



Government
of South Australia

Report of the Auditor-General

Received on 31 August 2017 and published on 1 September 2017 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 2017 to 30 June 2017: August 2017

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ISSN 0815-9157



31 August 2017

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Dear President and Speaker

Report of the Auditor-General: 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 2017 to 30 June 2017: August 2017

Under 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: 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 2017 to 30 June 2017: August 2017'.

As Parliament is not sitting at the time of submitting 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 one clear day after it is received.

Acknowledgements

The audit team for this Report was Salv Bianco, Philip Rossi, Michael Hatzicostantis and Julie Christie.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson
Auditor-General

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1 Executive summary

1.1 Introduction

This is the twelfth 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 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 money 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 AOSMA for the reimbursement of works. The payments for the current designated reporting period are summarised in section 3.2.1.

Our review for this period found that significant progress has been made in addressing some long outstanding matters raised in previous Reports. However some matters still require attention, including:

- finalising and closing out outstanding defects
- procurement planning for the delivery of works by AOSMA
- monitoring, reporting, procurement and contract management of works for the oval.

The Department of Planning, Transport and Infrastructure (DPTI) indicated in its response that these matters are being progressed. Section 5 contains the detailed findings and DPTI's responses.

While the Adelaide Oval has been in use for some time there are some outstanding defects that need to be resolved and works to be procured and completed. These remaining activities require timely and effective management to ensure the statutory cap of \$535 million is properly monitored, remaining works have been completed to an appropriate standard and they represent value for money.

The findings and recommendations for each of the terms of reference for the six-month period to 30 June 2017 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 \$578 000 for reimbursement of works, funding Commonwealth funded project overruns and other expenses.

As at 30 June 2017, \$6.85 million of project funds remained. Section 3.2.2 details the status of the project contingency.

1.3 Term of reference two

We found that the state of the public accounts that are relevant to the redevelopment of Adelaide Oval was satisfactory.

1.4 Term of reference three

Our review of 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 significant progress was made in addressing long outstanding matters raised in previous Reports. Our review found some remained unresolved and identified other matters requiring attention. These findings are detailed in section 5 and are summarised below.

Frequency of project management reporting

Only one monthly project report was prepared and presented to the Project Governance Group during the designated period.

Adequacy of approval and documentation to support procurement process for new works

Our review of documentation to support the payments made for new works found that the procurement plans were approved by DPTI after AOSMA commenced procurement processes and did not consider probity and evaluation criteria.

Rectifying outstanding defects

DPTI did not adequately document the approval of the decision to accept the terms of the commercial settlement to rectify defects and had not prepared a risk assessment to address the risks of agreeing to a defect liability period prior to rectifying the defects. Further, DPTI had not been provided with documentation to confirm a long outstanding defect had been rectified.

Commonwealth funded project overrun: procurement, project and contract management arrangements

There was scope to improve financial reporting provided to the body responsible for overall project governance, DPTI's Project Management Office (PMO). Further, we identified weaknesses in the procurement and contract management practices used to engage and manage the works undertaken for the Adelaide Oval that were funded by the Commonwealth. This is discussed further in section 1.5.

1.5 Other matters

My last Report noted that a cost overrun of around \$370 000 for a Commonwealth funded project was recorded against the statutory cap. We reviewed the procurement, project and contract management arrangements and the management of the overruns for this project.

We found a number of control weakness and management practices that contributed to the cost overrun for the project. The more significant findings were:

- the PMO was not provided with accurate information on forecast project cost overruns
- weaknesses in the procurement and contract management practices used to engage and manage the principal construction contractor for the project, including:
 - the absence of effective tender evaluation planning
 - approval for the full scope of works was not obtained before the works started
 - splitting the principal construction contract and circumventing the required approval process
 - delaying the contractor in completing the program of works resulting in extension of time claims
 - the tender validity period expired and was not effectively managed
 - the lack of a formal instrument of agreement
 - the need to review existing contacts with external service providers.

