



Government
of South Australia

Report of the Auditor-General

August 2016

Received on 31 August 2016 and published on 1 September 2016 pursuant to section 9
of the *Adelaide Oval Redevelopment and Management Act 2011*

Report on the Adelaide Oval redevelopment pursuant
to section 9 of the *Adelaide Oval Redevelopment
and Management Act 2011* for the designated
period 1 January 2016 to 30 June 2016

By Authority: P. McMahon, Government Printer, South Australia

General enquiries regarding this report should
be directed to:

Auditor-General
Auditor-General's Department
Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000

Website: www.audit.sa.gov.au

ISSN 0815-9157



31 August 2016

9th Floor
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

The Hon R P Wortley MLC
President
Legislative Council
Parliament House
Adelaide SA 5000

The Hon M J Atkinson MP
Speaker
House of Assembly
Parliament House
Adelaide SA 5000

Dear President and Speaker

**Report of the Auditor-General: August 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 January 2016 to 30 June 2016**

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: August 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 January 2016 to 30 June 2016'.

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, Michael Hatzicostantis 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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1 Executive summary

1.1 Introduction

This is the tenth Report to the Parliament on the Adelaide Oval Redevelopment project. The report is required by the *Adelaide Oval Redevelopment and Management Act 2011* (the Act) for each six-month period, beginning on 1 January and 1 July in each year. We have addressed the Act's requirements as three terms of reference. These are addressed in detail in sections 3, 4 and 5.

The Act limits the appropriation of monies made available and expended on the project to \$535 million during the period from 1 December 2009 to 1 December 2019. The principal construction contractor achieved full practical completion for the project in March 2014. The stadium was fully handed over to the Adelaide Oval SMA Limited (AOSMA) to operate on 24 March 2014. The redeveloped oval has been in use and meeting its intended purpose for some time.

Since handover, expenditure of project funds has continued on a range of matters including payments to the principal construction contractor and to AOSMA for the reimbursement of works. These are summarised in section 3.2.1.

This Report highlights that the majority of matters raised about the activities over a number of designated reporting periods remain unresolved, notwithstanding that the Department of Planning, Transport and Infrastructure (DPTI) agreed with our recommendations and proposed actions to address the matters. In particular, the management of defects and the documents maintained to evidence the resolution of all defects identified, require attention. We also noted the need for more rigorous contract management arrangements for professional service providers.

DPTI has indicated in its response that these matters are being progressed. Refer to sections 3, 4 and 5 of my substantive Report, where the detailed findings are discussed, for DPTI's response to the individual findings raised.

I reiterate the need for the parties charged with governance of the project to resolve the matters raised and finalise outstanding matters. This will enable a proper financial close out position for the project and fully accountable reporting to Executive Government on the statutory limit of \$535 million.

The findings from this work are relevant for any project management process and highlight the need to ensure that all aspects of projects are completed to an appropriate state before activities are considered closed.

The primary areas raised concern themes of:

- defects resolution
- monitoring closing project cost information
- accuracy of project expenditure reports

- reliability of reporting on project contingencies and committed works not yet expended
- the adequacy of documentation of the professional service provider's performance and deliverable requirements.

The findings and recommendations for each of the terms of reference for the six-month period to 30 June 2016 are as follows.

1.2 Term of reference one

The extent to which money has been made available or expended within the \$535 million limit during the designated period was \$302 000 for reimbursement and other expenses.

As at 30 June 2016, \$7.947 million of project funds remained. Further, section 3.2.2 provides details of the status of the project contingency.

1.3 Term of reference two

Our review of the state of the public accounts that are relevant to the redevelopment found that DPTI was in the process of engaging a cost consultant to reconcile project cost information between the records of DPTI and the cost consultant. We again highlighted the extended time taken to adequately address this issue and recommended DPTI give due attention to adequately finalising this matter.

1.4 Term of reference three

Our review on the extent to which it appears that public money made available to any entity for the redevelopment has been properly and efficiently managed and used during the designated period, found most previously raised matters were unresolved. These findings are detailed in section 5 and are summarised below.

Adequacy of financial reporting

While there was minimal expenditure incurred during the six-month period, only two reports were presented to the Project Control Group (PCG). Given there are works to complete, we consider it important for DPTI to maintain regular financial reporting for the project, particularly as the expenditure for the project approaches the statutory limit.

We again recommended DPTI ensure regular financial reports are provided on a timely basis to the PCG and senior management for the remaining life of the project.

We found that the April 2016 financial report (the only report presented to the PCG for the period) showed no funds expended for the project since the previous financial report. This was incorrect as most of the expenditure for the designated period occurred prior to the end of March 2016.

