Auditor-General to both prepare and review financial information, for relevant reporting, from financial and accounting records maintained by agencies and other entities. This contrasts with the established audit process, reflected in the PFAA, which requires agencies to prepare financial reports that conform with the Treasurer’s Instructions and Accounting Policy Statements and Australian Accounting Standards, and requires the Auditor-General to perform audits and provide Independent Auditor’s Reports with respect to the agencies’ financial reports.

The Auditor-General’s capacity to respond to the requirements of the Act is supported by the provisions of the PFAA which empower the Auditor-General to require parties to provide information and explanations and obliges the parties to respond to the Auditor-General’s requests. Notwithstanding these powers, in preparing the financial information for this Report, the Auditor-General places reliance on financial systems and records that are designed and managed by agencies for their own purposes and which may not, in all respects, align with the Auditor-General’s requirements in responding to the Act. Also agencies have a necessary role in preparing this information and providing it to the Auditor-General. Further, we are not engaged in the day-to-day management of the Adelaide Oval redevelopment and, consequently, we are not able to bring to this task the immediate level of corporate knowledge that agency staff bring to the preparation of financial information for audit.

**1.5 Approach to the review and preparing this Report**

In preparing this Report, as required by section 9 of the Act, we have sought to identify relevant documentation and other information, and subject this documentation and other information to review. Where appropriate and as required, further documentation and information has been sought to enable us to address the requirements of the Act.

Consistent with established audit practice, this review has considered a sample of transactions and associated documentation and other information. The matters addressed in this Report reflect our understanding of the documentation and other information considered at the time of preparation of this Report. As noted in previous Reports, subsequent reviews build on the knowledge and understanding gained in preparing these Reports and the follow-up of matters arising from completed Reports.

**1.6 Executive summary of response to the terms of reference**

With respect to the first term of reference, on the basis of information obtained and reviewed to date, the money made available and expended against the authorised limit of \$535 million was:

	01.12.09 to 30.06.15 \$’000	01.07.15 to 31.12.15 \$’000	Total to 31.12.15 \$’000
Money made available	535 000	-	535 000
Money expended	524 469	2 282	526 751

With respect to the second term of reference, on the basis of information obtained and reviewed to date, the state of the public accounts that are relevant to the redevelopment of Adelaide Oval envisaged by the Act was satisfactory.

With respect to the third term of reference, on the basis of information obtained and reviewed to date, except for the matters detailed in sections 4.2.1, 4.2.2.4 and 4.2.3 of this Report, we have not identified any other matters that would indicate the public money made available and expended for the purpose of and in connection with the redevelopment of Adelaide Oval envisaged by the Act was not managed and used properly and efficiently.

## **2 Term of reference one**

Section 9(1)(a) of the Act requires the Auditor-General to report on:

*the extent to which money has been made available or expended within the \$535 million limit specified by this Part during the designated period.*

This term of reference requires the Auditor-General to obtain information about the Adelaide Oval redevelopment from the financial records and accounts of both public authorities and other entities. When read in the context of section 8 of the Act the term of reference requires consideration of whether public money, which in the context of the South Australian public sector is money appropriated from the Consolidated Account, has been made available and has been expended on the redevelopment of Adelaide Oval.

As discussed in section 1.4 of this Report, money is considered to be made available when it has been appropriated and has been drawn down from the Consolidated Account.

As further discussed in section 1.4, money is considered to be expended when the entity holding the money has disbursed the money and not on an accrual basis.

### **2.1 Approach to preparing information for the Report**

When preparing the financial information required to respond to this term of reference consideration was given to authoritative documentation including the Treasurer's Budget Papers, Cabinet submissions and relevant agencies' financial records and accounts.

We have also considered specific financial information relevant to this designated reporting period obtained by us from AOSMA. The Auditor-General assumed responsibility for the audit of the operations and accounts of AOSMA from 1 July 2011 on proclamation of the Act.

Information prepared by us was confirmed through discussion with relevant agency staff and by seeking written confirmation from relevant agency chief executives.

### **2.2 Summary of money made available and expended within the \$535 million limit to 31 December 2015**

With respect to the first term of reference, on the basis of information obtained and reviewed to date, the money made available and expended against the authorised limit of \$535 million was:

	01.12.09 to 30.06.15 \$'000	01.07.15 to 31.12.15 \$'000	Total to 31.12.15 \$'000
Money made available	535 000	-	535 000
Money expended	524 469	2 282	526 751

The Appendix to this Report provides a more detailed analysis of money made available and expended within the \$535 million limit to 31 December 2015.

### 2.2.1 Main items of expenditure

The following briefly describes the principal items of expenditure incurred on the Adelaide Oval redevelopment for the period from 1 December 2009 to 30 June 2012 and the six-monthly periods thereafter to 31 December 2015.

#### *Period 1 December 2009 to 30 June 2012*

- Payments to extinguish the South Australian Cricket Association Incorporated (SACA) loan facility with the Treasurer – \$85 million.
- Grant to AOSMA to undertake preliminary design work – \$5 million.
- Payments to the principal construction contractor – \$55 million.
- Payments to a utility company – \$2.6 million.
- Ex gratia payments to SACA and the South Australian National Football League (SANFL) – \$2 million.

#### *Period 1 July 2012 to 31 December 2012*

- Payments to the principal construction contractor – \$82 million.

#### *Period 1 January 2013 to 30 June 2013*

- Payments to the contractor undertaking Western Grandstand upgrade works – \$3.5 million.
- Payments to the principal construction contractor – \$106 million.

#### *Period 1 July 2013 to 31 December 2013*

- Payments to the contractor undertaking Western Grandstand upgrade works – \$7 million.
- Payments to the principal construction contractor – \$124 million. Payments to the contractor included a \$2.5 million bonus payment for meeting revised project milestones enabling the second 2013 Ashes Test match to be played at the Adelaide Oval from 5 December 2013 to 9 December 2013.

***Period 1 January 2014 to 30 June 2014***

- Payments to the principal construction contractor – \$7.7 million. Payments to the contractor included a \$2.5 million bonus payment for meeting project milestones to enable AFL matches to be held at the Adelaide Oval. The payments also included an acceleration payment of \$600 000. The Minister approved this payment in February 2014 to achieve practical completion on 19 March 2014.

***Period 1 July 2014 to 31 December 2014***

- Payments to the principal construction contractor – \$3.3 million.
- Payments to AOSMA for reimbursement of construction costs – \$1.3 million.

***Period 1 January 2015 to 30 June 2015***

- Payments to the principal construction contractor – \$331 000.
- Payments for other expenses – \$84 000.

As previously reported, the majority of works relating to the Adelaide Oval redevelopment were completed upon achieving practical completion and handover to AOSMA in March 2014. The primary activity undertaken by the principal construction contractor in relation to the project during this period was the rectification of defects. The status and management of defects is further discussed in section 4.2.3 of this Report.

***Period 1 July 2015 to 31 December 2015***

- Payments to AOSMA for the reimbursement of costs – \$2.2 million.
- Payments for other expenses – \$65 000.