We also found that certain works were removed from the original scope of works tendered, and were to be re-tendered. We noted that had the works been undertaken by the contractor, the amount paid would have exceeded the contract value approved by the Minister and would have required re-approval by the Minister.

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 31.12.16 \$'000	01.01.17 to 30.06.17 \$'000	Total to 30.06.17 \$'000
Money made available	535 000	-	535 000
Money expended	527 572	578	528 150

For 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.

For the third term of reference, on the basis of information obtained and reviewed to date, except for the matters detailed in sections 5.2.3, 5.2.4 and 5.2.5, we have not identified anything that indicates the public money made available and expended for the purpose of and in connection with the Adelaide Oval redevelopment envisaged by the Act was not managed and used properly and efficiently.

2 Background

2.1 Introduction

This is the twelfth 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 twelfth 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, if necessary, report to the Parliament 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

Section 1 provides an executive summary of the matters arising from the audit for the three reporting terms of reference provided for in the Act.

My substantive Report is in sections 3 to 5, which cover 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. In section 6 I comment on other matters that I consider should be brought to the attention of the Parliament.

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 money 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 contributed funds to the project as discussed in section 6.1.

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 each year.

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

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.

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, 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 2017 and before the commencement of the period.

While not required by the Act, 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 that 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 rely 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.

2.5 Approach to the review and preparing this Report

In preparing this Report, as required by section 9 of the Act, we sought to identify and review relevant documentation and other information.

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. Subsequent reviews build on the knowledge and understanding gained in preparing these Reports and following up the matters that arise.

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 (ie money appropriated from the Consolidated Account) has been made available and has been expended on redeveloping Adelaide Oval.

As discussed in section 2.4, money is considered to be made available when it has been appropriated and has been drawn down from the Consolidated Account. 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 for this term of reference we considered authoritative documentation including the Treasurer's Budget Papers, Cabinet submissions¹ and relevant agencies' financial records and accounts.

We also considered specific financial information relevant to this designated reporting period we obtained 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 we prepared 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 2017

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:

¹ My Annual Report to Parliament for the year ended 30 June 2016 (Part A: Executive Summary) highlighted that in September 2016 Cabinet approved a policy that information on Cabinet decision-making will not be provided to investigative agencies. I have been advised that I may request access to Cabinet documents, which will be considered by Cabinet to determine whether an exception to the policy is warranted.

	01.12.09 to 31.12.16 \$'000	01.01.17 to 30.06.17 \$'000	Total to 30.06.17 \$'000
Money made available	535 000	-	535 000
Money expended	527 572	578	528 150

The Appendix to this Report provides a more detailed analysis of money made available and expended within the \$535 million limit to 30 June 2017.

3.2.1 Main items of expenditure

Details of the principal items of expenditure incurred on the Adelaide Oval redevelopment for the period from 1 December 2009 to 30 June 2012 and the six-monthly periods thereafter to 31 December 2016 are provided in my previous Reports to the Parliament.

The main items of expenditure for the current designated period ending 30 June 2017 were:

- payments to AOSMA for the reimbursement of project works – \$71 000
- payments to the principal construction contractor – \$199 000
- payments for other expenses – \$69 000
- Commonwealth project cost overruns – \$239 000.

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 2017.

	\$'000
Money made available	535 000
Money expended	528 150
Money available to complete the project	6 850

3.2.2.2 Status of the project contingency

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

The most recent report prepared by the cost consultant (the financial statement report as at 30 June 2017), which was presented to the PCG in August 2017, indicated that the remaining uncommitted project contingency as at 30 June 2017 was \$5.118 million.

3.2.2.3 Status of variation/final claims

In April 2015 the principal construction contractor submitted a final payment claim. The claim was assessed by the cost consultant and 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 noted that DPTI agreed to a commercial settlement to resolve all outstanding defects. The settlement included both parties agreeing to a defect liability period ending on 22 December 2017, the State paying the \$200 000 as a progress payment and DPTI issuing a Final Certificate once the defects are rectified and the defect liability period has expired.