We recommended DPTI ensure details of transactions processed are provided to the cost consultant on a timely basis and the information is complete and accurate.

We found a number of anomalies in information included in financial reports (uncommitted project contingency and committed works not yet expended) remained unresolved. We consider this is crucial as the project nears financial close. Reliable information will help to ensure the statutory cap is not exceeded and any surplus funds are appropriately managed and accounted for. We also noted a Commonwealth funded project for the redevelopment has a forecast cost overrun in the order of \$650 000 which, if it eventuates, will be funded from funds appropriated by the State.

We recommended that DPTI finalise the review of the financial report, resolve any identified discrepancies as soon as practical and ensure appropriate supporting documentation is available for the key financial information such as the uncommitted project contingency and other uncommitted balances.

Deed of Grant reimbursement arrangements not clear

We found the basis and supporting information for reimbursing AOSMA for past works already paid for by AOSMA amounting to \$1.8 million remains unclear. We could not therefore determine whether the expenditure was consistent with the purpose for which the funds were appropriated and was in accordance with the Act.

We recommended DPTI document the basis and rationale for reimbursing AOSMA for works it had procured, completed and paid for from its own funds. We also recommended that DPTI obtain the documentation supporting the nature of the expenditure items that have been reimbursed.

Defects review still not finalised

We found DPTI is still reviewing defects. We were advised that DPTI and the project manager had agreed on actions to finalise the review of defects as part of their engagement as project manager, however the project manager's response to date had not met DPTI's expectations.

We recommended DPTI finalise a risk based and cost effective review of defects to ensure defects have been appropriately rectified as soon as practical.

Engagement of service providers not clearly documented

We found that the scope of services, agreed terms and conditions and deliverables were not adequately documented to enable effective management of a service provider's performance and deliverables. We noted the DPTI Chief Executive has reminded staff to ensure contract extensions are executed prior to the provision of those services by professional service contractors. DPTI had withheld a small number of invoice payments as they contained errors and insufficient detail regarding the services provided and hours charged.

We recommended DPTI resolve the related matters for promptly executing contract extensions; adequate documentation for effective performance monitoring; and resolving disputed invoices.

1.5 Other matters

We also note a Commonwealth funded project has a forecast cost overrun which, if it eventuates, will be funded from funds appropriated by the State. This project and any other

works undertaken for the redevelopment need to be appropriately managed to ensure the statutory cap is not exceeded.

We highlighted the importance of ensuring effective project and contract management arrangements are in place to oversee the project. This includes understanding and effectively managing the functions performed by external service providers.

We recommended DPTI review monitoring, reporting, project and contract management arrangements, and risk management processes in place to ensure effective oversight of the project (or any other projects still to be completed) and any expenditure required to be allocated against the statutory cap.

We also recommended DPTI implement appropriate strategies to mitigate identified project risks and manage any project cost pressures to ensure the statutory cap is not exceeded.

We found that DPTI was still seeking advice from the Crown Solicitor’s Office regarding invoices paid after the date of practical completion, to ensure that Commonwealth funding provided to AOSMA was appropriately acquitted in accordance with the Deed of Grant between AOSMA and the responsible Minister for \$18 million for works procurement.

We recommended DPTI conclude consultation with the Crown Solicitor’s Office as soon as practical, to ensure the Commonwealth funding provided to AOSMA has been appropriately acquitted in accordance with the Deed of Grant.

1.6 Audit conclusions on the terms of reference

For 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 31.12.15 \$’000	01.01.16 to 30.06.16 \$’000	Total to 30.06.16 \$’000
Money made available	535 000	-	535 000
Money expended	526 751	302	527 053

For the second term of reference, notwithstanding the outstanding reconciliation matter, 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.

For the third term of reference, on the basis of information obtained and reviewed to date, except for the matters detailed in sections 5.2.2, 5.2.3, 5.2.4 and 5.2.5 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 Background

2.1 Introduction

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

On 29 September 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 tenth Report, consistent with previous Reports, discharges the requirements of the Act.

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

- under section 9(3) of the Act, to audit the accounts of AOSMA and include a report on that audit in the Auditor-General's Annual Report to Parliament
- under 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 in 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 DPTI, the Department of Treasury and Finance (DTF) and the South Australian Government Financing Authority (SAFA).

2.2 Structure of the Report

The first section of 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 background section, 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 other matters that I consider should be brought to the attention of the Parliament. These matters are included in section 6.

2.3 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 on 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 6.3 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 we consider 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.

