



Government
of South Australia

Report of the Auditor-General

August 2014

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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 2014 to 30 June 2014

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Dear President and Speaker

**Report of the Auditor-General: August 2014: 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 2014 to 30 June 2014**

Pursuant to section 9 of the *Adelaide Oval Redevelopment and Management Act 2011* (the Act), I herewith provide to each of you a copy of my report - 'Report of the Auditor-General: August 2014: 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 2014 to 30 June 2014'.

As Parliament is not sitting this week, 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.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S O'Neill'.

S O'Neill
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 January 2014 to 30 June 2014

1. Executive summary

1.1 Introduction

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 requires financial supervision of the project by the Auditor-General. This is the sixth Report to the Parliament in discharge of the requirements of the Act and follows my Reports of:

- 29 February 2012
- 31 August 2012
- 28 February 2013
- 31 August 2013
- 28 February 2014.

In addition to the specific reporting obligations of the Auditor-General pursuant to section 9 of the Act, the Auditor-General must undertake certain other principal 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 the Auditor-General's 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 progressing 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 appropriately be brought to the attention of the Parliament.

1.3 Requirements of the Act relevant to this Report

The Act incorporates provisions that limit 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 I consider are three terms of reference, for each six month period, beginning on 1 January and 1 July in each year.

My previous Reports to Parliament included specific comment and analysis on the reporting terms of reference for the Auditor-General under the Act. I repeat below certain aspects of that commentary to explain the audit approach that I have taken in addressing the particular 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 30 June 2014 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, it is important to emphasise that, 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. Further, agencies have a necessary role in preparing this information and providing it to the Auditor-General. It is also important to acknowledge that Audit is not engaged in the day-to-day management of the Adelaide Oval redevelopment and, consequently, is 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, Audit has 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 Audit to address the requirements of the Act.

It is important to acknowledge that, 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 Audit’s 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 31.12.13 \$’000	01.01.14 to 30.06.14 \$’000	Total to 30.06.14 \$’000
Money made available	535 000	-	535 000
Money expended	510 274	9 061	519 335

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, 4.2.3 and 4.2.4 of this Report, Audit has 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. This basis of recognising money expended reflects a common definition of expended as paid out, disbursed or spent.

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.

Audit has also considered the audited financial statements of AOSMA up to the year ended 31 October 2013 and other specific financial information relevant to this designated reporting period obtained by Audit 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 Audit 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 30 June 2014

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 31.12.13 \$'000	01.01.14 to 30.06.14 \$'000	Total to 30.06.14 \$'000
Money made available	535 000	-	535 000
Money expended	510 274	9 061	519 335

The Appendix to this Report provides a more detailed analysis of money made available and expended within the \$535 million limit to 30 June 2014.

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 30 June 2014.

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 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.

The payments to the principal construction contractor during the period were mainly with respect to works on the Northern Mound, the South Stand (now referred to as the Riverbank Stand), the East Stand, other internal and external works and the procurement of off-site materials including:

- completion of the Northern Mound and Ancillary Works which was handed over to SACA in October 2012 for the 2012-13 cricket season
- reinstatement of the four light towers that were commissioned for use for the 2012-13 cricket season

- progression of works on the South Stand including piling works, installation of retaining wall pre-cast panels and works on the concrete structure for levels one, two, three and four
- completion of piling, the substructure and in-ground services for the East Stand
- progression of works on the floor slabs for the ground and upper levels and installation of pre-cast retaining walls for the East Stand
- commencement of works on the outlet to the River Torrens embankment
- procurement of off-site materials including pre-cast concrete and structural steel for the South Stand and East Stand.

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.

The payments to the principal construction contractor during the period were mainly with respect to works on the South Stand, the East Stand, other internal and external works and the procurement of materials including:

- practical completion and handover to AOSMA of Main Oval works
- progression of works on the South Stand including completion of the concrete superstructure and ongoing works on the façade, steel roof fabrication and the fitout including wall framing and sheeting
- progression of works on the East Stand including the concrete superstructure, floor slabs for the various levels and works on steel structures and first fix services
- work on the southern plaza including completion of the floor slab
- procurement of materials including structural steel, precast panels/plats and plant and equipment.

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.

The payments to the principal construction contractor during the period were mainly for works on the South Stand, the East Stand, other internal and external works and the procurement of materials including:

- practical completion and handover to AOSMA of the South Stand and the southern plaza which allowed the Ashes Test match to be played at the Adelaide Oval
- progression of works on the East Stand including the completion of roof steelwork, installation of escalators, progression of works on the roof fabric, ceiling, partitions, wall framing, joinery and the façade
- progression of works relating to the indoor cricket centre including pouring the mezzanine slab, steel works, roof sheeting, framing for glazing and completion of lift and stair shafts
- procurement of off-site materials including structural steel, cladding material, joinery, aluminium and glass.