The status of defects is further discussed in section 5.2.4.

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.

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

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 redeveloping 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. 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 redeveloping 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.

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 2017 to 30 June 2017 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. The Adelaide Oval Redevelopment special deposit account was established in June 2012 as a result of an audit recommendation made in our 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.

4.2.1 Maintaining 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 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.

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 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 shows that DPTI was the only entity that incurred material expenditure from public money during the period from 1 January 2017 to 30 June 2017. 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 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.

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 procuring contracted service providers, were consistent with established public sector standards.

5.1 Approach to evaluating whether the management and use of money for the Adelaide Oval redevelopment was proper and efficient

We 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 to procure, contract with and manage the service providers 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 following up the matters raised.

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 5.2.3, 5.2.4 and 5.2.5, we have not identified anything that indicates 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.

5.2.1 Project governance arrangements

Previous Reports have commented 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 document 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. They have been revised to reflect changes in personnel performing these roles. We have considered the guidelines in our six-monthly reviews.

5.2.1.1 Project Control Group meetings

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

5.2.2 Frequency of project management reporting

Our review for the current designated period found that monthly project reports were not always prepared and presented to the PCG. We found only one report (the Monthly Report as at 31 January 2017) was presented to the PCG during the designated reporting period.

Providing regular project reports would assist the PCG to monitor the status of remaining works/tasks and manage project risks.

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 adopted our recommendation and provided a report outlining the status of the project for discussion at the August 2017 PCG meeting. Project reports will be provided to the PCG members before each meeting.

5.2.3 Arrangements with Adelaide Oval SMA Limited – Deed of Grant

5.2.3.1 Background

In March 2015 Cabinet was advised of 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.

In November 2015, a Deed of Grant (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 to reimburse costs incurred for electronic ribbon boards and other costs
- the Minister withdrawing the invoice DPTI issued to AOSMA totalling \$300 000 to reimburse project acceleration costs.

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

Our last report detailed the outcome of our review of the arrangements for the payment of the \$1.8 million to AOSMA under the Deed for works already undertaken. Our review for the current designated period focused on Tranche 2 works.

5.2.3.2 Tranche 2 works – adequacy of approval and documentation to support procurement process for new works

The Deed provides for the payment for further works (ie Tranche 2 works) for essential safety, security and operational upgrades, subject to a number of conditions including:

- AOSMA's written notice prior to works being undertaken, including providing procurement plans and quotations to the Minister for those works
- AOSMA obtaining the Minister's approval before works are undertaken.

The Deed was varied in January 2017 to:

- amend the values of Tranches 1 and 2
- vary the scope of works for Tranche 2
- extend the time to complete Tranche 2 works.

The varied Deed provides for the payment of \$1 792 970 to AOSMA for Tranche 2 works for essential safety, security and operational upgrades.

We reviewed a sample of two procurement plans for works procured by AOSMA totalling about \$180 000. Our review of the documentation to support the procurements found that:

- the plans were approved by AOSMA and DPTI six and seven months after quotes and tenders were received
- probity and evaluation criteria were not considered within the plans.

We recommended that DPTI ensure procurement plans provided by AOSMA for Tranche 2 works:

- are reviewed and approved by DPTI before starting procurement activity
- clearly describe the procurement strategy or process to meet procurement objectives.

In response DPTI indicated it would implement the recommendation.

5.2.4 Defect rectification management

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

In my last report I noted that there were four outstanding defects that had not been rectified. They related to the light towers, certain water leaks, ventilation and the boiler unit.

At the time of this Report the four outstanding defects had yet to be completely rectified and closed out.