2.4 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, we have considered both the financial activity for the redevelopment project in the current designated six month period ended 30 June 2016 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 me 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 me to perform audits and provide Independent Auditor's Reports on the agencies' financial reports.

My capacity to respond to the requirements of the Act is supported by the provisions of the PFAA which empower me to require parties to provide information and explanations and obliges the parties to respond to my requests. Notwithstanding these powers, in preparing the financial information for this Report, we place 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 my requirements in responding to the Act. Also agencies have a necessary

role in preparing this information and providing it to me. 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 preparing financial information for audit.

2.5 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 reviewed this documentation and information. 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 information. The matters addressed in this Report reflect our understanding of the documentation and other information considered at the time of preparing 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.

3 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 2.4 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 2.4, money is considered to be expended when the entity holding the money has disbursed the money and not on an accrual basis.

3.1 Approach to preparing information for this term of reference

When preparing the financial information required to respond to this term of reference we considered 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.

3.2 Summary of money made available and expended within the \$535 million limit to 30 June 2016

For 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 31.12.15 \$'000	01.01.16 to 30.06.16 \$'000	Total to 30.06.16 \$'000
Money made available	535 000	-	535 000
Money expended	526 751	302	527 053

The Appendix to this Report provides a more detailed analysis of money made available and expended within the \$535 million limit to 30 June 2016.

3.2.1 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 30 June 2016.

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.

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 under a Deed of Grant. This is further discussed in section 5.2.3.

Period 1 January 2016 to 30 June 2016

- Payments to AOSMA for the reimbursement of costs – \$233 000.
- Payments for other expenses – \$69 000.

3.2.2 Overview of the project funding, expenditure and contingency

3.2.2.1 Status of money available to complete the project

The table below summarises the money available to complete the project as at 30 June 2016.

	\$'000
Money made available	<u>535 000</u>
Money expended	<u>527 053</u>
Money available to complete the project	<u>7 947</u>

3.2.2.2 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 PCG. The PCG was established to oversee the project and comprises representatives of DPTI, AOSMA, SACA and the SANFL.

The most recent report prepared by the cost consultant (the financial statement report as at 27 April 2016), which was presented to the PCG in April 2016, indicated that the remaining uncommitted project contingency as at 27 April 2016 was \$5.312 million.

Our review of the financial statement report for April 2016 noted the uncommitted project contingency did not reconcile to other figures in the report. DPTI advised that the discrepancy was due largely to an overstatement of the 'Total committed works not yet expended'.

This matter was raised with DPTI who advised that it has engaged the cost consultant to review the content, reliability and format of the report and to resolve identified discrepancies.

To effectively manage project expenditure, including ensuring the statutory limit is not exceeded, it is important that key financial information such as the uncommitted project contingency included in financial statement reports is reliable. This is further discussed in section 5.2.2.4 of this Report.

3.2.2.3 Status of variation/final claims

In preparing previous Reports, 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 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 defects have not been resolved and DPTI has continued to withhold payment of the final claim.

The status of defects is further discussed in section 5.2.4 of this Report.

4 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.

4.1 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 made inquiries with 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 Adelaide Oval, we have identified the financial systems, records and controls used by the agencies to process and control the expenditure of money in connection with the redevelopment of 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 under section 8 of the PFAA, was consistent with their use to record and control expenditure on the redevelopment of Adelaide Oval
- detailed records used by the agencies supported both my reporting under 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.

4.2 Findings for 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.

We have confirmed that the public account relevant to the designated review period 1 January 2016 to 30 June 2016 was the Adelaide Oval Redevelopment special deposit account.

The use of the accounts changed for the redevelopment project as responsibility for governance of the redevelopment changed 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.

For 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 account 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 followed up action taken by DPTI to address these matters. This follow-up is discussed in section 4.2.2 of this Report.

4.2.1 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.

Our 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. A matter that is still outstanding was communicated to DPTI in August 2016. This matter and DPTI's response is summarised below.

4.2.2 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 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 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.

4.2.2.1 Reliability of information used to monitor the project

A particular area 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 periods included following up the status of reconciliations prepared by the cost consultant and DPTI's review of the reconciliations. We also commented on the extended time to address this matter.

Our review for the last 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 DPTI complete the reconciliation as at 30 June 2015 as soon as practical. Further, we highlighted the need for DPTI to action and resolve any discrepancies identified from the reconciliation process.

Our follow-up for the current period found that DPTI was in the process of engaging the cost consultant to undertake the reconciliation of project cost information between the records of DPTI (ie the job cost system) and the cost consultant (ie the financial statements prepared by the cost consultant).

We again highlighted the extended time taken to adequately address this issue and recommended DPTI give due attention to adequately finalising this matter.