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 as the preferred strategy to manage the risks associated with completion of works under the principal construction contract in order to stage the Rolling Stones concert on 22 March 2014 and the first Adelaide Oval showdown on 29 March 2014. The acceleration payment is further discussed in sections 4.2.3.2 and 4.2.4.1 of this Report.

The payments to the principal construction contractor during the period were mainly for works on the East Stand, other internal and external works and the procurement of materials, including practical completion and handover to AOSMA on 19 March 2014 and 24 March 2014 of the following works:

- sporting lights (practical completion achieved 19 March 2014)
- indoor cricket centre (practical completion achieved 19 March 2014)
- East Stand including the basement and ramp, levels 1 to 5 and the seating bowls (practical completion achieved 19 March 2014)
- Eastern Parklands and balance of works (practical completion achieved 24 March 2014).

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 30 June 2014.

	\$'000
Money made available	<u>535 000</u>
Money expended	<u>519 335</u>
Money available to complete the project	<u>15 665</u>

2.2.2.2 Status of the project contingency

My previous Reports have included commentary on 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 comprises representatives of DPTI, AOSMA, SACA and the SANFL.

The most recent financial statement report as at 20 June 2014 prepared by the cost consultant was presented to the PCG in June 2014. The report provides a detailed schedule showing the status of the project contingency. The schedule was further updated and presented to the PCG in late August 2014. That update notes that the contingency for the project is \$29.623 million of which \$5.283 million remains uncommitted. The June 2014 financial statement report also indicated that the majority of claims had been received from the principal construction contractor, however, there were a number of variation claims that were under consideration. The cost consultant noted that the contingency will need to be carefully managed.

2.2.2.3 Status of final/variation claims

In April 2014, Audit sought through DPTI an update on the financial status of the project including details of the contract claims/variations made by the principal construction contractor and other contractors.

In response, DPTI advised that the principal construction contractor had dedicated considerable resources to finalise the contract claim, including all variations, as expediently as possible and was endeavouring to submit its final claim by the end of June 2014.

In preparing this Report for the current period Audit recently followed up with DPTI the status of the principal construction contractor's final claim.

In late August 2014 DPTI advised that:

- since early August 2014 the project manager and cost consultant have been working through all claims from the principal construction contractor
- in total all claims submitted by the principal construction contractor are within the budget allowances included in the 20 June 2014 financial statement report prepared by the cost consultant

- no new claims have been submitted by the principal construction contractor over the past month other than for essential rectification/completion works instructed by the project manager with DPTI approval.

DPTI also indicated that it will continue to work with the principal construction contractor to complete the final and variation claims as soon as possible.

Audit considers that the matter of final and variation claims resolution should receive utmost diligent attention.

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, that is 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, Audit has 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, Audit has 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 Audit has 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 Audit has 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

My first Report communicated that 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 January 2014 to 30 June 2014 were the:

- Consolidated Account
- Adelaide Oval Redevelopment special deposit account.

As noted in my first Report 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 my first Report.

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

As outlined in my fourth Report, Audit 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. Audit review for the fifth (previous) period and the current period gave focus to following up action taken by DPTI to address certain matters identified for improvement. This follow-up is discussed in section 3.2.2 of this Report.

3.2.1 Maintenance of DPTI'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.

My first Report noted certain matters associated with records maintenance by DPTI. Significant expenditure was recorded outside the project ledger and only recognised in the project ledger after the designated period cut-off date. In addition, some payments with respect to the redevelopment project that were processed as urgent payments outside of the established accounts payable system (which is automatically integrated with the DPTI general ledger) caused delays in recording the payments within the project ledger.

These matters were the subject of communication with DPTI in April 2012. Audit recommended the development of policies and procedures specific to the redevelopment project that focused on providing appropriate assurance to both DPTI and Audit that all expenditure relevant to the Adelaide Oval redevelopment is captured within a nominated project ledger account within the correct period. These matters have been the subject of continual follow-up review during the project development and relevant reporting periods.

Audit inquiry and testing performed in preparing this Report 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, Audit 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. The matters were communicated to DPTI in August 2014. The matters and DPTI's responses are summarised below.

3.2.1.1 Urgent electronic funds payments

Audit review for the current period noted a number of payments that were paid by urgent electronic funds transfer (EFT). While there may be specific circumstances that require EFT payment processing outside normal Basware system payment processing, payments by EFT increases the risk of duplicate payments. This risk arises from EFT payments being processed directly through the online banking facility and bypassing automated system controls incorporated in Basware. Also, by not processing payments in Basware this reduces the ability of DPTI and Audit to identify invoices relating to the Adelaide Oval redevelopment. Audit recommended that DPTI ensure all practical measures are taken to avoid the use of urgent EFT payments.

DPTI responded that it continues to limit the use of urgent EFT payments. Where they have occurred due to specific circumstances, such as delays in reimbursement of AOSMA under established reimbursement agreements, they have been duly noted and reconciled against project expenditure records.