5.2.4.1 Confirming the rectification of remaining defects

Our review for the current designated period found that new boilers and expansion tanks were installed by the principal construction contractor in April 2017 to rectify the boiler unit defect. We found, however, that DPTI had not been provided with commissioning documents confirming the rectification of the defect.

We recommended DPTI obtain documentation to confirm the boiler defect has been rectified and commissioned.

DPTI advised that it has requested the documentation from the principal construction contractor and the external project manager.

5.2.4.2 Commercial settlement for rectification of outstanding defects

Our review for the last designated period noted the final payment claim (around \$200 000) to the principal construction contractor has been withheld until all outstanding defects are resolved. Further, the principal construction contractor had provided bank guarantees pending rectification of the outstanding defects.

We noted that DPTI was negotiating a contract variation (or alternative contractual arrangements) with the principal construction contractor to facilitate the rectification of the remaining defects and for the release of a portion of the bank guarantees held. We were advised that sufficient guarantees would be retained for 12 months after the defects have been rectified to cover the estimated cost of the rectification works.

Our review for the current designated period noted that DPTI agreed a commercial settlement with the principal construction contractor to rectify outstanding defects that included:

- the principal construction contractor rectifying the outstanding defects by 30 June 2017
- for the outstanding defects, agreeing a defect liability period ending on 22 December 2017
- DPTI paying the withheld contract amount of approximately \$200 000 (as a progress payment)
- returning the \$10.5 million bank guarantee held by the Minister as security and replacing it with a \$600 000 insurance bond
- DPTI acknowledging that all other defects and outstanding works have been rectified or completed

- DPTI issuing a Final Certificate after the remaining defects are rectified and the new defect liability period has expired.

Our review found that DPTI did not adequately document the approval of the decision to accept the terms of the commercial settlement.

Further, we found that DPTI had not prepared a risk assessment to address the risks of agreeing to the defects liability period end date (ie 22 December 2017) before the principal construction contractor rectified the defects. As a result the duration of the defect liability period was shorter than originally expected. This may not provide enough time:

- to monitor rectified works for recurrence of the defects
- for the principal construction contractor to access the site to rectify the defect.

We recommended DPTI ensure the approval to enter into commercial settlements are appropriately evidenced. We also recommended that, where new arrangements or commercial settlements are entered into to resolve major defects, DPTI should conduct a risk assessment.

DPTI responded describing the steps taken to establish the arrangements and advised that in the future it will ensure that approval to vary contracts is appropriately evidenced, including the rationale for the decision reached. We were also advised that it would conduct a formal risk assessment.

5.2.5 Commonwealth funded project overrun: procurement, project and contract management arrangements

My last Report noted that a cost overrun of around \$370 000 for a Commonwealth funded project was recorded against the statutory cap. We reviewed the procurement, project and contract management arrangements and the management of the overruns for this project.

We found a number of control weakness and management practices that contributed to the cost overrun for the project. The more significant findings were:

- the body responsible for project governance, the PMO, was not provided with accurate information on forecast project cost overruns
- weaknesses in the procurement and contract management practices used to engage and manage the principal construction contractor for the project.

Detailed findings, recommendations and DPTI's responses to the matters raised are provided in section 6.3.1.

5.2.6 Concluding audit comment

Term of reference three addresses the requirement for the proper and efficient management of funds for the Adelaide Oval Redevelopment project.

Previous Reports identified some shortcomings in meeting this objective.

DPTI has made significant progress to address these shortcomings. We noted some issues remain. In particular, rectifying and closing out outstanding defects and the need to improve procurement planning arrangements for the delivery of works by AOSMA to ensure works have been completed to an appropriate standard and they represent value for money.

Further our review identified weaknesses in the procurement and contract management practices used to engage and manage the works undertaken for the Adelaide Oval that were funded from Commonwealth funds.