The payments made to AOSMA include \$1.8 million for reimbursement works undertaken by AOSMA pursuant to a Deed of Grant. This is further discussed under section 4.2.2.4.

**2.2.2 Overview of the project funding, expenditure and contingency**

**2.2.2.1 Status of money available to complete the project**

The table below summarises the position status of money available to complete the project as at 31 December 2015.

	\$'000
Money made available	<u>535 000</u>
Money expended	<u>526 751</u>
Money available to complete the project	<u>8 249</u>

**2.2.2.2 Status of the project contingency**

Previous Reports have included commentary on the reporting and monitoring of project development costs. The contracted cost consultant has a principal responsibility to prepare relevant financial information on the project development for the Project Control Group (PCG). The PCG was established to oversee the project and comprises representatives of DPTI, AOSMA, SACA and the SANFL.

As highlighted in section 4.2.1.2 no financial statement reports were presented to the PCG during the designated reporting period. The most recent report prepared by the cost consultant (the financial statement report as at 31 December 2015), which is expected to be presented to the PCG in February 2016, indicated that the remaining uncommitted project contingency as at 31 December 2015 was \$5.862 million.

Our review of the financial statement reports prepared by the cost consultant (ie the reports as at 30 June 2015 and 31 December 2015) noted that there was a lack of evidence to support a number of the specific items recognised as committed works (which have yet to be expended) that have been allocated against the uncommitted project contingency.

This matter was raised with DPTI who advised they would investigate the items and take appropriate action.

### **2.2.2.3 Status of variation/final claims**

In preparing the last Report, we noted that in April 2015 the principal construction contractor submitted a final payment claim. The claim was assessed by the cost consultant and project manager. It was noted however that, as recommended by the project manager, DPTI has withheld payment of the final claim, which is in the order of \$200 000, until all outstanding defects are resolved.

Our review for the current designated period found that some outstanding defects have yet to be resolved and DPTI has continued to withhold payment of the final claim.

The status of defects is further discussed in section 4.2.3 of this Report.

## **3 Term of reference two**

Section 9(1)(b) of the Act requires the Auditor-General to report on:

*the state of the public accounts that are relevant to the redevelopment of Adelaide Oval envisaged by this Act.*

This term of reference requires the Auditor-General to evaluate the state of the public accounts that are relevant to the Adelaide Oval redevelopment. The Act defines public accounts in the same terms as the PFAA:

**public accounts** means the Consolidated Account, special deposit accounts, deposit accounts, accounts of money deposited by the Treasurer with SAFA, imprest accounts and all other accounts shown in the general ledger.

In this context the general ledger is the Treasurer's ledger.

In evaluating the state of the public accounts I have understood the term 'state' to mean both the financial position and condition, circumstances or attributes of the public accounts. Specific matters considered in evaluating the state of the public accounts have included whether the public accounts have been operated lawfully in accordance with the requirements

of the PFAA and associated Treasurer's Instructions. I have also considered whether the public accounts have been operated in a way that supports my reporting on the extent that:

- money was made available or expended within the \$535 million limit
- public authorities have properly and efficiently managed and used money made available within the \$535 million limit.

### **3.1 Approach to evaluating the state of public accounts relevant to the Adelaide Oval redevelopment**

As I have indicated in my response to the first term of reference, we have sought, by inquiry directed to relevant agency staff, to identify the accounts through which public money has been made available or expended within the \$535 million limit authorised by the Act.

Having identified the public accounts relevant to the redevelopment of the Adelaide Oval, we have ascertained an understanding of the financial systems, records and controls used by the agencies to process and control the expenditure of money in connection with the redevelopment of the Adelaide Oval. In evaluating the state of the public accounts we have considered whether the:

- purpose of the agency accounts, which are special deposit accounts established pursuant to section 8 of the PFAA, was consistent with their use to record and control expenditure on the redevelopment of the Adelaide Oval
- detailed records used by the agencies supported both my reporting pursuant to the Act and the agencies' effective management and control of the activity.

In evaluating the public accounts we have also considered matters that were identified by ongoing audit of the agencies' financial systems and records and the impact of these matters on the assessment of the state of the public accounts required by the Act.

### **3.2 Findings with respect to term of reference two**

The financial activity associated with the Adelaide Oval redevelopment from 1 December 2009 to 31 December 2011 involved the public authorities of DTF, SAFA and DPTI. During the period 1 January 2012 to 30 June 2012 SAFA's substantive involvement ceased.

Audit inquiries have confirmed that the public accounts relevant to the designated review period 1 July 2015 to 31 December 2015 was the Adelaide Oval Redevelopment special deposit account.

The usage of the accounts changed for the redevelopment project as responsibility for governance of the redevelopment was amended and DPTI assumed primary responsibility for the redevelopment. The Adelaide Oval Redevelopment special deposit account was established in June 2012 as a result of an audit recommendation made in the first Report.

With respect to term of reference two, on the basis of information obtained and reviewed to date, we have not identified any matters that would indicate the state of the public accounts was not satisfactory.

As outlined in the fourth Report, we completed a focused review of management reporting of project costs. While the review did not identify any major shortcomings, some matters for improvement were raised with DPTI and a detailed response was received. Our review for subsequent reporting periods and the current period gave focus to following up action taken by DPTI to address these matters. This follow-up is discussed in section 3.2.2 of this Report.

### **3.2.1 Maintenance of the Department of Planning, Transport and Infrastructure's detailed project ledger**

DPTI (the public authority responsible to the Minister for Transport and Infrastructure) has project governance authority and responsibility for the Adelaide Oval redevelopment. As such DPTI has a responsibility to maintain adequate records of project expenditure including a detailed project ledger.

Audit inquiry and testing performed for the current designated reporting period confirmed that DPTI procedures have generally ensured expenditure on the Adelaide Oval redevelopment was correctly recognised in the nominated project ledger account. While not material in nature, our review in a previous reporting period noted certain matters that may impact on DPTI's capacity to effectively monitor actual expenditure for the redevelopment against the statutory limit of \$535 million. In preparing this Report, we followed up these matters. The main outstanding matter arising from the follow-up audit was communicated to DPTI in February 2016. The matter and DPTI's response is summarised below.

### **3.2.2 Management reporting of project costs**

Previous Reports have emphasised the obligation for DPTI to ensure rigorous cost supervision over the Adelaide Oval Redevelopment project. This recognised the significance of the project and the statutory expenditure limit of \$535 million applied to the project. This obligation also requires quality cost management arrangements for the reporting of timely, complete and relevant costing information and should continue as the project progresses to completion and financial close out.

In August 2013 we finalised a review of project reporting arrangements established to monitor the progress, key deliverables and costs of the project. The review considered aspects of the reporting arrangements between the main parties for the project including DPTI, the PCG, the project manager, the principal construction contractor and the cost consultant. The scope and findings of the review were communicated in the fourth Report to Parliament.

The review identified certain matters for improvement which were communicated to DPTI. These matters have been subject to ongoing review in prior and current designated reporting periods.