3.2.1.2 Delays in paying invoices

Audit review identified a number of instances where invoices were not paid in a timely manner. The failure to pay invoices on a timely basis reduces DPTI's capacity to effectively monitor the actual expenditure for the project redevelopment against the statutory limit of \$535 million.

DPTI responded that, where it has clearly contracted the supply of goods or services and the required substantiation is provided, invoices are paid on a timely basis. Where such invoices are not appropriately substantiated payment is authorised immediately on the provision of adequate documentation. DPTI also indicated that it will monitor this matter.

3.2.1.3 Integrity of recording and reporting monies expended

As mentioned at the start of this Report section, details of project expenditure are principally controlled and recorded through the detailed project ledger (the job cost system) maintained by DPTI. It was also stated that the statutory State funding limit applying to the project development is \$535 million.

Furthermore, as conveyed in section 1.3 of this Report, funds have also been made available to the project development by the Commonwealth Government (\$30 million) and the AFL (\$5 million).

It is important that expenditure on the redevelopment project from Commonwealth and AFL sources is kept separate from DPTI's record of expenditure from State monies to which the statutory limit applies.

Audit review for the current period found that expenditure funded from Commonwealth funds of about \$2 million was recorded in the specific project ledger account established to record money expended on the redevelopment from State monies. The expenditure incorrectly recorded was subsequently corrected by DPTI.

Audit recommended DPTI implement a mechanism to ensure only expenditure, relevant to the redevelopment, funded from public monies is captured within the nominated project ledger account established to record the expenditure against the statutory limit.

DPTI responded that it undertakes to ensure the correct processing of such expenditure.

3.2.2 Management reporting of project costs

3.2.2.1 Introduction

The obligation for DPTI to ensure rigorous cost supervision over the Adelaide Oval Redevelopment project (including in recognition of the statutory expenditure limit of \$535 million), requires quality cost management arrangements. These arrangements should also include the reporting of timely, complete and relevant costing information. This imperative has higher emphasis as the project progresses to completion and financial close out, as the project funding/budget limit is committed and spent, and as DPTI's capacity to implement action to address any cost pressures is reduced.

3.2.2.2 Review of project reporting arrangements

In August 2013 Audit 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, project manager, principal construction contractor and cost consultant. The scope and findings of the review were communicated in my fourth Report to Parliament.

While the review did not reveal any notable shortcomings, certain matters that were identified for improvement and communicated to DPTI were followed up for the previous (fifth) and current designated reporting periods.

3.2.2.3 Reliability of information used to monitor the project

One 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.

In finalising the review for the previous period Audit sought from DPTI an update on the status of work being undertaken by the cost consultant to complete the project expenditure reconciliation. DPTI advised that the cost consultant was being provided with expenditure reports on a regular basis and had performed a reconciliation. DPTI also advised that it was currently reviewing anomalies highlighted in the reconciliation to ensure they are appropriately reconciled against the budgeted commitments.

Audit indicated that DPTI should collaborate closely with the cost consultant to bring to early completion the review of the reconciliation anomalies.

Audit review for the current period found that the project cost information as recorded in DPTI's job cost ledger continued to be provided monthly to the cost consultant. Further, Audit found that the cost consultant had completed a reconciliation of project expenditure as at 31 August 2013 and had provided DPTI with a number of reports on the status of outstanding discrepancies. However, the cost consultant was still in the process of completing the reconciliation as at 30 June 2014.

In August 2014, I wrote to DPTI noting the status of the reconciliation process and recommended DPTI work with the cost consultant to finalise the reconciliation as at 30 June 2014 and follow up outstanding discrepancies.

DPTI responded that it is actively pursuing this matter and there is no outstanding expenditure that has not been reflected in the project budget and the financial reports. DPTI further noted that this ongoing reconciliation does not jeopardise the current status of the project commitments which are within the statutory expenditure limit for the project.

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 Audit for review in preparing my first five Reports and this sixth Report 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 2014) shows that DPTI was the only entity that incurred material expenditure, from public monies, during the period from 1 January 2014 to 30 June 2014. 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 Audit has 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 in my Reports reflect Audit's 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 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, 4.2.3 and 4.2.4 below, Audit has 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.

4.2.1 *Project governance arrangements*

My 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 design and construction phases of the project.

It was conveyed in my first Report that I would recommend to DPTI that it 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.

This recommendation was communicated to DPTI in April 2012. 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. Audit was 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. Further, Audit has been cognisant of the guidelines in undertaking the designated six monthly period reviews.

4.2.1.1 *Project Control Group meetings*

In preparing this Report Audit has reviewed the minutes of the PCG. My previous Reports have confirmed that the PCG has met regularly and has received detailed reports from the contracted project manager, the principal construction contractor and the cost consultant detailing progress in implementing the project.

Audit review for the current period found that the PCG did not meet every month throughout the period. The PCG met four times (23 January 2014, 20 February 2014, 20 March 2014 and 20 June 2014) during the period. The principal construction contract practical completion was achieved in March 2014, however, as noted the PCG has only met once since that time in the current period.