In previous Reports I have identified deficiencies in procurement and contract management practices. As the expenditure is approaching the statutory cap of \$535 million, DPTI should ensure appropriate procurement and contract management standards and practices are applied to any future works. This will help to properly manage the cap and will be particularly relevant if the State undertakes further works for the redevelopment from remaining funds.

6 Other matters of importance

6.1 Other funding sources and commitments

From inception of the Adelaide Oval Redevelopment project there was recognition of the potential to attract funding for the project from sources external to the State Government. External funding received included the following:

- The Commonwealth Government agreed to contribute \$30 million towards costs associated with constructing car parking and developing planned wetlands. This funding was received and deposited in the Adelaide Oval Redevelopment special deposit account in June 2012.
- The AFL Commission committed \$5 million towards the capital costs of the Adelaide Oval redevelopment. The AFL paid \$2.5 million of the committed funds in January 2014 and the balance in March 2014. Both amounts were deposited into the Adelaide Oval Redevelopment special deposit account.

6.2 Status of Commonwealth funding arrangements

The Commonwealth Government contributed \$30 million to 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 this funding to AOSMA under a Deed of Grant between the Minister and AOSMA. The funding was provided to AOSMA to procure specific works for the redevelopment as they were well placed to procure the works as they related to the playing surface, oval operations and equipment with which the SANFL and SACA had previous operational experience. AOSMA has spent and acquitted this funding to the Minister in prior designated periods. Section 6.3 discusses developments concerning the \$12 million for adjacent parklands works.

6.3 Commonwealth funding for adjacent parklands works

The project agreement between the State and Commonwealth Governments, which was revised in June 2013, provides that \$12 million is to be spent 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.

These projects are considered substantially completed, with the exception of certain ancillary works that are nearing completion.

As at 30 June 2017 DPTI had spent (on an accrual basis) \$12.623 million on Commonwealth funded projects for the Adelaide Oval.

We noted in our last Report that Commonwealth project cost overruns funded from money appropriated from the State must be recorded against the State funded statutory cap. DPTI analysed the actual costs spent on the project as at 30 June 2017 and applied \$239 000 to the statutory cap for the current designated period.

6.3.1 Commonwealth funded project overrun: procurement, project and contract management arrangements

Our last Report indicated we were reviewing a Commonwealth funded construction project that contributed to a cost overrun, paid by the State and applied to the statutory cap, of around \$370 000.

We completed our review of DPTI's administration of the project, which included understanding the reason(s) for the cost overrun.

We identified weaknesses in procurement, contract management and reporting processes for the project, and the need to improve the oversight and management of functions provided by external service providers.

These weaknesses lead to delays which resulted in:

- extending the date for practical completion from May 2016 to October 2016
- extension of time claims by the construction contractor of \$257 500.

Further, the Montefiore Road footpath works valued at \$113 275 were removed from the original scope of works as tendered.

Major findings and recommendations along with DPTI's responses are presented below.

6.3.1.1 Background

The project was part of the \$12 million Commonwealth funded adjacent parkland works, which included extending and realigning the second cricket oval (Adelaide Oval No. 2) and associated ancillary works surrounding the oval, including Montefiore Road footpath works.

The following table summarises the key events for the project.

Activity/Event	Date
Tender documents issued	27 January 2016
Tenders received	16 February 2016
Proposed practical completion date per the tender	13 May 2016
Tender recommendation report issued by external project manager	25 February 2016
DPTI instruct preferred tenderer to commence limited works valued at \$300 000	9 March 2016
The Minister approved the preferred contractor's tender for full scope of works, for an estimated cost including contingencies of \$1.665 million	17 April 2016
DPTI letter advised the preferred contractor that their tender was accepted, and that the Formal Instrument of Agreement would be forwarded for signing	26 April 2016
Preferred contractor advised DPTI that due to the time elapsed until acceptance of tender, they were unable to complete the works for the tendered price and the proposed completion date	3 May 2016
Preferred contractor advises additional time, conditions and costs required to complete the contract as a result of the delay in accepting their tender	13 May 2016
Preferred contractor advises additional time and costs are required to complete the works as a result of the delay by the Principal (ie DPTI) in obtaining the appropriate approval to remove trees along Montefiore Road	7 June 2016
Superintendent instruction issued to the preferred contractor to delete Montefiore Road footpath works	29 August 2016
Practical completion date	18 October 2016