In response DPTI advised it will finalise the engagement of the cost consultant to complete the reconciliation by November 2016. Further, DPTI advised it will ensure any discrepancies identified from the reconciliation process are appropriately actioned and resolved.

5 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 30 June 2016’ shows that DPTI was the only entity that incurred material expenditure, from public monies, during the period from 1 January 2016 to 30 June 2016. 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 6 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.

Whether money has been ‘properly’ managed and used requires an assessment of 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 requires 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.

We must also assess whether procurement processes, particularly for procurement of contracted service providers, were consistent with established public sector standards.

5.1 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.

5.2 Findings for term of reference three

For term of reference three, on the basis of information obtained and reviewed to date, except for the matters detailed in sections 5.2.2, 5.2.3, 5.2.4 and 5.2.5 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 governance, monitoring and reporting arrangements that have been applied during the substantive design and construction phases of the project to ensure they align with current expenditure profiles and risks.

5.2.1 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 that records the respective roles, responsibilities and limits of authority for members of the PCG.

Guidelines for the operation of the PCG incorporating principles relating to governance of the project during construction were established in June 2012. 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.

5.2.1.1 Project Control Group meetings

The guidelines for the operation of the PCG state that the PCG is to meet regularly to carry out the role of the PCG as specified in the guidelines. In preparing this Report we reviewed the minutes of the PCG.

5.2.2 Financial reporting for the project

As previously mentioned the Act provides that the total amount that may be made available or expended for the project is \$535 million.

The Act places specific obligations on both DPTI, as the lead agency responsible for the redevelopment project, and the Auditor-General in reporting on project expenditure. The obligations imposed on DPTI include ensuring project costs do not exceed the statutory cap.

Given the legislative requirement imposed on DPTI to ensure project costs do not exceed the statutory limit it is important that DPTI maintains regular, timely and reliable reporting of costing information on funds committed and spent on the project.

Our review for the current designated period identified a number of shortcomings in financial reporting arrangements that need attention by DPTI management. These matters were raised with DPTI in August 2016 and are summarised below.

5.2.2.1 Lack of regular financial reporting

Our review for the previous designated periods found that financial statement reports (financial reports) for the project prepared by the cost consultant were not always prepared or were not always presented to the PCG.

Our follow-up for the current designated period found that only two financial reports had been prepared and presented to the PCG. The report for December 2015 was presented to the PCG in February 2016 and the report for April 2016 was presented to the PCG in April 2016. We were advised that DPTI was in the process of engaging the cost consultant to prepare the financial report for June 2016.

We were advised that only two reports were presented to the PCG due to the minimal expenditure incurred during the six month period. We acknowledge that the level of expenditure is significantly less than prior periods. Nonetheless, given there are works still to be completed we consider it important for DPTI to maintain regular financial reporting for the project, particularly as the expenditure for the project approaches the statutory limit.

Consistent with advice provided in past designated periods, we recommended DPTI ensure regular financial reports are provided on a timely basis to the PCG and senior management for the remaining life of the project.

DPTI advised it will ensure monthly financial reports are prepared as part of the Adelaide Oval redevelopment until the project has achieved final completion.

5.2.2.2 Lack of timely information contained in financial reports

Our review of the financial reports presented to the PCG for the current designated period found that money spent on the project was not recorded in the financial reports promptly. We found that the April 2016 financial report (the only report presented to the PCG for the period) indicated that no funds had been expended for the project since the previous financial report, notwithstanding that most of the expenditure for the designated period occurred prior to the end of March 2016.

We were advised that in preparing the financial reports, the cost consultant relied on DPTI to provide details of transactions processed. DPTI, however, had not provided the information to the cost consultant.

In reporting this matter to DPTI, we highlighted that, as the State has agreed to provide funds to AOSMA to undertake additional works (under a Deed of Grant), it is important that financial reports prepared for the project contain information that is timely, complete and accurate.

We recommended DPTI implement a mechanism to ensure details of transactions processed are provided to the cost consultant on a timely basis and the information is complete and accurate.

In response DPTI advised it will implement our recommendation.

5.2.2.3 Relevance of information contained in the financial reports could be improved

Our review of the April 2016 financial report noted that it contained information that is historical and no longer correct or relevant. For example, the report included details of:

- items of works to be reimbursed to DPTI that are no longer payable to DPTI. This information, including commentary regarding the status of the items, has remained the same since the September 2014 financial report
- works procured by AOSMA that were funded by DPTI. This information has also been reported for a long time without being revised
- amounts that AOSMA sought reimbursement from DPTI that had been in dispute. This dispute has since been resolved, however the status of this matter is not made clear in the commentary.