In August 2014 Audit wrote to DPTI and expressed the view that the period leading up to and after reaching practical completion represents a critical phase of the project as a number of key aspects of the project need to be finalised, including managing defects and outstanding works, settling outstanding final and variation claims and managing the remaining project contingency and reporting requirements. Further, Audit indicated that it is important that DPTI ensures appropriate governance arrangements are maintained throughout the project life cycle and recommended the PCG meet regularly for the remaining life of the project.

DPTI responded that the schedule of PCG meetings was interrupted between April and June 2014 while the processing of outstanding claims took place and key stakeholder staff were on leave following the intense period leading up to practical completion, or otherwise fully engaged in the process of bedding down the stadium operations through the first two months of regular AFL games and functions.

DPTI also indicated that at the recent August 2014 PCG meeting, it was agreed that the existing governance arrangements remain during the post-construction phase of the project and supported the DPTI Director Strategic Projects performing the role of Project Director. The governance arrangements will be amended to reflect this change.

4.2.1.2 *Lack of regular financial reporting*

Section 3.2.2.1 of this Report mentioned the importance of DPTI exercising over the project development rigorous cost management arrangements supported by reporting of timely, complete and relevant costing information. It was indicated that this imperative takes on additional importance as the project progresses to completion and financial close out.

The external cost consultant engaged by DPTI prepares a monthly financial statement report which is presented 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.

In April 2014, Audit undertook an update review of the financial status of the project. Audit found that financial statement reports were not prepared and reported to the PCG on a regular basis. Audit noted that only one financial statement report (ie the report for the period ending 18 February 2014) had been prepared and presented to the PCG since the beginning of the current six month reporting period. The cost consultant subsequently prepared a financial statement report as at 20 June 2014 which was presented to the meeting of the PCG on 20 June 2014. However, at the time of finalising this Report no further complete financial statement report had been prepared.

Given the legislative requirement imposed on DPTI to ensure project costs do not exceed the statutory cap, Audit recommended DPTI implement regular, timely and reliable reporting of costing information on funds committed and spent on the project. This would include at least preparation and review of the monthly financial statement reports for the remaining life of the project.

DPTI advised that the preparation of financial statement reports and project management reports was interrupted only between April and June 2014 when significant effort and resources were prioritised to process outstanding claims as quickly as possible and to determine with a high degree of certainty the financial status of the project. In addition, DPTI indicated that during this period, it was in regular contact with the project and cost managers and kept up to date with the reconciliation of claims and the project's overall financial position. Lastly, DPTI responded that it will ensure financial statement reports are prepared in line with post construction project governance arrangements.

4.2.1.3 Lack of regular reporting on the physical status of the project

The project manager prepares a report that is presented to the PCG. The information included in the report is extensive and includes a number of different components including a:

- report prepared by the project manager that includes information on the principal construction contract (including a summary of physical progress), secondary works, design matters and approvals
- report by the principal construction contractor that includes an overview of progress of works (supported with photographs), critical issues, design matters, procurement, a detailed report on the status of construction, quality matters, safety, environmental and other matters
- financial statement report (as discussed in sections 2.2.2.2 and 4.2.1.2 of this Report) prepared by the cost consultant.

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

Audit review found that only one report (ie the report for the period ending 18 February 2014) had been prepared and presented to the PCG since the beginning of the current six month reporting period. As a consequence, no project manager reports have been prepared since the principal contract achieved practical completion in March 2014.

It is considered that the period leading up to and after reaching practical completion represents a critical phase of the project as a number of key aspects of the project need to be finalised, including managing defects and outstanding works, settling outstanding claims, managing the remaining project contingency and reporting requirements.

Audit recommended DPTI implement the provision of appropriate project reports to the PCG and DPTI management regularly throughout the remaining life of the project.

DPTI responded that it will ensure, as with financial statement reports, that project management reports are prepared in line with post construction project governance arrangements.

4.2.1.4 Future project governance arrangements

As previously indicated the guidelines for the operation of the PCG record the respective roles, responsibilities and limits of authority for members of the PCG. The guidelines provide that the Project Director is the Chair of the PCG. Further, the guidelines state that the former Chief Executive of DPTI is the Project Director.

In preparing the Report for the current period Audit noted that a replacement Project Director/Chair has not been formally appointed to the PCG following the departure of the former Chief Executive from DPTI. In August 2014, Audit recommended DPTI review the governance arrangements for the remaining life of the project and update the PCG guidelines accordingly.

As mentioned at the conclusion of section 4.2.1.1 of this Report the PCG at its meeting in August 2014 supported the DPTI Director Strategic Projects performing the role of Project Director.

4.2.2 Procurement and payment of consultants

Previous Reports have observed that the cost of professional service contractors, engaged to provide various services for the project development are a significant component of overall project costs.

These Reports have also provided specific comments on certain matters noted from reviews of engagement and contract arrangements for professional service contractors.