The preferred contractor issued four extension of time (EOT) claims totalling \$257 000. The more significant claims were:

EOT	EOT description	Days	Rate per day \$	Total claim \$
EOT 1	Contract approval	40	2 500	100 000
EOT 2	Tree removal approval	55	2 500	137 500

6.3.1.2 Inconsistent reporting of forecast project overruns to governance groups

The body responsible for project governance, the PMO, was not provided with accurate information on project cost overruns.

The PMO was provided monthly reports for the period September 2015 to December 2015, indicating there was a low risk of a 'slight cost overrun'.

This was inconsistent with the following information provided to the PCG for the Adelaide Oval Redevelopment project:

- in May 2015, a projected cost overrun of \$370 000
- in July 2015, a forecast cost overrun of \$500 000
- in December 2015, a forecast cost overrun of \$1 million.

We recommended DPTI ensure the financial status of projects (including cost pressures) is accurately reported to the PMO and senior management.

In response, DPTI advised that:

- it acknowledges that prior to January 2016, financial reporting to the PMO about the project was not detailed adequately, as it was not at the same level of detail as was provided to the PCG
- prior to January 2016, the forecast project overrun was estimated based on a concept design. In January 2016, following receipt of a competitive tender price submission, the reported forecast overrun was updated
- the forecast project overrun was then consistently and accurately reported to the PCG, PMO and DPTI senior management.

6.3.1.3 Absence of effective tender evaluation planning

The procurement process for the main works contract (undertaken by the external project manager) was not supported by an evaluation plan and the evaluation process was delayed due to the:

- extended time taken to complete tender clarifications
- need to amend the evaluation matrix used to score the tenders, to comply with the Industry Participation Policy required for Commonwealth funded projects.

Preparing a robust evaluation plan describing the evaluation process, evaluation criteria, required timeframes, compliance requirements and strategies to mitigate project and probity risks will help to avoid delays in the evaluation process and meeting DPTI's procurement objectives.

This is particularly important where the procurement process is undertaken by an external service provider who may not be aware of all compliance requirements.

We recommended that, where the evaluation process is undertaken by an external service provider, a robust evaluation plan is prepared and presented to DPTI for review.

DPTI advised it will review and incorporate into its procedures the requirement that any evaluation process undertaken by an external service provider will be provided to DPTI for review and approval to ensure it complies with the DPTI policies and procedures.

6.3.1.4 Tender validity period not effectively managed or extended

DPTI did not effectively manage the tender validity period for the procurement. We found that the preferred contractor's tender validity period expired before the contract was awarded in full.

The preferred contractor submitted their tender on 16 February 2016. However, DPTI did not advise the preferred contractor that it accepted their tender until 26 April 2016.

On 9 March 2016, DPTI instructed the preferred contractor to commence limited works pending obtaining the necessary approval for the full scope of works. However, DPTI did not request an extension to the validity period of the contractor's tender.

This exposed the State to the risk of having to renegotiate contractual terms, scope, price and timeframes.

This risk was realised in May 2016 when the contractor advised that due to the time elapsed they were unable to complete the works for the tendered price and by the proposed completion date.

We found that the contractor submitted a claim for a significant increase to the tendered contract sum, including an allowance for bad weather. We were advised that as the tender validity period had expired the preferred contractor decided not to accept the terms of the contract for the full scope of works as tendered.

As a consequence, given that the contractor had already commenced works, DPTI, with the assistance of the external project manager, assessed the claim and negotiated an amount of \$100 000 (ie EOT claim 1).