We found that this information was historic, formed a significant part of the report and did not enhance the reader's understanding of the financial status of the project.

We recommended DPTI review information in the financial report to ensure it is current and relevant to help the reader to understand the financial status of the project and make decisions.

DPTI advised it will review the information contained in the financial reports and exercise appropriate rigour to ensure it is current and relevant and assists an understanding of the financial status of the project and with making decisions.

5.2.2.4 The reliability of information contained in the financial reports could be improved

Our review of the April 2016 financial report (the latest financial report for the project) identified a number of anomalies in key financial information. We noted that certain information in the report did not reconcile. This matter was referred to DPTI who indicated that the identified variance was due largely to a \$431 000 overstatement of the ‘Total committed works not yet expended’ balance included in the report.

The reliability of the schedule containing details of ‘Total committed works not yet expended’ was raised with DPTI as part of our review for the previous designated period, however our follow-up for the current designated period found that this matter had not been resolved.

DPTI advised that it has engaged the cost consultant to review the content, reliability and format of the financial report and to resolve the identified discrepancies.

In raising this matter with DPTI we highlighted that the reliability of the financial report and accuracy of key information (such as expenditure to date, total committed works not yet expended and the uncommitted contingency balance) becomes crucial as the project nears financial close. Reliable information will help to ensure the statutory cap is not exceeded and any surplus funds are appropriately managed and accounted for.

We recommended that DPTI finalise the review of the financial report and resolve any identified discrepancies as soon as practical. We also recommended that, in undertaking the review, it ensures appropriate support is available for the key financial information reported, such as the uncommitted project contingency and other uncommitted balances.

In response DPTI advised it is finalising the engagement of the cost consultants to review the financial report to resolve any identified discrepancies by October 2016. Further it will ensure appropriate supporting evidence is available for the figures used.

5.2.3 Arrangements with Adelaide Oval SMA Limited – Deed of Grant

5.2.3.1 Background

As highlighted in the previous Report, in March 2015 a submission was presented to Cabinet that noted the Minister’s intention to approve \$3.56 million from existing project funds to undertake future works for specific items listed in the submission (as detailed in a report prepared by the project manager).

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

The Cabinet note advised that DPTI would 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 reimbursement of costs incurred for electronic ribbon boards and other costs
- the Minister withdrawing the invoice DPTI issued to AOSMA totalling \$300 000 for reimbursement of project acceleration costs.

The items specifically listed in the Cabinet note (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.

In December 2015 DPTI paid \$1.8 million to AOSMA for Tranche 1 works already undertaken. Some of the works date back to May 2013.

5.2.3.2 Previous designated period review observations

Our review for the previous designated period noted that Cabinet was not advised of the decision to reimburse AOSMA for works already undertaken (totalling \$1.8 million) and the significant reduction in the estimated value of works specifically listed in the Cabinet note compared to the value specified in the Deed.

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

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

As indicated above some of the works dated back to 2013 and AOSMA had decided to fund these works. 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. We reported that from the information provided to us, the basis for reimbursing AOSMA for works that had occurred in the past, and been paid for by AOSMA some time ago, was not clear.

Further, our review found the information provided to us to support the specific expenditure items included in the reimbursement claim was insufficient for us to determine whether the expenditure was consistent with the purpose for which the funds were appropriated 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 made a number of recommendations including the need for DPTI to:

- report back to Cabinet where significant changes to transactions occur compared to information previously provided to Cabinet

- confirm the reasons (including obtaining supporting documentation such as costing information) for the change in the 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 for 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 that AOSMA is required to complete in Tranche 2. 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 Cabinet note
- 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 to the matters raised and indicated it would advise Cabinet on the details of the Deed.

5.2.3.3 Follow-up review for the current designated period

Our follow-up for the current designated period found that DPTI had yet to make any payments to AOSMA for Tranche 2 works. Further DPTI advised that, following discussions with AOSMA, it was in the process of amending the list of items included in Tranche 2.

Accordingly our review focussed on following up the status of actions taken by DPTI to address matters raised previously about the reimbursement of Tranche 1 works.

Our review found that the major changes to what was advised to Cabinet in November 2015 and what was in the Deed were not reported back to Cabinet. As previously indicated the key changes were:

- the decision to reimburse AOSMA for works already completed
- a significant reduction in the estimated value of future works to be undertaken by AOSMA as specified in the submission.

Consistent with our review for the previous designated period, the basis for reimbursing AOSMA for past works already paid for by AOSMA is still not clear to us.

