



Government  
of South Australia

Report  
of the  
Auditor-General

February 2013

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Second Session, Fifty-Second Parliament

Report on the Adelaide Oval redevelopment pursuant  
to section 9 of the *Adelaide Oval Redevelopment  
and Management Act 2011* for the designated  
period 1 July 2012 to 31 December 2012

By Authority: B. Morris, Government Printer, South Australia

General enquiries regarding this report should be directed to:

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

Copies may be obtained from:  
Service SA  
Government Legislation Outlet  
Ground Floor  
EDS Building  
108 North Terrace  
Adelaide SA 5000

Website: [www.audit.sa.gov.au](http://www.audit.sa.gov.au)

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Government of South Australia

Auditor-General's Department

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

The Hon J M Gazzola MLC  
President  
Legislative Council  
Parliament House  
ADELAIDE SA 5000

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

Dear President and Speaker

**Report of the Auditor-General: February 2013: Report on the  
Adelaide Oval redevelopment pursuant to section 9 of the  
Adelaide Oval Redevelopment and Management Act 2011 for  
the designated period 1 July 2012 to 31 December 2012**

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: February 2013: Report on the Adelaide Oval redevelopment pursuant to section 9 of the *Adelaide Oval Redevelopment and Management Act 2011* for the designated period 1 July 2012 to 31 December 2012'.

As Parliament is not sitting this week, section 6(10) of the Act provides that this report will be taken to have been published under section 6(8)(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



## Table of contents

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### **Report on the Adelaide Oval redevelopment pursuant to section 9 of the *Adelaide Oval Redevelopment and Management Act 2011* for the designated period 1 July 2012 to 31 December 2012**

	Page
1. Executive summary.....	1
1.1 Introduction.....	1
1.2 Structure of the Report.....	1
1.3 Requirements of the Act relevant to this Report.....	1
1.4 Comment on the terms of reference.....	2
1.5 Approach to the review and preparing this Report .....	3
1.6 Executive summary of response to the terms of reference .....	3
2. Term of reference one.....	4
2.1 Approach to preparing information for the Report .....	4
2.2 Summary of money made available and expended within the \$535 million limit to 31 December 2012.....	4
2.2.1 Main items of expenditure .....	5
3. Term of reference two.....	6
3.1 Approach to evaluating the state of public accounts relevant to the Adelaide Oval redevelopment .....	6
3.2 Findings with respect to term of reference two.....	7
3.2.1 Maintenance of Department of Planning, Transport and Infrastructure’s detailed project ledger .....	7
3.2.2 Management reporting of project costs .....	8
4. Term of reference three.....	8
4.1 Approach to evaluating whether the management and use of money in connection with the Adelaide Oval redevelopment was proper and efficient .....	9
4.2 Findings with respect to term of reference three.....	10
4.2.1 Procurement and payment of consultants .....	10
4.2.2 Review of the principal construction contractor arrangements .....	11
4.2.3 Project governance arrangements .....	11
4.2.4 Payments by Department of Planning, Transport and Infrastructure related to operations of Adelaide Oval SMA Limited.....	12

## Table of contents

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	Page
5. Other matters of importance .....	13
5.1 Lease and licence arrangements.....	13
5.2 Establishment of a sinking fund.....	14
5.3 Financial reporting recognition of the Adelaide Oval Redevelopment project.....	14
5.4 Other funding sources and commitments .....	15
5.5 Funding proposal for Adelaide Oval SMA Limited .....	15
5.6 Consideration of expenditure by Adelaide Oval SMA Limited in determining expenditure against the \$535 million limit .....	16
5.7 Project reporting to the Public Works Committee .....	16
6. A final matter .....	16
Appendix – Summary of money made available and expended within the \$535 million limit to 31 December 2012.....	17

# **Report on the Adelaide Oval redevelopment pursuant to section 9 of the *Adelaide Oval Redevelopment and Management Act 2011* for the designated period 1 July 2012 to 31 December 2012**

## **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 third Report to the Parliament in discharge of the requirements of the Act and follows my Reports that were tabled on 29 February 2012 and 31 August 2012.