We recommended:

- DPTI reinforce to staff and external service providers performing a procurement function, the importance of completing procurement processes within the tender validity period
- where the process is not finalised within the tender validity period, DPTI should request an extension of the tender validity period before awarding any works.

DPTI responded that it acknowledges that management and control of tender validity periods is important. In instances where it is envisaged that an Early Works Agreement (EWA) is contemplated it will ensure that all tenderers agree that despite a nominated tender validity period, if DPTI decides to issue an EWA, the tenderer will not be able to change their offer.

6.3.1.5 The full scope of works not approved at the outset

Treasurer's Instruction 8 'Financial Authorisations' (TI 8) requires the Minister to approve the contract value for the full scope of works as tendered for amounts exceeding \$1.1 million (including GST).

We found, however, that the approval for the full scope of works (\$1.665 million) was instead obtained in two parts, contravening TI 8.

As previously indicated, to expedite works DPTI approved limited works up to \$300 000 on 9 March 2016, pending full contract approval by the Minister. The Minister later approved the full contract sum including contingencies of \$1.665 million on 17 April 2016.

The part approval process resulted in:

- splitting the contract into two parts and circumventing the required contract approval processes
- delaying the contractor in completing the program of works.

Allowing a contractor to undertake some of the works before obtaining the required approval for the full scope of works limits the effectiveness of the approval framework contained in TI 8. Before the preferred contractor commenced works, DPTI should have:

- gained approval from the Minister for the total value of the contract in accordance with TI 8
- had a contract in place for the full scope of works.

The part approval exposed the State to the risk of incurring unnecessary or additional costs (including engagement, disengagement and sunk costs) had the Minister elected not to approve the contract.

Further, approving only part of the works and the delay in obtaining approval from the Minister impacted the contractor's scheduling of works and prevented the contractor from undertaking works concurrently. This contributed to a delay in the project, expiry of the tender validity period, extension to the practical completion date and the contractor raising an EOT claim of \$100 000.

We were advised that granting part approval pending obtaining the required approval for the full scope of works is not an isolated practice.

We recommended DPTI:

- cease the practice of awarding part of the works tendered before obtaining the required approval for the full scope of works
- review procurement and contract management practices to ensure procurement planning processes provide sufficient time to obtain approval for the full scope of works prior to commencing works.

The DPTI advised that:

- in the event that it believes there is the potential for an EWA to be required, it will include this in the request for approval before going to the market and will clearly identify this in the market call documents
- in future, any EWA will clearly demonstrate that any early works are stand-alone and can easily be incorporated into the full works if required, and will not commit DPTI to award the main contract works.

6.3.1.6 Lack of formal instruments of agreement

A formal contract (ie formal instrument of agreement) for the tendered works was not executed between the preferred contractor and the Minister.

The extent of documentation to support the contractual arrangements was the contractor's tender, post-tender correspondence and letters of acceptance.

DPTI advised that a formal instrument of agreement was not executed due to errors in the contract documents and issues with post-tender correspondence.

We found that tender documentation specified a \$0 rate per day for EOT claims. However, as the tender validity period expired, the contractor decided not to accept all the terms and conditions of the contract as tendered, including the \$0 rate per day for EOT claims.

In May 2016 the contractor proposed a daily rate of \$2500 for EOT claims, which was agreed to by DPTI. This occurred two months after construction commenced.

Subsequently DPTI paid EOT claims totalling \$257 500, calculated at the agreed rate.

Further, the contractor elected not to provide the required bank guarantee because the formal instrument of agreement was not executed.

We recommended DPTI execute formal instruments of agreement with contractors prior to them commencing work, and include details of the arrangements and rates for EOT claims.

DPTI responded that it will continue to use a number of methods to formalise its agreements. Further it advised:

- in some instances, it could be by way of exchange of letters because of the simplicity of the transaction or because there is already a head agreement in place
- in other instances, it will be through the execution of formal instruments
- in all cases agreement needs to be reached prior to commencement of work
- details around matters such as EOT rates will be embedded into the appropriate part of the contract.