Further, our review of invoices and other supporting evidence to support the nature of the expenditure items included in AOSMA's Tranche 1 claim for reimbursement found that, for some items, the information was insufficient for us to determine the nature of the expenditure. We could not therefore determine whether the expenditure was consistent with the purpose for which the funds were appropriated and was in accordance with the Act.

We requested further information (eg contracts, supporting documentation) for a number of items to support the nature of expenditure and clarify a number of matters arising from our review of the invoices supplied by AOSMA to support its claim for reimbursement.

At the time of finalising our review for the current designated period, DPTI was obtaining the additional information requested.

We also noted that DPTI sought advice from the Crown Solicitor's Office (CSO) on whether the expenditure of the funds by the State towards the purpose specified in the Deed was consistent with the purpose approved by Cabinet in 2011. We were advised that after receiving the advice from the CSO, DPTI is reviewing the Deed with AOSMA to reallocate funding totalling approximately \$36 000 from Tranche 1 to Tranche 2.

We understand that the advice provided by the CSO was based on representations made by DPTI staff. For example, DPTI instructed the CSO that some works were necessary because of an omission in the State's design documentation for the project or were works identified as non-essential items in the 2011 Cabinet submission. We were advised that DPTI is still consulting with the CSO regarding Tranche 1 and Tranche 2 works included in the Deed.

We recommended DPTI:

- document the basis and rationale for reimbursing AOSMA for works it had procured, completed and paid for from its own funds
- provide to us the additional information requested (ie contracts, supporting documents etc) to support the nature of the expenditure items included in AOSMA's Tranche 1 claim for reimbursement as soon as practical
- finalise consultation with the CSO.

DPTI responded to the matters raised and indicated that over the previous reporting period, it reviewed the items for reimbursement in conjunction with the CSO for appropriateness. DPTI advised following this review, it prepared a Cabinet note to advise Cabinet of the revised details of the Deed including proposed changes to Tranche 1 and Tranche 2. Once finalised the Cabinet note will be presented to the Minister for consideration. Further, DPTI advised it will document the basis and rationale for reimbursing AOSMA for works already completed in conjunction with the CSO and liaise with AOSMA to provide documentation supporting the nature of the expenditure.

5.2.4 Defect rectification management

Our review for prior designated periods identified the need to implement effective defect management reporting and the need for DPTI to establish a mechanism, including obtaining and collating appropriate evidence, to independently substantiate that all identified defects have been appropriately rectified.

We were advised that DPTI engaged the project manager (as part of its project management responsibilities) to undertake this role, including issuing a certificate that all defects have been closed.

Our follow-up review for the previous designated period included, through enquiries with DPTI staff and review of relevant documentation, gaining 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 example, 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 obtaining documentation from the project manager to ensure appropriate certification of defects.

We recommended that:

- 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
- on 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.

Our review for the current designated period found that DPTI was still reviewing defects. We were advised that DPTI and the project manager had agreed on actions to finalise the review of defects as part of their engagement as project manager, however the project manager's response to date had not met DPTI's expectations.

DPTI advised that it was continuing to work with the project manager to resolve the review of defects and was devising a methodology to confirm defects were appropriately closed out. This is to include:

- undertaking a risk assessment, selecting a representative sample for review
- where possible undertaking a physical inspection of completed defect works and/or discussing with the end user (AOSMA) that the defect has been appropriately closed out.

We acknowledge DPTI's recognition of the importance of this matter, however this matter has been outstanding for a long time. DPTI, as the ultimate owners of the Adelaide Oval redevelopment, should give particular focus to ensuring this matter is resolved quickly and efficiently using a risk based approach.

We recommended DPTI finalise the review of defects to ensure defects have been appropriately rectified as soon as practical.

In response DPTI advised it will finalise the ongoing review of defects using a risk based approach selecting a representative sample for review to ensure that the defects have been appropriately rectified by the end of December 2016. DPTI also indicated that where possible, a physical inspection of completed defect work will be undertaken, including discussion with AOSMA.

5.2.5 Contract management – professional service providers

5.2.5.1 Background

Our review in prior designated periods identified the need for more rigorous project and contract management controls over the administration and documentation processes for the project. These matters included payments to professional service providers that were made, in some instances:

- before contract documentation was completed and contract approvals were obtained
- for amounts that exceeded the approved contract amount
- before extensions to contract scope were confirmed in correspondence between DPTI and the service provider.

We also identified areas for improvement in contract documentation.