Audit continued to review this important component of project cost in the current designated period. Relevant audit comments are summarised below.

4.2.2.1 Contract documentation and approvals

The review of engagement and contract management arrangements in April 2013 considered aspects of contract documentation and management. Audit noted that, in some instances, payments to professional service providers were made:

- 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.

The review also identified areas for improvement in contract documentation. The matters noted were communicated to DPTI in April 2013.

In response to the audit findings DPTI advised that in some instances DPTI officers had departed from accepted practice to pay amounts due to service providers before all formal contract documentation and approvals were settled. DPTI indicated that notwithstanding the delays the payments were for work that was performed in accordance with instructions. DPTI also advised it had prepared a memorandum to DPTI officers reminding them of accepted contract administration practices.

In my previous two Reports (the fourth and fifth Reports) it was noted that the memorandum had not been approved and distributed to staff and that DPTI should give urgent attention to this matter. Further, in my last Report (the fifth report) I expressed the view that implementing the memorandum should be seen as an important remedial practice measure directed to not only the Adelaide Oval Redevelopment project but for all other infrastructure developments under the administrative responsibility of DPTI.

Audit review in the current period found that the memorandum still had not been approved and distributed to staff. In addition, Audit procedures again identified instances where services were provided by contractors prior to obtaining contract extension approvals. This matter is discussed below in section 4.2.2.2 of this Report.

Audit was subsequently advised that the memorandum had been signed and distributed to staff. In correspondence provided to DPTI in August 2014, I acknowledged the long overdue action taken by DPTI and recommended DPTI implement a mechanism to ensure compliance with appropriate contract administration and management practices.

DPTI responded that it will monitor practice in this regard and will consider what further mechanisms are available to be implemented should the most recent action be ineffective.

4.2.2.2 Provision of services prior to receiving contract extension approvals

Audit review for the current period noted the Minister or delegate approved extensions for a number of professional service contractors who provide project management and cost management services for the project. Audit review found that services were provided by (and in some cases payments were made to) the professional service contractors prior to obtaining the contract extension approval. The particular contract extensions were advised in the August 2014 Audit correspondence to DPTI.

As noted at the end of section 4.2.2.1 above, DPTI responded it will monitor practice in this regard and will consider what further mechanisms are available to be implemented should the most recent action be ineffective.

4.2.3 Review of the principal construction contractor arrangements

4.2.3.1 Shortcomings raised in prior period Reports

My fourth Report provided details of Audit's review of the procurement and contracting arrangements for the principal construction contractor of the Adelaide Oval Redevelopment project. In brief, the review raised a number of shortcomings in the procurement and contract formation process and concluded that sufficient regard was not given to the effective implementation of appropriate probity standards throughout the entire process.

In the previous (fifth) Report, I noted that in September 2013 the responsible Minister's representative and the principal construction contractor executed a Variation Deed to the contract. Audit highlighted that the Variation Deed was executed without obtaining prior formal documented approval of the Minister. Further, a risk and financial analysis that was advised as undertaken by DPTI was not supported by formal documentation to evidence the basis for varying the terms of the principal construction contract. I expressed the view that the variation (and any similar variation to the contract terms that may arise) should be underpinned by prior documented approval and the rationale and analysis supporting the variation should also be appropriately performed and documented.

4.2.3.2 Payment of acceleration costs in the current period

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 as the preferred strategy to manage the risks for the completion of works under the principal construction contract in order to stage the Rolling Stones concert on 22 March 2014 and the

first Adelaide Oval showdown on 29 March 2014. The Minister also approved an additional contingency of \$400 000 if required. The approval from the Minister also noted that AOSMA would be invoiced for 50% of the acceleration costs.

The matter of sharing of acceleration costs between DPTI and AOSMA is in dispute and is further discussed below in connection with the matter of claims made by AOSMA on DPTI for certain project cost reimbursements.

4.2.4 Cost reimbursement disputes between DPTI and AOSMA

4.2.4.1 Acceleration cost sharing and reimbursement

In March 2014 DPTI advised AOSMA in writing that the principal construction contractor successfully accelerated the works and achieved early completion on 19 March 2014 and DPTI would invoice AOSMA for \$300 000 representing 50% of the acceleration costs.

AOSMA responded to the correspondence in March 2014 indicating that the acceleration proved vital in enabling AOSMA to prepare for the opening round of football at Adelaide Oval. AOSMA, however, conveyed that it had never agreed to the Government cost reimbursement claim and therefore did not accept any liability for all or part of the acceleration costs.

In June 2014 DPTI issued AOSMA an invoice for \$300 000 for 50% of the acceleration costs, however, AOSMA is disputing the invoice. In response to Audit inquiry regarding this matter DPTI advised discussions were occurring between DPTI and AOSMA to resolve the matter.

Audit recommended that DPTI resolve the matter as soon as practical. Further, DPTI should ensure arrangements regarding funding and allocation of project costs are documented and agreed to in writing.