6.3.1.7 Recoverability of extension of time claim from consultant

DPTI paid the contractor a number of EOT claims due to delays caused by DPTI.

We found that part of the delay was due to the external project manager and another service provider (both representing DPTI) not obtaining development approval for the removal of trees (EOT 2).

We sought to understand what steps DPTI took to recover the EOT claim costs incurred from the external service providers due to their failure.

In September 2016, DPTI's Contract Manager for building contracts advised DPTI project managers that it was problematic to recover the EOT claim from external service providers, because:

- the responsibilities and obligations of the contract contain subjective terms that would be extremely difficult to prove to the contrary
- there was very little accountability on the consultant to wear costs associated with any errors/omissions they make.

We were advised that, based on the assessment of the Contract Manager, DPTI did not deem it necessary to seek legal advice.

We recommended DPTI:

- review the terms and conditions of existing contracts to clarify and improve the responsibility and accountability of external service providers providing contract management services (including recovery of additional costs incurred from their errors or omissions)
- in completing the review, consider the need to obtain legal advice
- review the arrangements in place to monitor the performance of external service providers.

In response DPTI advised that contracts for services are under review with the intention of making sure that contractors are made accountable and responsible for their errors and omissions.

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

Following the completion of arrangements to advance funds to AOSMA DPTI obtained confirmation from the Crown Solicitor's Office that funding from the Commonwealth Government was not public money for the purposes of determining the application of the limit and that expenditure of Commonwealth or AFL funds should not be included in assessing expenditure against the limit.

Consistent with the Crown Solicitor's Office advice the funding provided to AOSMA, and expenditure by AOSMA of the Commonwealth funds, have been excluded from the amount of public money made available and expended with respect to the \$535 million limit as required by term of reference one.

Appendix

Summary of money made available and expended within the \$535 million limit to 30 June 2017

Extent to which the \$535 million has been made available	
	\$'000
Total State Government funding available for the project	<u>535 000</u>
Monies appropriated to DTF:	
Monies appropriated to DTF less amounts transferred to DPTI to 31 December 2016	5 970
Monies appropriated to DTF during the period 1 January 2017 to 30 June 2017:	
Appropriation to DTF	-
Less: Monies transferred to DPTI from Contingency	-
Total monies appropriated to DTF less amounts transferred to DPTI to 30 June 2017	<u>5 970</u>
Monies appropriated to DPTI:	
Monies appropriated to DPTI/received from DTF to 31 December 2016	529 030
Monies appropriated to DPTI/received from DTF during the period 1 January 2017 to 30 June 2017:	
Appropriation to DPTI	-
Monies received from DTF from Contingency	-
Total monies appropriated to DPTI/received from DTF to 30 June 2017	<u>529 030</u>
Total amount which has been made available for the project to 30 June 2017	<u>535 000</u>
Total amount of State Government funding still to be made available for the project	<u>-</u>
Extent to which the \$535 million has been expended	
	\$'000
Total State Government funding available for the project	<u>535 000</u>
Monies expended on the project by DTF:	
Expenditure by DTF to 31 December 2016	5 970
Expenditure by DTF during the period 1 January 2017 to 30 June 2017:	
Expenditure by DTF	-
Total expenditure by DTF to 30 June 2017	<u>5 970</u>
Monies expended on the project by DPTI:	
Expenditure by DPTI to 31 December 2016	521 602
Expenditure by DPTI during the period 1 January 2017 to 30 June 2017:	
Expenditure by DPTI	578
Total expenditure by DPTI to 30 June 2017	<u>522 180</u>
Total expenditure on the project to 30 June 2017	<u>528 150</u>
Balance of State Government funding unexpended as at 30 June 2017	<u>6 850</u>