To reinforce proper contract management, in July 2014 DPTI officers were reminded of expected contract administration practices through the distribution of an internal memorandum. The memorandum, approved by the DPTI Chief Executive, reminded all staff involved in project management and contract administration:

- to ensure contract extensions are executed prior to the provision of those services by professional service contractors
- that appropriate approvals be obtained prior to contractors commencing work that is subject to contract extensions
- that payments should only be made in accordance with relevant approved contracts or contract extensions
- to confirm with contractors, in writing, the scope of work and the price of proposed contract extensions.

5.2.5.2 Observations for the current designated period

In late March 2016 DPTI approached a service provider (ie the contracted project manager) to engage them to undertake further work (outside their project management responsibilities) through a variation to an existing contract. The service provider began providing these services in April 2016.

Our review of the arrangements found that the scope of services, agreed terms and conditions and deliverables were not adequately documented to enable effective management of the service provider's performance and deliverables. Further, we noted that:

- the proposed scope of the works was accepted by DPTI verbally
- the services were charged on an agreed hourly rate basis, however no estimate of the total cost of services was provided by the service provider. We noted that DPTI requested on a number of occasions a fee proposal for the works, which has yet to be provided

- DPTI requested the service provider establish a method of tracking costs associated with the provision of services, however this had not been implemented
- some of the works were undertaken by the service provider without the prior approval of DPTI
- regular updates on the works completed and hours charged were not provided by the service provider.

At the time of our review DPTI was working towards executing a contract variation to formalise the arrangement for the provision of services. As indicated above, the DPTI Chief Executive has reminded staff to ensure contract extensions are executed prior to the provision of those services by professional service contractors.

It is important to establish a cost estimate for the provision of services to ensure the expenditure associated with the works is appropriately authorised and to enable an assessment of value for money.

Further, we noted that DPTI had withheld payment of a small number of invoices as they contained errors and insufficient detail regarding the services provided and hours charged. We were advised that the service provider was requested to resubmit the invoices and additional information for review by DPTI.

We recommended DPTI:

- implement a mechanism to ensure contract extensions are executed prior to the provision of services by professional service contractors
- ensure the scope of work and the price of proposed contract extensions are adequately documented to enable effective monitoring of performance
- finalise the review of the resubmitted invoices and additional information requested once received from the service provider.

DPTI responded that in future it will ensure that contract extensions are executed prior to the provision of professional services which will include a scope of work and price to enable effective monitoring of performance. DPTI will finalise a review by October 2016 of the resubmitted invoices and additional information.

5.2.6 Concluding audit comment

Term of reference three 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 that the majority of matters raised remain unresolved, notwithstanding that DPTI agreed with our recommendations and proposed actions to address the matters. In particular, the management of defects and the documents maintained to evidence the resolution of all defects identified require attention. Also, we noted the need for more rigorous contract management arrangements for professional service providers.

Further, we found shortcomings in financial reporting and reconciliation processes had not been resolved.

These matters need to be effectively addressed to ensure effective project completion and financial close out, including final claims and certificates. The relevance and importance of these matters will continue if the State agrees to undertake or fund further works for the redevelopment from remaining funds.

In addition, a number of matters were raised in this and the previous 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.

We also note a Commonwealth funded project has a forecast cost overrun which, if it eventuates, will be funded from funds appropriated by the State. This project and any other works undertaken for the redevelopment need to be appropriately managed to ensure the statutory cap is not exceeded.

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. This will enable a proper financial close out position for the project and fully accountable reporting to Executive Government on the statutory limit of \$535 million.

6 Other matters of importance

6.1 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 were:

- 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.

The abovementioned leases, licences and sublicences have been tabled in Parliament in accordance with the Act.

6.2 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
- authorised DPTI to inform AOSMA that it should budget for the proposed arrangements in its forward program
- noted 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.

In preparing this Report we enquired about the status of the sinking fund with DPTI and DTF. In July 2016 AOSMA wrote to the Minister confirming that the first instalment will be paid into the fund in the 2016-17 financial year. At the time of finalising this Report DTF advised us that the Treasurer had not made a determination or approval for the sinking fund.

6.3 Other funding sources and commitments

From inception of the Adelaide Oval Redevelopment project there was recognition of 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, \$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.

6.4 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 transferred \$18 million of funding for the Adelaide Oval redevelopment to AOSMA under a Deed of Grant between the Minister and AOSMA. The status of this funding is discussed in section 6.6 of this Report. The following section discusses developments concerning the \$12 million for adjacent parklands works.

6.5 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.

Funding provided by the Commonwealth under the project agreement has been applied for works on Adelaide Oval No. 2, which includes the realignment of the oval.

The principal construction contract for the works was awarded in April 2016 and has yet to be completed.

During the course of our review we noted that the project costs were forecast to overrun by \$650 000.