#### **3.2.2.1 Reliability of information used to monitor the project**

A particular matter that was noted for improvement was the processes in place to ensure the reliability of information used to monitor the project. This involved the reconciliation of project cost information between the records of DPTI and the cost consultant.

Our review for the previous designated reporting period noted that project cost information recorded in the job cost ledger continued to be provided to the cost consultant. Further, we were advised that the cost consultant had completed a reconciliation as at 30 June 2014 and that DPTI had yet to formally review the reconciliation for reasonableness, including some discrepancies that were referred to DPTI for review and clarification.

The extended time taken to address this matter was communicated to DPTI who advised that it was continuing to work with the cost consultant to reconcile any discrepancies and the financial position of the project.

Our review for the last period included follow-up of progress made by DPTI in addressing the issue. In our last Report we reported that we could not locate any evidence of reviews of reconciliations performed by DPTI. We were advised that DPTI was seeking an updated financial statement report as at 30 June 2015 from the cost consultant, which will be reconciled to the DPTI record of expenditure (as derived from the job cost ledger). Further, we were advised that this reconciliation will be reviewed for reasonableness.

Our follow-up for the current designated period found that:

- the cost consultant provided DPTI with the updated financial statement report as at 30 June 2015 in October 2015
- DPTI was in the process of undertaking a final reconciliation of the financial report as at 30 June 2015 to the DPTI record of expenditure as derived from the job cost ledger.

We recommended that DPTI complete the reconciliation as at 30 June 2015 as soon as practical. Further, we highlighted the need for DPTI to ensure any discrepancies identified from the reconciliation process are appropriately actioned and resolved.

In response, DPTI advised it will work with the cost consultant to complete the reconciliation as at 30 June 2015 and take appropriate action to resolve any identified discrepancies.

#### **4 Term of reference three**

Section 9(1)(c) of the Act requires the Auditor-General to report on:

*the extent to which it appears that public money made available to any entity, including an entity that is not a public authority, for the purposes of, or in connection with, the redevelopment of Adelaide Oval envisaged by this Act has been properly and efficiently managed and used during the designated period.*

This term of reference requires the Auditor-General to express an opinion on whether the management and use of public money by an entity and for the purposes of, or in connection with, the redevelopment of Adelaide Oval was proper and efficient.

In responding to this term of reference, the entities identified and considered by us for review in preparing these Reports are DTF, DPTI and AOSMA.

The Appendix to this Report ‘Summary of money made available and expended within the \$535 million limit to 31 December 2015’ shows that DPTI was the only entity that incurred material expenditure, from public monies, during the period from 1 July 2015 to 31 December 2015. Consequently, this Report focuses on the management and use of money by DPTI for the purposes of, or in connection with, the redevelopment of Adelaide Oval. Section 5 of this Report includes comment on expenditure by AOSMA from Commonwealth sourced funds and the balance of the Commonwealth funds, which, as discussed later, do not meet the definition of public money and therefore were not included as funds made available or expended within the \$535 million limit provided for in the Act.

In responding to this term of reference the term ‘managed’ is understood to mean the way money is handled, directed, governed or controlled and the term ‘used’ is understood to mean the way money is consumed or expended.

Assessing whether money has been ‘properly’ managed and used is understood to require an assessment whether that management and use conforms to established standards of financial management practice and behaviour.

In the context of the Act the established standards of practice and behaviour reflect:

- relevant authoritative documentation that is specific to this project, including Cabinet approvals and contractual documentation
- authoritative regulations and guidelines such as the Treasurer’s Instructions and Premier and Cabinet Circulars
- the context of the specific arrangements implemented by relevant entities
- generally accepted standards of financial management practice and behaviour.

Implicit in this discussion is an acknowledgement that, in the context of the Act, the standards of what is proper may differ for entities that are public authorities, such as DPTI which is governed by the Treasurer’s Instructions and the Premier and Cabinet Circulars, and AOSMA, which is not a public authority.

Assessing whether money has been ‘efficiently’ managed and used is understood to require an assessment of whether money was used to progress the Adelaide Oval redevelopment and, more particularly, whether the use of money was:

- necessary in completing the project
- managed to minimise the amount of money committed to achieving the project outcome.

Specific focus is also required to evaluate whether procurement processes, particularly for procurement of contracted service providers, were consistent with established public sector standards.

#### **4.1 Approach to evaluating whether the management and use of money in connection with the Adelaide Oval redevelopment was proper and efficient**

In responding to this term of reference we have sought to identify expenditure by DPTI in the designated period and to understand the nature of that expenditure, including its purpose and the parties to whom money has been paid. Specific matters considered included the arrangements implemented to procure, contract with and manage the service providers who have been engaged to progress the redevelopment.

Consistent with established audit practice this review has considered a sample of transactions and associated documentation and other information. Consequently, the matters addressed reflect our understanding at a point in time based on the documentation and other information considered to that point. Subsequent reviews build on the knowledge and understanding gained in preparing these Reports and follow-up of matters arising from completed Reports.

#### **4.2 Findings with respect to term of reference three**

With respect to term of reference three, on the basis of information obtained and reviewed to date, except for the matters detailed in sections 4.2.1, 4.2.2.4 and 4.2.3 below, we have not identified any other matters that would indicate the public money made available and expended for the purpose of and in connection with the redevelopment of Adelaide Oval envisaged by the Act was not managed and used properly and efficiently.

As conveyed in previous Reports, I recognise that as the project development life cycle nears completion there may be a need to review the effectiveness of the governance, monitoring and reporting arrangements that have been applied during the substantive design and construction development stages of the project. This is particularly discussed in section 4.2.1.3 of this Report.

##### **4.2.1 Project governance arrangements**

Previous Reports have included comment on the project governance arrangements implemented by DPTI. These arrangements were implemented to manage and coordinate the input of the various professional service contractors, the project architect, the contracted builder, DPTI officers and AOSMA into the substantive design and construction phases of the project.

In April 2012, we recommended that DPTI prepare documentation, possibly in the form of a memorandum of understanding between DPTI officers with executive responsibility for the redevelopment, the representatives of AOSMA and the project manager, that records the respective roles, responsibilities and limits of authority for members of the PCG.

DPTI's response of May 2012 advised it had prepared guidelines for the operation of the PCG incorporating principles relating to governance of the project during construction. We were provided with a copy of the guidelines signed in June 2012 by the Chief Executive, DPTI as Project Director, the Chief Executive, AOSMA, the Chief Executive, SACA and the Chief Executive, SANFL. The guidelines have been revised to reflect changes in personnel performing these roles. We have been cognisant of the guidelines in undertaking the designated six-monthly period reviews.

#### **4.2.1.1 Project Control Group meetings**

The guidelines for the operation of the PCG states that the PCG is to meet regularly to carryout the role of the PCG as specified in the guidelines. In preparing this Report we reviewed the minutes of the PCG. Our review for the current designated period found that the PCG had not met since October 2015. We were advised that DPTI staff met with the project manager in December 2015 and copies of the minutes of the meeting were provided to AOSMA. Further, we were advised that the PCG is expected to meet in February 2016.