DPTI responded it will continue its efforts to resolve this matter as soon as practical and will ensure that financial arrangements between parties are documented and agreed in writing.

4.2.4.2 AOSMA reimbursement cost claims

During the course of the review for the current designated period, Audit was advised that AOSMA has requested contributions from DPTI for certain works associated with the development of the Adelaide Oval redevelopment. Audit was informed that AOSMA has 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.

At the time of the review AOSMA invoiced DPTI a total of \$1.428 million for the ribbon boards and \$350 000 for the cabling and fitout costs. Audit was advised that AOSMA 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.

Following enquires made by Audit, DPTI advised that the State Government had no contractual commitment to reimburse AOSMA for these costs. Audit was also advised that the matter is currently subject to negotiations between AOSMA and the State Government.

In addition, Audit was advised that AOSMA had requested reimbursement for further costs totalling approximately \$1 million. At the time of the audit DPTI was reviewing these invoices to assess whether they should be reimbursed.

Audit recommended that DPTI resolve the outstanding reimbursement matters as soon as practical and ensure arrangements regarding funding and allocation of project costs are documented and agreed to in writing.

DPTI responded that it intends to resolve the matters as soon as practical and will ensure that financial arrangements between parties are documented and agreed in writing.

With regard to other costs of \$1 million, DPTI advised that it has recently approved payment of approximately \$687 500 including GST of outstanding AOSMA costs to meet existing commitments, and is working through the remaining invoices.

4.2.5 Follow-up of prior period payments by DPTI related to AOSMA operations

My previous Reports have included comments and recommended actions on certain expenditure by DPTI that was aligned to the operations of AOSMA and not directly associated with the Adelaide Oval redevelopment.

As discussed in my second Report, Audit identified two payments by DPTI of a material nature in February 2012 to the SANFL (approximately \$960 000 excluding GST) and SACA (approximately \$1.009 million excluding GST).

As these payments related to AOSMA and not the Adelaide Oval redevelopment, DPTI advised that it would seek the Treasurer's approval for the payments to be approved as ex gratia payments under the provisions of Treasurer's Instruction 14 'Ex gratia payments'. In June 2012 the Treasurer retrospectively ratified these payments and up to \$300 000 of further expenditure by DPTI on behalf of AOSMA.

In preparing my third Report Audit followed up DPTI expenditure against the Treasurer's approval of up to \$300 000 of further expenditure on behalf of AOSMA. The review and third Report noted payments totalling approximately \$466 000, which appeared to be aligned with the operations of AOSMA and exceeded the \$300 000 limit approved by the Treasurer in June 2012. Audit recommended that DPTI seek the Treasurer's approval for any expenditure in excess of the previously approved amount.

This matter was followed up in preparing my fourth Report. In that Report it was noted that DPTI had not obtained the Treasurer's approval to treat further expenditure as ex gratia contributions to AOSMA and I expressed the view that urgent attention should be given by DPTI management to finalise this matter.

My Report for the previous (fifth) period noted that in January 2014 the Treasurer retrospectively ratified a list of additional payments totalling approximately \$318 000 relating to AOSMA as ex gratia payments. At the time of finalising the Report, the total value of payments approved by the Treasurer as ex gratia contributions to AOSMA was approximately \$618 000 (excluding the \$960 000 and \$1.009 million paid to the SANFL and SACA respectively).

Audit review in the current period noted that DPTI did not identify any payments relating to the operations of AOSMA that required the Treasurer's consideration and/or approval for the payments to be approved as ex gratia payments. Further, Audit testing of a sample of payments did not identify any payments directly aligned to the operations of AOSMA.

4.2.6 Concluding Audit comment and recommendation

Term of reference three, the subject of commentary of this section 4 of this Report, addresses the serious requirement of the proper and efficient management of funds for the Adelaide Oval Redevelopment project.

Audit review for the current period identified certain matters that represent shortcomings in meeting the objective of proper and efficient management of funds. The matters are described in detail within section 4 and their nature reflects repeat or like matters raised in previous Reports, or newly raised matters. The following briefly describes the matters:

- weakening in project governance arrangements, through reduced holding of PCG meetings and reduced frequency of project and financial reporting
- further identification of deficiencies in contract extensions and payment approvals
- the lack of appropriate documentation to completely support the agreed basis of funding and payment for certain project infrastructure and service delivery costs, resulting in instances of cost disputes between DPTI and AOSMA.

It was of concern to note the weakening in project governance arrangements, given the significance of issues to be dealt with in progressing project completion and financial close out, including contractor final and variation claims to be considered and completed. Further, my previous (fifth) Report specifically mentioned the significance of rigorous cost supervision as the project progressed to completion and project funding/budget limit is committed and spent.

DPTI responded to the issues and recommendations put forward by Audit and these responses are also described within section 4. They will be followed up by Audit early in the next reporting period.

Section 2.2.2.2 of this Report provides the status of the project contingency.