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
- pursuant to section 6 of the Act, to audit the accounts of the sinking fund established by AOSMA and report 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 with respect to 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 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 scope of the project is defined by the Act which limits expenditure with respect to the project to \$535 million during the period from 1 December 2009 to 1 December 2019.

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 of the financial management of the Adelaide Oval redevelopment incorporate certain unique provisions.

The Auditor-General is required to report on the extent to which money has been made available or expended 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 with respect to the redevelopment project in the current designated six month period ended 31 December 2012 and before the commencement of the period.

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 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 oblige those 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. 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 will build on the knowledge and understanding gained in preparing these Reports and the follow-up of matters arising from completed Reports.

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

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

	01.12.09 to 30.06.12 \$’000	01.07.12 to 31.12.12 \$’000	Total to 31.12.12 \$’000
Money made available	170 991	91 140	262 131
Money expended	172 605	84 461	257 066

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 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 from the financial records and accounts of both public authorities and other entities with respect to the Adelaide Oval redevelopment. 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 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.

### 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 30 June 2012 and financial information obtained from AOSMA for the period from 1 July 2012 to 31 December 2012 in performing the external audit of 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 31 December 2012

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

	01.12.09 to 30.06.12 \$'000	01.07.12 to 31.12.12 \$'000	Total to 31.12.12 \$'000
Money made available	170 991	91 140	262 131
Money expended	172 605	84 461	257 066

The appendix to this Report provides a more detailed analysis of money made available and expended within the \$535 million limit to 31 December 2012.

### ***2.2.1 Main items of expenditure***

The following briefly describes the principal items of expenditure incurred for the period 1 December 2009 to 30 June 2012 and the period 1 July 2012 to 31 December 2012 in relation to the Adelaide Oval redevelopment.

#### ***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 - \$51 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 contractor - \$82 million.

The payments to the principal contractor during the period were mainly with respect to works on the Northern Mound, the South 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 the SACA in October 2012 for the 2012-13 cricket season
- reinstatement of the four light towers which 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.

### 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. Consideration has also been given to 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 with respect to 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 July 2012 to 31 December 2012 were the:

- Consolidated Account
- Adelaide Oval Redevelopment special deposit account.

As noted in my first Report the usage of the accounts has changed over the life of 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.

#### **3.2.1 Maintenance of DPTI's detailed project ledger**

As mentioned, 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 and focussed 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.

As was advised in my second Report, DPTI's response of May 2012 to the Audit recommendation outlined proposed action. DPTI advised that it would establish a project specific process to provide assurance that the project ledger is a complete and accurate record

of expenditure at the end of each designated period. Audit processes performed in preparing this third Report confirmed that DPTI procedures have ensured expenditure with respect to the Adelaide Oval redevelopment was recognised in the nominated project ledger account.

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

My second Report advised that Audit would review and evaluate the processes and procedures implemented by DPTI, the contracted cost consultants, the principal construction contractor and the project manager to record, report and monitor project costs. This information is used by both Audit in reporting on expenditure with respect to the Adelaide Oval redevelopment and DPTI, the Project Control Group and their professional advisers to manage costs associated with the project.

The substantive information gathering and evaluation phase of this review has been performed, with the assistance of DPTI officers and staff of the cost consultant and project manager. The review will be finalised during the six month period ended 30 June 2013. Any matters arising from the review, including recommendations for improvements in procedures, will be referred for consideration to DPTI, the Project Control Group and their professional advisers. This matter will also be reported upon in the next Report.

## **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 two Reports and this third Report are DTF, DPTI and AOSMA.

The appendix to this Report (summary of money made available and expended within the \$535 million limit for the Adelaide Oval redevelopment) shows that DPTI was the only entity that incurred material expenditure, from public monies, during the period from 1 July 2012 to 31 December 2012. 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 shows expenditure by AOSMA from Commonwealth sourced funds, which, as discussed later, do not meet the definition of public monies 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 with respect to 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 in responding to this term of reference 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 will both 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 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 Procurement and payment of consultants**

My first Report included comment arising from a review of payments to professional service contractors engaged to provide technical and design services in developing the design of the Adelaide Oval redevelopment. It was conveyed that the contractors were engaged initially by AOSMA, when that entity was responsible for the redevelopment design, and then by DPTI following transfer of the redevelopment project governance responsibility to the responsible Minister.