We raised this matter with DPTI and recommended the PCG meet on a regular basis in accordance with the PCG guidelines.

In response, DPTI advised it will ensure PCG meetings are held on a regular basis in accordance with the PCG guidelines.

#### **4.2.1.2 Lack of regular financial reporting**

Section 3.2.2 of this Report mentioned the importance of DPTI exercising rigorous cost management arrangements supported by reporting of timely, complete and relevant costing information for the life cycle of the project.

In previous designated periods the external cost consultant engaged by DPTI prepared monthly financial statement reports for presentation to the PCG. The financial statement report is the primary tool used by DPTI and the PCG to manage, monitor and report on project expenditure against the \$535 million limit specified by the Act.

Our review for previous designated periods found financial statement reports for the project were not always prepared or were not always presented to the PCG.

Our follow-up for the current designated period found that only two reports, the financial statement reports for June 2015 (prepared in October 2015) and December 2015 (prepared in January 2016), had been prepared. Further, review of the PCG minutes indicated that the reports had not been presented to the PCG. The last report presented to the PCG was the financial statement report for February 2015. We were advised that the June 2015 and December 2015 reports are expected to be presented to the PCG in February 2016.

DPTI advised us that the financial statement reports were not prepared for all months due to the limited financial activity over the current designated reporting period.

We recommended that, notwithstanding limited financial activity, DPTI provide regular financial statement reports to the PCG and senior management for the remaining life of the project on a timely basis.

As reported in prior designated reporting periods, regular financial reporting is still important to ensure that an up-to-date position is reported on project expenditure, uncommitted contingencies and funds remaining.

In response, DPTI advised that it will ensure regular financial reports are undertaken and would continue to utilise the cost consultant until the project has achieved final completion. Cost reports will continue to be produced on a regular basis, with the information being provided to the PCG and DPTI senior management.

#### **4.2.1.3 Project management reporting**

Prior reviews noted the project manager prepares a project management report for presentation to the PCG.

The report is the primary tool used by DPTI and the PCG to monitor the physical progress, financial progress, critical issues and other matters affecting the project.

Our review for previous designated reporting periods noted that project management reports were not always been prepared and presented to the PCG.

In previous Reports we conveyed that, while there may be a need to review and revise existing governance, monitoring and reporting arrangements in recognition of the project development life cycle nearing completion, it is nonetheless important that project management reporting continues and includes focus on matters such as:

- defect rectification
- status of variation orders and claims
- actual and committed expenditure to date against the statutory cap
- prioritisation, allocation and procurement arrangements of works from uncommitted funds
- any emerging issues and risks impacting on the project as it approaches closure
- financial and physical status of other elements of the project such as works funded from Commonwealth funding.

Our review for the prior designated period noted that project management reports were only provided to the PCG for March 2015, April 2015 and May 2015. Further, brief monthly updates were provided to DPTI senior management through the Portfolio Management Committee.

We noted, however, that relatively limited information regarding the matters detailed above were included in the project management reports and monthly updates provided to the Portfolio Management Committee.

Our follow-up for the current designated period found that project management reports had not been prepared and presented to the PCG. Further we noted that, similar to last year, monthly updates were provided to the Portfolio Management Committee.

We also noted that the Minister has entered into a Deed of Grant with AOSMA to procure further works for the project (refer section 4.2.2.4). It is therefore important that information relevant to this project activity is reported to the PCG on a regular and timely basis.

We reaffirmed our previous recommendations that DPTI:

- provide project management reports to the PCG regularly throughout the remaining lifecycle

- review the format and content of the reports to ensure the information is aligned with the current financial and lifecycle of the project and provides sufficient information to enable the effective management of the project to physical and financial close.

DPTI responded that project management reports prepared by the project manager for the Northern Riverbank Precinct project (funded by the Commonwealth) will continue to be provided to the PCG and DPTI senior management. This report will now include items pertaining to the Adelaide Oval Redevelopment and make particular reference to Tranche 2 of the Deed of Grant and progress relating to the remaining defects. Future Portfolio Management Committee reports will include additional information as noted by Audit.

#### **4.2.2 Arrangements with Adelaide Oval SMA Limited**

##### **4.2.2.1 Acceleration cost sharing and reimbursement dispute**

The sixth Report noted that in February 2014 the Minister approved the payment of \$600 000 in acceleration costs to the principal construction contractor to achieve practical completion on 19 March 2014. This was the preferred strategy to manage the risks for the completion of works under the principal construction contract in order to stage the proposed Rolling Stones concert on 22 March 2014 and the first Adelaide Oval Showdown on 29 March 2014. The approval from the Minister also noted that AOSMA would be invoiced for 50% of the acceleration costs.

In June 2014 DPTI issued AOSMA an invoice for \$300 000 for 50% of the acceleration costs, however AOSMA disputed the invoice.

Our review in the previous period found that the matter had yet to be resolved. We noted that in July 2015 the Minister forwarded a letter to AOSMA outlining the State's position regarding resolution of the matter.

Our follow-up for the current period found that the matter was settled, along with AOSMA's claim for reimbursement of costs (discussed in section 4.2.2.2) as part of a Deed of Grant executed between the Minister and AOSMA. The Deed of Grant is discussed in section 4.2.2.4.

##### **4.2.2.2 Adelaide Oval SMA Limited reimbursement cost claim disbursement**

Previous Reports noted AOSMA requested contributions from DPTI for certain works associated with the Adelaide Oval redevelopment.

AOSMA requested reimbursement of material costs associated with the installation of perimeter ribbon boards (electronic advertising boards) and other costs associated with installation of additional cabling and fitting out additional food and beverage outlets in the Western Stand for the 2013 Ashes Test. AOSMA invoiced DPTI a total of \$1.428 million for the ribbon boards and \$350 000 for the cabling and fitout costs.

AOSMA had raised the invoices on the understanding that, subject to the project contingency allowing it, the State Government would consider contributing to the costs of the items.

DPTI was of the view that the State Government had no contractual commitment to reimburse AOSMA for these costs and the matter was subject to negotiations between AOSMA and the State Government.

Our review for the previous designated period found that the matter of outstanding reimbursements had not been resolved. We noted that in July 2015 the Minister forwarded a letter to AOSMA outlining the State's position regarding resolution of the matter.

Our follow-up for the current period found that the matter was settled as part of a Deed of Grant, along with the matter relating to the reimbursement of acceleration costs discussed in section 4.2.2.1. The Deed of Grant is discussed in section 4.2.2.4.

#### **4.2.2.3 Approval and funding of essential and other works**

In preparing the previous Report, we noted the financial statement report prepared by the cost consultant as at 31 December 2014 (and subsequent reports) included details of essential works estimated at \$1.845 million. These essential works represented possible future works that were not included in the project budget.

Our last Report noted that in December 2014 AOSMA wrote to the Minister requesting approval of critical and essential works. Review of the PCG minutes noted that no decision had been made regarding whether to proceed with these works.