I strongly recommend that all parties charged with the governance of the project collaborate effectively to finalise outstanding contractor claims and variations, and resolve project cost disputes (involving DPTI and AOSMA), to establish a firm financial close out position for 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.

In preparing my first Report Audit 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 (ACC) – 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 ACC – execution date not recorded.

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

My first Report highlighted that the:

- Adelaide Oval Licence Area sublicense between the Minister and AOSMA had not been finalised
- licences between the Minister and SACA and the SANFL had not been provided to both Houses of Parliament.

As was recorded in my second Report, a follow-up found the licences between the Minister and SACA and the SANFL were tabled in Parliament on 1 May 2012.

Audit follow-up in preparing the third, fourth and my last (fifth) Report found the Adelaide Oval Licence Area sublicense between the Minister and AOSMA still had not been finalised. In preparing my last Report, I obtained an update on the status of the sublicense and reported that DPTI advised that AOSMA, SACA and the SANFL requested establishing additional Licence Area sublicences for ancillary uses associated with staging events in the Core Area. DPTI advised the sublicences were close to finalisation and the agreements would be presented to the responsible Minister at the earliest practical opportunity.

In preparing this Report Audit again sought an update from DPTI on the status of the sublicense. DPTI responded that the sublicences have been finalised and are being considered by the ACC in accordance with the requirements of the Act. Further, DPTI advised that it anticipated that the documents will be executed in September 2014.

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.

My 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.

In my last (fifth) Report, I provided an update on the status of the sinking fund. I reported that in November 2013 the Minister wrote to the Treasurer seeking approval for proposed arrangements for the Adelaide Oval Redevelopment sinking fund.

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.

In preparing this Report the status of the sinking fund was followed up with DPTI and AOSMA. Audit was advised that there have been no further developments.

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 my first Report, Audit was 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. The status of the \$30 million in funds provided by the Commonwealth Government is discussed in the following section of this Report.

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.

As communicated in my previous 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 which was deposited into the Adelaide Oval Redevelopment special deposit account. Further, an amount of \$2.5 million representing the balance of the funds committed by the AFL was received by DPTI and deposited in the special deposit account in March 2014.

5.4 Status of Commonwealth funding arrangements

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

- 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 the following section of this Report.

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.

At the time of finalising my fifth Report DPTI advised that it was in the process of finalising arrangements with AOSMA to procure certain works specified in the project agreement between the State and Commonwealth. Audit was also advised that DPTI was still finalising another Deed of Grant and with the exception of reimbursement of preliminary consultancy costs of \$80 000, no funds had been provided to AOSMA.

In preparing this Report, Audit followed up the status of finalising the arrangements with AOSMA to procure works specified in the project agreement with the Commonwealth. DPTI advised that there is no longer any intention to establish a Deed of Grant with AOSMA to procure works in relation to these funds. Audit was advised that the works will be contracted directly by the Minister.

The arrangements for the procurement of works continue to be subject to review by Audit to ensure transparency and accountability for all funds made available and expended on the

project. Any significant matters identified from the review will be reported in subsequent Reports to Parliament.

As at 30 June 2014 DPTI expended (on an accrual basis) a total of \$2.7 million from the \$12 million balance of Commonwealth funds (including the abovementioned \$80 000 in reimbursement costs to AOSMA).

5.5 Funding proposal for AOSMA

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 are to be managed and controlled through a Deed of Grant.

My previous Reports mentioned that DPTI transferred \$18 million to AOSMA pursuant to the Deed of Grant between AOSMA and the responsible Minister. My last (fifth) Report noted that approximately \$12 million had been expended as at 31 December 2013. AOSMA has advised Audit that, as at 30 June 2014, all of the funds provided by the Minister had been expended.

Audit sought to gain an understanding of the work done by DPTI in monitoring and administering the acquittal processes provided for in the Deed. The more significant observations and DPTI's responses are discussed below.

5.5.1 *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 AOSMA must provide the Minister with appropriate and regular information, records and reports as the Minister may request regarding a number of matters including:

- AOSMA's management and use of the funds to achieve the outcomes of the purpose
- the performance of AOSMA's undertaking and obligations under this Deed.

Audit review found that on behalf of the Minister, DPTI requested updates from AOSMA. AOSMA has provided spreadsheets containing details of expenditure made against the funding provided by the Minister.

At the time of the audit, DPTI was in the process of reviewing the spreadsheets and awaiting further information. Audit recommended DPTI finalise the review as soon as practical.

The Deed also 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. As mentioned above AOSMA has advised Audit that the \$18 million provided under the Deed has been fully expended.

Audit review in early August 2014 found, however, that AOSMA had not yet provided a formal report, pursuant to the Deed, that confirms the level of funds expended at the end of the Deed term (date of practical completion which was in March 2014). Audit recommended DPTI follow up with AOSMA the status of the report to ensure compliance with the mandatory accountability requirements (acquittal processes) of the Deed.

DPTI responded in late August 2014 that it had recently received a report on the level of funds expended from the Deed of Grant by AOSMA at the date of practical completion and that this report is currently under review.