We were advised that one of the cost pressures contributing to the overrun is delay claims submitted by the construction contractor. Further, we were advised that the delays were due to issues associated with the scheduling of works and the extended time taken by DPTI to obtain required planning and financial approvals after the contract was awarded. DPTI advised that the external project manager and other service providers assisted with the scheduling of works and obtaining required development and planning approvals.

Project overruns from Adelaide Oval Commonwealth funded projects that have costs paid from money appropriated by the State will need to be recorded against the statutory cap. It is therefore important that this project (and any other projects that include works for the Adelaide Oval) is closely monitored to ensure the statutory cap is not exceeded. This includes ensuring management is provided with timely and reliable information on:

- potential cost pressures

- contractor variations and claims
- cost required to manage defects and undertake any rectification works.

I wrote to DPTI in August 2016 highlighting the importance of ensuring effective project and contract management arrangements are in place to oversee the project. This includes understanding and effectively managing the functions performed by external service providers.

I also advised that we are about to start a review of the procurement, project and contract management arrangements and the management of the overruns for this project.

We recommended DPTI review monitoring, reporting, project and contract management arrangements, and risk management processes in place to ensure effective oversight of the project (or any other project still to be completed) and any expenditure required to be allocated against the statutory cap.

Further we recommended DPTI implement appropriate strategies to mitigate identified project risks and manage any project cost pressures to ensure the statutory cap is not exceeded.

In response DPTI advised it will review project and contract management arrangements and ensure appropriate strategies are in place to mitigate project risks and manage project cost pressures within budget.

As at 30 June 2016 DPTI had expended (on an accrual basis) a total of \$11.5 million from the \$12 million balance of Commonwealth funds.

6.6 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 works were to be managed and controlled through a Deed of Grant.

DPTI transferred \$18 million to AOSMA under the Deed of Grant (the Deed) 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.

6.6.1 Acquittal processes associated with the Deed of Grant

The Deed 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.

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 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.

Our review for previous designated periods sought to understand the extent of review undertaken by DPTI to ensure the funds had been appropriately acquitted in accordance with the Deed.

Our review in the previous designated period found DPTI had not finalised discussions with the CSO regarding the issue of invoices paid after the date of practical completion to ensure the Commonwealth funding provided to AOSMA has been appropriately acquitted in accordance with the Deed.

A follow-up for the current designated period found that DPTI was still in the process of seeking advice from the CSO.

We recommended DPTI conclude consultation with the CSO as soon as practical, to ensure the Commonwealth funding provided to AOSMA has been appropriately acquitted in accordance with the Deed.

DPTI advised that on 10 August 2016, it had formally requested the CSO provide advice regarding extending the Deed between AOSMA and the State to enable DPTI to close the issue.

6.7 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 CSO 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 CSO 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 CSO'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.

6.8 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 March 2016. We were advised that the report for the June 2016 quarter was still being finalised.

Appendix

Summary of money made available and expended within the \$535 million limit to 30 June 2016

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

	\$'000
Total State Government funding available for the project	535 000
Monies appropriated to DTF:	
Monies appropriated to DTF less amounts transferred to DPTI to 31 December 2015	5 970
Monies appropriated to DTF during the period 1 January 2016 to 30 June 2016:	
Appropriation to DTF	-
<i>Less:</i> Monies transferred to DPTI from Contingency	-
Total monies appropriated to DTF less amounts transferred to DPTI to 30 June 2016	5 970
Monies appropriated to DPTI:	
Monies appropriated to DPTI/received from DTF to 31 December 2015	529 030
Monies appropriated to DPTI/received from DTF during the period 1 January 2016 to 30 June 2016:	
Appropriation to DPTI	-
Monies received from DTF from Contingency	-
Total monies appropriated to DPTI/received from DTF to 30 June 2016	529 030
Total amount which has been made available for the project to 30 June 2016	535 000
Total amount of State Government funding still to be made available for the project	-

Extent to which the \$535 million has been expended

	\$'000
Total State Government funding available for the project	535 000
Monies expended on the project by DTF:	
Expenditure by DTF to 31 December 2015	5 970
Expenditure by DTF during the period 1 January 2016 to 30 June 2016:	
Expenditure by DTF	-
Total expenditure by DTF to 30 June 2016	5 970
Monies expended on the project by DPTI:	
Expenditure by DPTI to 31 December 2015	520 781
Expenditure by DPTI during the period 1 January 2016 to 30 June 2016:	
Expenditure by DPTI	302
Total expenditure by DPTI to 30 June 2016	521 083
Total expenditure on the project to 30 June 2016	527 053
Balance of State Government funding unexpended as at 30 June 2016	7 947