We were advised that the Minister was negotiating with AOSMA regarding funding the essential works (estimated at \$1.845 million) and other works from remaining project funds.

We recommended that matters regarding the funding of essential works and other works be resolved as soon as practical.

In following up this matter for the current designated period we were advised that the matter was resolved by the execution of a Deed of Grant between the Minister and AOSMA in November 2015 (refer section 4.2.2.4).

#### **4.2.2.4 Deed of Grant**

In March 2015, Cabinet noted a submission which advised the Minister's intention to approve \$3.56 million from existing project funds to undertake further works for specific items listed in the submission (as detailed in a report prepared by the project manager).

The report identified safety and security items (ie works to address identified concerns) and discretionary operational and amenity items.

The submission presented to Cabinet noted DPTI will engage the project manager to scope, define, cost and confirm the effectiveness of the proposed measures, and prepare a procurement plan for the Minister's approval.

In November 2015, a Deed of Grant (the Deed) was entered into between the Minister and AOSMA for essential safety, security and operational upgrades comprising two tranches:

- \$1 808 216 reimbursement for works AOSMA had already completed – Tranche 1
- \$1 751 784 for further works subject to a number of conditions – Tranche 2.

The Deed also provides for:

- AOSMA withdrawing invoices issued to the Minister totalling \$1.817 million relating to costs incurred for electronic ribbon boards and other costs
- the Minister withdrawing the invoice DPTI issued to AOSMA totalling \$300 000 for project acceleration costs.

The Deed also provides that AOSMA acknowledges that the State's financial contribution to the Adelaide Oval redevelopment is limited by section 8 of the Act and includes a number of mandatory accountability requirements.

The items specifically listed in the submission to Cabinet (and included in the project manager's report) totalling \$3.56 million were also specifically listed in the Deed. However, the value of the specific items listed in the Deed only totalled \$1.75 million.

Details of the scope of works for Tranche 2 were not included in the Deed.

DPTI advised us that the \$1.75 million represents the amount the State was contributing to the Tranche 2 works. The basis of the works was the report prepared by the project manager which identified problems to be solved for each item identified in Tranche 2. Further, we were advised that the scope of works will be determined as part of the claim process for each item. Finally, DPTI indicated AOSMA are required to use their own funds to complete any works in excess of the \$1.75 million provided by the State under Tranche 2 and DPTI will be monitoring this to ensure works are completed.

Our review noted that the works already undertaken by AOSMA totalling \$1.8 million were not mentioned in the submission provided to Cabinet and the works represented separate works to the items specifically listed in the submission to Cabinet. In accordance with the Deed, in December 2015 DPTI paid \$1.8 million to AOSMA for works already undertaken. Some of the works date back to May 2013.

We were advised that no works had been procured or commenced in relation to Tranche 2. Accordingly for the current designated period we gave specific focus to the expenditure relating to Tranche 1.

Our review included understanding the financial implications of the Deed on the project including:

- the reason for the significant variation in the estimated value (ie \$3.5 million) of works listed in the submission to Cabinet and the value (ie \$1.75 million) of the same works included in the Deed
- whether Cabinet was informed of this significant change
- the basis for reimbursing AOSMA for works which were already procured, completed and paid for by AOSMA and how the value and the individual items included in AOSMA's claim for reimbursement were determined

- whether a review of the specific items included in the \$1.8 million reimbursement claim was undertaken to ensure that the payment made from monies made available to the project under the Act were consistent with the purpose for which the funds were appropriated for and were in accordance with the Act. That is, for the purpose of, or in connect with, the redevelopment of the Adelaide Oval as opposed to payments more aligned to the operations of AOSMA.

Our review found that Cabinet was not advised of the decision to reimburse AOSMA for works already undertaken and the significant reduction in the estimated value of works specifically listed in the submission compared to the value specified in the Deed. We were advised that DPTI made a recommendation to the Minister regarding the reimbursement of the works to AOSMA which was approved by the Minister. We were also advised that DPTI was in the process of obtaining documentation to support the significant reduction in the estimated value of works as detailed in the Deed.

We consider that the decision to reimburse AOSMA for works already undertaken and the reduction in the estimated value of works represented a significant change to the information provided to Cabinet and accordingly it would have been prudent for Cabinet to be informed of these changes.

We were advised that the costs reimbursed to AOSMA under the Deed were to enhance the operations of the stadium.

As noted above, some of the works date back to 2013 and a decision had been made previously for AOSMA to fund these works rather than paying them from the money made available for the project under the Act. The expenditure relating to these works was not subject to the same procurement practices, certification and approval processes used to manage the funds incurred and spent by the State. From the information provided to us, the basis for reimbursing AOSMA for works which had occurred in the past, and already paid for by AOSMA some time ago, was not clear.

We were advised that DPTI undertook an internal assessment of the Tranche 1 items. DPTI also advised that the invoices were reviewed by the cost consultant prior to payment.

Our review found that the internal assessment undertaken by DPTI was not documented. We also noted that the review of invoices undertaken by the cost consultant included a limitation in scope. Specifically, the cost consultant indicated that they assumed that the invoices they reviewed reflected work undertaken and the amounts were expended by AOSMA in accordance with any funding agreements between DPTI and AOSMA. The matter was raised with DPTI who advised they would seek further clarification regarding this limitation in scope.

Further, our review indicated the information provided to us to support the specific expenditure items included in the reimbursement claim was insufficient to enable us to determine whether the expenditure was consistent with the purpose for which the funds were appropriated for and in accordance with the Act.

At the time of our review, DPTI was in the process of reviewing the invoices and seeking further information (eg contracts and other documentation), where appropriate, to support the nature of expenditure and clarify a number of matters arising from our review of the invoices included to support the claim for reimbursement.

We will continue our review once this additional information is obtained, reviewed by DPTI and made available to us for review.

We recommended DPTI:

- ensure, where significant changes to transactions occur compared to information previously provided to Cabinet, details of those changes are reported back to Cabinet for noting
- confirm the reasons (including obtaining supporting documentation such as costing information) for the change of value of the Tranche 2 works from \$3.5 million to \$1.75 million
- document (including obtaining supporting evidence) the internal assessment undertaken by DPTI of the invoices included in the reimbursement to support that the payment, which was made from funds made available from the project under the Act, is in accordance with the purpose for which the funding was appropriated
- clearly document and agree the scope of works for each item in Tranche 2 that AOSMA is required to complete. Also, implement a mechanism to confirm that Tranche 2 works are completed to an appropriate standard, represent value for money and address the concerns raised in the project manager's report included in the submission to Cabinet
- clarify the significance of the limitation in scope of the cost consultant's review of invoices provided to support AOSMA's claim for reimbursement for works already completed
- finalise the review of invoices and supporting evidence to ensure sufficient documentation is available to support the nature of the expenditure items included in AOSMA's claim for reimbursement.

DPTI responded it will advise Cabinet on the details of the Deed of Grant.