Funding to AOSMA and expenditure by AOSMA to procure certain works will continue to be reviewed and considered in the context of my review and reporting obligations under the Act and in ensuring transparency and accountability for all funds made available and expended on the project development. Any significant matters noted will continue to be reported in subsequent Reports to Parliament.

5.5.2 Works relating to the Deed procured and paid by DPTI

Audit review for the current period noted works totalling approximately \$315 000 relating to the Deed of Grant with AOSMA that were not procured by AOSMA. It is understood DPTI procured the works through existing contracts with the principal construction contractor and the Western Grandstand upgrade contractor.

Audit review found the payments were made from the project ledger account used to record redevelopment expenditure against the statutory limit. Given that DPTI had already provided funding to AOSMA pursuant to the Deed of Grant, it then sought to recover funds from AOSMA.

The basis and arrangements for procuring these works on behalf of AOSMA using existing contractual arrangements between the Minister and existing construction contractors could have been better documented between DPTI and AOSMA. Further, it was noted that at the time of Audit review DPTI had yet to recover \$170 000 of the \$315 000 from AOSMA for works they were already funded for pursuant to the Deed.

Audit recommended DPTI recover outstanding amounts from AOSMA as soon as practical.

DPTI indicated that it is pursuing reimbursement of the outstanding amount of \$170 000.

5.6 Consideration of expenditure by AOSMA in determining expenditure against the \$535 million limit

As communicated in my third Report, following the completion of arrangements to advance funds to AOSMA to enable it to procure works for the redevelopment project, I 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.

5.7 Financial reporting recognition of the Adelaide Oval Redevelopment project

The rights and obligations detailed in the Act and the lease and licence agreements, as detailed above, are relevant to determining the recognition of the asset that is being created through the Adelaide Oval Redevelopment project. The Act and the associated lease and licence agreements provide effective control of the redeveloped Adelaide Oval asset to DPTI on behalf of the responsible Minister. As such, consistent with the recognition criteria of Australian Accounting Standards (including the significant matter of control), the value of the redeveloped Adelaide Oval is being appropriately recognised as an infrastructure asset in the accounts of DPTI and not AOSMA.

The audited DPTI financial statements for the year ended 30 June 2013 recorded the following assets associated with the project development:

- the value of the land on which the redeveloped Adelaide Oval is constructed
- the value of the Western Grandstand which was transferred to the Minister as part of the arrangements with SACA to commence the project
- the cost of work to date met by DPTI since the Minister became responsible for the redevelopment project.

Since 30 June 2013 DPTI has recognised further expenditure of approximately \$149 million (comprising \$140 million for the previous six month reporting period and \$9 million for the current reporting period) against the statutory expenditure cap, which was recognised within the DPTI balance sheet.

The arrangements for accounting for the expenditure of monies received from the Commonwealth Government, including those advanced to AOSMA, have been and will continue to be considered by DPTI, AOSMA and Audit.

As communicated in my fourth Report, in August 2013 Cabinet considered and approved a proposal that specified assets, procured by AOSMA using Commonwealth money, which were in essence fixtures and fittings, would be recognised as assets owned by AOSMA. The approved proposal also acknowledged that other AOSMA procured fixed assets were assets of the Minister and would be recognised in the DPTI financial statements.

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 March 2014.

6. A final matter

The introduction to this Report discussed the Auditor-General's different obligations and responsibilities under both the Act and the PFAA. Although the Act requires the Auditor-General to report at six-monthly intervals on the Adelaide Oval Redevelopment project, I consider that should any matter arise that needs to be reported to Parliament at an earlier interval, I will report such matters in the Annual Report or a Supplementary Report to Parliament.

Appendix

Summary of money made available and expended within the \$535 million limit to 30 June 2014

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 2013	5 970
Monies appropriated to DTF during the period 1 January 2014 to 30 June 2014:	
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 2014	5 970
Monies appropriated to DPTI:	
Monies appropriated to DPTI/received from DTF to 31 December 2013	529 030
Monies appropriated to DPTI/received from DTF during the period 1 January 2014 to 30 June 2014:	
Appropriation to DPTI	-
Monies received from DTF from Contingency	-
Total monies appropriated to DPTI/received from DTF to 30 June 2014	529 030
Total amount which has been made available for the project to 30 June 2014	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 prior to 31 December 2013	5 970
Expenditure by DTF during the period to 1 January 2014 to 30 June 2014:	
Expenditure by DTF	-
Total expenditure by DTF to 30 June 2014	5 970
Monies expended on the project by DPTI:	
Expenditure by DPTI prior to 31 December 2013	504 304
Expenditure by DPTI during the period 1 January 2014 to 30 June 2014:	
Expenditure by DPTI	9 061
Total expenditure by DPTI to 30 June 2014	513 365
Total expenditure on the project to 30 June 2014	519 335
Balance of State Government funding still to be expended	15 665