DPTI also advised the items of work listed under Tranche 2 are not limited to \$1.75 million in value. Some reductions in cost have been identified by AOSMA, however, AOSMA has entered into the Deed committing to undertake all of the works under the Deed, with the total contribution of funding capped by the State. If additional money is required to complete all of the works identified in Tranche 2, this has to be directly funded by AOSMA and is therefore at the risk of AOSMA.

Further DPTI advised it will:

- continue to work with AOSMA to clearly document and agree upon the specific scope of works for each item within Tranche 2, as noted by Audit
- clarify with the cost consultant the limitation in scope for its review of invoices relating to Tranche 1 of the Deed of Grant
- finalise its review of invoices and required documentation to support the reimbursement of items listed in Tranche 1 of the Deed of Grant.

### **4.2.3 Defect rectification management**

#### **4.2.3.1 Defect rectification reporting**

The project manager and other professional service contractors prepare and maintain a number of spreadsheets containing information on identified project defects.

Previous Reports communicated that review of the PCG minutes noted limited detail in the minutes on the status of defect rectification. We found that no written reports were provided to the PCG summarising the status of defect rectification. We were advised that the project manager provided the PCG with a verbal update on the status of defect rectification at the meetings.

Our review for the previous designated period noted that lists of defects (identified by AOSMA) were provided to the PCG in March 2015, April 2015 and May 2015. The lists included details of the defect location, description, status and target date. Our review of the lists found they did not effectively report progress made in rectifying defects from one month to the next.

Further, we were advised that no reporting was provided to the PCG on defects identified by consultants engaged by the principal construction contractor.

Our review for the current designated period noted that lists of defects were tabled at the PCG meetings held in July 2015, August 2015, September 2015 and October 2015. Lists were not presented to the PCG for the months of November 2015, December 2015 and January 2016 as the PCG did not meet in those months.

We were also advised that the status of defects was discussed at the PCG meetings.

#### **4.2.3.2 Mechanism to ensure defects have been appropriately rectified**

Our review for the previous designated period included gaining an understanding of the mechanism relied upon by DPTI to ensure all defects have been appropriately rectified.

We were advised that various consultants (architectural, structural, civil etc) contracted by the principal construction contractor prepared individual defect schedules at the time of practical completion. These schedules were compiled by the principal construction contractor into a consolidated defects schedule. When the principal construction contractor considered the defects had been rectified they were required to obtain confirmation from the consultant that the defect had been rectified. The process was managed and documented using the principal contractor consultant's Project Centre system.

For defects raised by AOSMA, we were advised that a separate list was maintained by the principal construction contractor. Further, we were advised that AOSMA, the project manager and the principal construction contractor met fortnightly to review the status of outstanding defects. In the meetings, AOSMA advised when they agreed particular defects could be closed.

Our review noted that DPTI did not elect to engage independent consultants to certify identified defects were appropriately rectified. Further, the project manager had not provided DPTI with certifications that defects had been appropriately rectified.

Given that the State is the owner of the Adelaide Oval redevelopment we recommended that DPTI establish a mechanism, including obtaining and collating appropriate evidence, to independently substantiate that all identified defects have been appropriately rectified.

DPTI in response, advised that it engaged the project manager to undertake this role.

In the previous Report, we noted that while we acknowledge that the project manager will issue a final certificate, this should be supported with documentation that provides a clear trail of defects identified and resolved including details of:

- how the defect was resolved/closed
- who agreed to the treatment
- the date when it was resolved.

Our review for the current period included following up progress made in addressing this matter.

We noted that in January 2016, DPTI, with the assistance of the project manager, reviewed 10 randomly selected defects to confirm the selected defect was rectified. The number of defects identified and recorded in the various registers were numerous (we understand in the thousands). Our review found DPTI did not document the basis or undertake a formal risk assessment in determining the number and specific items selected for testing. Further, we found that DPTI did not document the evidence obtained by DPTI to verify that the defect had been appropriately rectified.

In February 2016 the project manager provided a letter to DPTI advising that all defects identified for the project have been rectified by the principal construction contractor with the exception of eight known items that still remain outstanding. The letter also highlighted that:

- DPTI did not engage third party consultants to independently technically verify the rectification of defects
- defects had been reviewed and closed out by the principal construction contractor's consultants
- in undertaking its role as superintendent representative, the project manager and the facility users witnessed the rectification of a large number of defects but they did not inspect each individual item.

We sought, through inquiries with DPTI staff and review of relevant documentation, to gain an understanding of the processes used by the project manager to determine that all defects had been rectified by the principal construction contractor. We found there was a lack of documentation to evidence the processes undertaken by the project manager to determine that all defects had been rectified (with the exception of eight items). For instance, we found that the project manager had not provided DPTI with details of which defects they witnessed that had been rectified and the procedures they used to verify the defects were rectified.

We were advised that DPTI was still in the process of obtaining documentation from the project manager to ensure appropriate certification of defects.

We recommended DPTI undertake a formal risk assessment to support the number and specific defect items selected for testing and document the evidence obtained to verify that the defects were appropriately rectified.

We also recommended that upon receipt of the documentation from the project manager, DPTI undertake a review of the information provided to support that defects have been appropriately rectified and implement appropriate action to address any shortcomings identified from the review.

In response, DPTI advised that it will continue to work with the project manager to review and provide appropriate documentation to ensure that the defects have been appropriately rectified and closed out.

#### **4.2.4 Concluding audit comment**

Term of reference three, the subject of commentary of this section of this Report, addresses the requirement of the proper and efficient management of funds for the Adelaide Oval Redevelopment project.

Previous Reports identified some shortcomings in meeting the abovementioned objective. Certain matters discussed within this section reflect the continuation of previously raised shortcomings and unresolved matters.

This Report continues to highlight the need for attention to project governance arrangements. Project and financial reporting needs to be addressed to ensure effective project completion and financial close out including final claims and certificates. Further, the management of defects and the documents maintained to evidence the resolution of all defects identified requires attention. The relevance and importance of this requirement will continue if the State agrees to undertake or fund further works for the redevelopment from remaining funds.

Further, a number of matters were raised in this Report concerning a Deed of Grant established with AOSMA in November 2015. The matters raised identified the need to implement rigorous oversight of the grant arrangements including ensuring:

- the basis for allocating the grants is clearly documented to support that public monies have been managed and used efficiently and properly
- works have been completed to an appropriate standard, represent value for money and have been used by the grant recipient for the purpose they were provided for.

The principal construction contractor has achieved practical completion and the stadium facility managers have been operating the facility for some time now. I reiterate, the need for the parties charged with governance of the project to resolve the matters raised and finalise outstanding matters to enable establishing a firm financial close out position for the project and to achieve full accountability reporting to Executive Government on the statutory limit of \$535 million.

## **5 Other matters of importance**

### **5.1 Lease and licence arrangements**

The Act provides for the execution of a number of leases and licences between relevant parties. The licensing and leasing arrangements underpin the Adelaide Oval Redevelopment project and the ongoing care, control and management of the oval and precinct.

The Act also requires the Minister to provide copies of the sublease and licences to both Houses of Parliament.

In preparing the first Report we requested and received the following leases and licences:

- lease over the Adelaide Oval Core Area between the then Minister for Infrastructure (the Minister) and the Corporation of the City of Adelaide – executed 17 November 2011
- sublease over the Adelaide Oval Core Area between the Minister and AOSMA – executed 17 November 2011
- licence between the Minister and SACA – executed 17 November 2011
- licence between the Minister and the SANFL – executed 17 November 2011
- licence over the Adelaide Oval Licence Area between the Minister and the Corporation of the City of Adelaide – execution date not recorded.

In the seventh Report we noted a number of sublicences were also executed on 8 December 2014. These comprised:

- the Adelaide Oval Licence Area sublicense between the Minister and AOSMA
- the Adelaide Oval Licence Area sublicense between the Minister and SACA
- the Adelaide Oval Licence Area sublicense between the Minister and the SANFL.

Further our review has found that the abovementioned leases, licences and sublicences have been tabled in Parliament in accordance with the Act.

## **5.2 Establishment of a sinking fund**

The Act provides for the establishment and operation of a sinking fund by AOSMA to receive and disburse monies to meet non-recurrent expenditure associated with the lease of the Oval. The Act also provides for the:

- Treasurer, acting with the advice and after consulting with AOSMA, to approve or determine the amount of money to be paid into the sinking fund during each financial year by AOSMA
- Auditor-General to audit the accounts of the sinking fund and examine certain matters provided for in the Act.

The fourth Report indicated that AOSMA advised it had obtained a report from the project cost consultant that provides an estimate of the total forecast capital expenditure, over a 20 year period, and the required annual sinking fund contribution. AOSMA further advised that it had established a bank account to hold sinking fund monies.

The fifth Report provided an update on the status of the sinking fund. It communicated that in November 2013 the Minister wrote to the Treasurer seeking approval for proposed arrangements for the Adelaide Oval Redevelopment sinking fund. It further conveyed that in January 2014 the Treasurer responded to the Minister's request and advised that he:

- considered the proposed arrangements for the sinking fund to be satisfactory at the present time

- authorises DPTI to inform AOSMA that it should budget for the proposed arrangements in its forward program
- notes that AOSMA proposes to make its first contribution of approximately \$2.7 million to the sinking fund in 2016-17 and AOSMA will notify him of this proposed contribution for approval prior to 1 September 2016
- will approve or make a determination of the amount to be paid into the sinking fund at that time.

The previous Report noted that in July 2015 AOSMA wrote to the Minister confirming that the first instalment will be paid into the fund in the 2016-17 financial year.

In preparing this Report we enquired about the status of the sinking fund with DPTI. We were advised that there has been no change to the commitment made by AOSMA to make the first contribution to the sinking fund in the 2016-17 financial year.

### **5.3 Other funding sources and commitments**

The prospect of obtaining funding for the Adelaide Oval Redevelopment project from sources other than the State Government was considered in an approved October 2011 Cabinet submission on the Adelaide Oval Redevelopment project and in the final report of the Public Works Committee (PWC) on the Adelaide Oval Redevelopment project tabled in Parliament in November 2011. Both documents acknowledged the potential to attract funding from sources external to the State Government, including from the Commonwealth Government and the AFL, that could be applied to the project development.

As conveyed in the first Report, we were provided with documentation that outlined funding commitments from both the Commonwealth Government and the AFL.

Correspondence from the Commonwealth Government indicated that it agreed to contribute \$30 million towards costs associated with constructing car parking and developing planned wetlands. The funding committed by the Commonwealth Government was received and deposited in the Adelaide Oval Redevelopment special deposit account in June 2012.

In June 2013 the Minister wrote to the Commonwealth Minister for Sport seeking approval to vary the terms of agreement for the advance of monies by the Commonwealth. The variations agreed by the State and Commonwealth Ministers included changes to the timing of completion of works and to the scope of works to enhance the parklands adjacent to the stadium.

The status of the \$30 million in funds provided by the Commonwealth Government is discussed in the following sections of this Report.

As communicated in the fifth Report, in August 2013 the AFL Chief Executive Officer confirmed in written communication that the AFL Commission formally approved, subject to meeting a number of conditions, an amount of \$5 million towards the capital costs of the Adelaide Oval redevelopment.

The AFL paid \$2.5 million of the funds committed to the project in January 2014. Further, an amount of \$2.5 million representing the balance of the funds committed by the AFL was received by DPTI in March 2014. Both amounts were deposited into the Adelaide Oval Redevelopment special deposit account.

#### **5.4 Status of Commonwealth funding arrangements**

As discussed above the Commonwealth Government has contributed \$30 million towards the Adelaide Oval redevelopment, comprising:

- costs associated with the Adelaide Oval Redevelopment project (\$18 million)
- certain works on adjacent parklands (\$12 million).

DPTI has transferred \$18 million of funding relating to the Adelaide Oval redevelopment to AOSMA pursuant to a Deed of Grant between the Minister and AOSMA. Details regarding the status of this funding are discussed in section 5.6 of this Report. The following section discusses developments concerning the \$12 million for adjacent parklands works.

#### **5.5 Commonwealth funding for adjacent parklands works**

The project agreement between the State and the Commonwealth, which was revised in June 2013, provides that \$12 million is to be expended on parklands adjacent to the stadium. Specifically:

- \$4.5 million for Northern Parklands upgrade works
- \$2 million for the Creswell/Pennington Gardens West upgrade works
- \$4 million for other works in the Northern Parklands Licence Area
- \$1.5 million for other precinct works for the northern side of the Torrens.

On 22 August 2014 the Acting Minister for Transport and Infrastructure:

- approved DPTI progressing the design, documentation and implementation of the Adelaide Oval – External Public Works project subject to statutory approvals and within a budget of \$9 million
- noted that the \$9 million budget is sourced from Commonwealth Government funds allocated to the ‘Adelaide Oval Redevelopment and Precinct Works’.

In addition, on 4 November 2014 the Minister approved awarding the contract for the above works to Lend Lease Building Contractors Pty Ltd (Lend Lease). This was the same contractor that was awarded the principal construction contract for the Adelaide Oval Redevelopment project. The contract was awarded following a recommendation that Lend Lease be invited to submit a single offer. The approval documentation noted that the recommendation was made on the basis the single offer represented best value as:

- it conforms with all the requirements of the tender documents for the single offer
- Lend Lease tendered the construction works to local contractors
- Lend Lease had demonstrated capability and a good performance score under DPTI’s Building and Construction Project Prequalification System
- Lend Lease had the capacity to satisfactorily complete the construction services.

As at 31 December 2015 DPTI had expended (on an accrual basis) a total of \$10.8 million from the \$12 million balance of Commonwealth funds.

## **5.6 Adelaide Oval SMA Limited Commonwealth funding for Adelaide Oval redevelopment works**

In August 2012 Cabinet received and approved a proposal from the Minister for Transport and Infrastructure and the Treasurer to advance \$18 million to AOSMA to enable it to procure works for the Adelaide Oval redevelopment.

The proposal to provide funding to AOSMA followed the receipt of funding from the Commonwealth Government discussed above. The Cabinet submission proposed that since the funding from the Commonwealth Government covered works already allowed for in the contract with the principal construction contractor (such as an underground car park), the \$18 million be used to procure other certain works associated with the Adelaide Oval redevelopment. The Cabinet submission further advised that AOSMA was well placed to procure the works as they related to items concerning the playing surface, oval operations and equipment with which the SANFL and SACA have previous operational experience. The funding and procuring of the certain works were to be managed and controlled through a Deed of Grant.

DPTI transferred \$18 million to AOSMA pursuant to the Deed of Grant between AOSMA and the responsible Minister. AOSMA had previously advised us that, as at 30 June 2014, all of the funds provided by the Minister had been expended.

In preparing this Report, we followed up the status of the work done by DPTI in administering and monitoring the acquittal processes provided for in the Deed. The main observations and DPTI's responses are discussed below.

### **5.6.1 Acquittal processes associated with the Deed**

The Deed of Grant includes a number of mandatory accountability requirements (an acquittal process) for the provision of funding. For instance, the Deed provides that at the expiry of the term (defined as the date of practical completion), AOSMA must provide a report on the level of unexpended funds and, unless otherwise agreed in writing by the State, AOSMA must repay any part of the funds that is unexpended at the end of the term.

AOSMA had undertaken to submit to DPTI a final reconciliation, certification from the cost consultant and a report on the level of unexpended funds in accordance with the Deed of Grant.

Our follow-up for the previous designated period noted that AOSMA submitted a reconciliation of the \$18 million to the Project Director in February 2015 for review by DPTI. Correspondence provided with the reconciliation indicated that all works had been undertaken in accordance with the Deed of Grant and all payments were made to 24 March 2014 (ie the date of practical completion), except where invoices were received after this date in respect of works ordered or contracted prior to 24 March 2014.

We sought to understand the extent of review undertaken by DPTI to ensure the funds have been appropriately acquitted in accordance with the Deed. We were advised that the reconciliation was reviewed by the former Project Director, who has since left DPTI. Further,

DPTI advised that it was unable to locate any documented assessment or advice regarding the application of invoices paid after the date of practical completion (ie 24 March 2014).

DPTI advised that it would continue to locate any relevant documentation regarding the application of funding paid after the date of practical completion and will consult with relevant parties to resolve the matter. DPTI also advised that it was reviewing the Commonwealth funding transferred to AOSMA pursuant to the Deed and will ensure funds have been appropriately acquitted.

These matters were followed up as part of our review for the current designated period. We were advised that:

- the cost consultant undertook a review of the \$18 million Commonwealth funding provided to AOSMA
- DPTI was progressing discussions with the Crown Solicitor's Office regarding the issue of invoices paid after the date of practical completion.

Review of the correspondence from the cost consultant indicated that it sighted evidence of expenditure by way of invoices issued by AOSMA. It was noted however, the correspondence provided by the cost consultant did not specify whether the review included ensuring the funding provided to AOSMA had been spent in accordance with the Deed.

We recommended that DPTI confirm with the cost consultant whether their review included ensuring funding provided to AOSMA was spent in accordance with the Deed and recommended DPTI conclude discussions with the Crown Solicitor's Office regarding the issue of invoices paid after the date of practical completion.

In response, DPTI advised it is continuing to review the Commonwealth funding transferred to AOSMA with both the cost consultant and the Crown Solicitor's Office to ensure that the funds have been appropriately spent and acquitted in accordance with the Deed.

## **5.7 Consideration of expenditure by Adelaide Oval SMA Limited in determining expenditure against the \$535 million limit**

As communicated in the third Report, following the completion of arrangements to advance funds to AOSMA to enable it to procure works for the redevelopment project, we wrote to DPTI recommending it seek confirmatory advice from the Crown Solicitor that the money advanced to AOSMA should be excluded from the total of public money made available and expended with respect to the \$535 million limit. DPTI sought and obtained confirmation from the Crown Solicitor that funding from the Commonwealth Government was not public money for the purposes of determining the application of the limit and that expenditure of the Commonwealth or AFL funds should not be included in assessing expenditure against the limit.

Consistent with the Crown Solicitor's advice the funding provided to AOSMA, and expenditure by AOSMA of the Commonwealth funds, have not been included in the amount of public money made available and expended with respect to the \$535 million limit as required by term of reference one.

## **5.8 Project reporting to the Public Works Committee**

The final report of the PWC for the Adelaide Oval Redevelopment project was tabled in Parliament on 9 November 2011. The report included a requirement for DPTI to provide quarterly reports to the PWC on the progress of construction. DPTI officers have advised that, at the time of preparing this Report, DPTI had provided quarterly reports to the PWC with respect to the redevelopment project, for each quarter up to and including September 2015.

## Appendix

### Summary of money made available and expended within the \$535 million limit to 31 December 2015

#### Extent to which the \$535 million has been made available

	\$'000
<b>Total State Government funding available for the project</b>	535 000
<b>Monies appropriated to DTF:</b>	
Monies appropriated to DTF less amounts transferred to DPTI to 30 June 2015	5 970
Monies appropriated to DTF during the period 1 July 2015 to 31 December 2015:	
Appropriation to DTF	-
<i>Less:</i> Monies transferred to DPTI from Contingency	-
<b>Total monies appropriated to DTF less amounts transferred to DPTI to 31 December 2015</b>	5 970
<b>Monies appropriated to DPTI:</b>	
Monies appropriated to DPTI/received from DTF to 30 June 2015	529 030
Monies appropriated to DPTI/received from DTF during the period 1 July 2015 to 31 December 2015:	
Appropriation to DPTI	-
Monies received from DTF from Contingency	-
<b>Total monies appropriated to DPTI/received from DTF to 31 December 2015</b>	529 030
<b>Total amount which has been made available for the project to 31 December 2015</b>	535 000
<b>Total amount of State Government funding still to be made available for the project</b>	-

#### Extent to which the \$535 million has been expended

	\$'000
<b>Total State Government funding available for the project</b>	535 000
<b>Monies expended on the project by DTF:</b>	
Expenditure by DTF to 30 June 2015	5 970
Expenditure by DTF during the period 1 July 2015 to 31 December 2015:	
Expenditure by DTF	-
<b>Total expenditure by DTF to 31 December 2015</b>	5 970
<b>Monies expended on the project by DPTI:</b>	
Expenditure by DPTI to 30 June 2015	518 499
Expenditure by DPTI during the period 1 July 2015 to 31 December 2015:	
Expenditure by DPTI	2 282
<b>Total expenditure by DPTI to 31 December 2015</b>	520 781
<b>Total expenditure on the project to 31 December 2015</b>	526 751
<b>Balance of State Government funding unexpended as at 31 December 2015</b>	8 249