The first Report made specific comment in relation to the engaging of professional service contractors by DPTI. The budget for professional service fees for the project development is \$27 million. It was explained that contractors were engaged through single source offers and that this practice was consistent with DPTI's established procedures because public calls were not feasible if the project objective of completing the redevelopment by early 2014 was to be achieved. My Report also noted that the professional service contractors had been involved in the project from its inception and DPTI considered it ineffective and uneconomic to engage new providers because to do so would require the re-creation of the intellectual property which then existed.

The review of contract management arrangements during the current reporting period noted that contract arrangements with a number of professional service providers have been extended as the project has continued. Audit concluded that in some instances contract documentation provides limited definition of the contracted services provided for in the contracts, which limits both Audit's capacity to confirm that contract payments were consistent with the contracted works and DPTI's capacity to manage the contract.

Further the review of payments to professional service providers, both with respect to my previous Reports and with respect to the current reporting period, have noted instances where payments were made to professional service providers which were not the subject of appropriately documented service contracts.

Audit considered aspects of procurement for a professional service contractor, reflected in two contracts, with a total value of \$195 030, for which payments of \$47 025 were made during the current reporting period. This review noted that the professional services were procured during May 2012 by single source offers with limited documentation prepared on behalf of DPTI to specify the services sought. The procured services were substantively documented in the proposals prepared by the service provider.

The Audit review of the procurement and contract documentation noted that aspects of the service provider's documented offers:

- were indicative only and may be revised by agreement



- for one of the contracts, contemplated the engagement of the provider to undertake further work but did not document on what basis this further work would be performed or the provider would be paid.

In my opinion it was appropriate for the contract documentation to provide an estimate of the potential cost of all work contemplated by the contracts to ensure that contract approvals were provided having regard to the estimated total contract values. Further, it was appropriate that the contract documentation set out the basis upon which the service provider would be remunerated for any contract extensions to undertake work not specified at the time of settling the contract.

The review also noted that the tender forms, relevant approvals, and the instruments of agreement between the Minister and the contractor did not use the terminology used by the contractor in specifying the scope of the contracted works. I understand that the documented contractual arrangements incorporate:

- pro forma tender forms
- the contractor's offer documentation
- the standard terms of contract
- pro forma instrument of agreement.

This approach to documenting contracts is not unusual and has the benefit of reducing the cost of preparing contract documentation and providing assurance that documentation comprehensively and effectively addresses required contract terms.

Notwithstanding these benefits, in my opinion it is important that the instruments of agreement uses the same terminology as is used in the contractor's offer documentation to ensure there is no ambiguity as to the scope of contracted work.

In concluding, each of my Reports has included observations regarding the process and documentation of arrangements implemented by DPTI for the engagement and management of contracted professional service providers. The matters will be the subject of formal communication with DPTI conveying the importance of the requirement for constant and adequate attention to the process of documenting arrangements for the proper and effective control of professional service provider costs.

#### **4.2.2 *Review of the principal construction contractor arrangements***

Cabinet approved, in October 2011, the engagement of the principal construction contractor as a result of a competitive tender process. The contract with the principal construction contractor was finalised in November 2011 and construction commenced in March 2012 on the Adelaide Oval Redevelopment project.

Audit is finalising a review of the procurement and contracting arrangements for the principal contractor, and the management of those arrangements. Any matters arising from this review, including any recommendations for improvement, will be referred for consideration by DPTI. This matter will also be reported upon in the next Report.

#### **4.2.3 *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 phase 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 Project Control Group.

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 Project Control Group 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.

In preparing this Report Audit has reviewed the minutes of the Project Control Group and has confirmed that the Group has met regularly and has received detailed reports from the contracted project manager, the principal construction contractor and cost consultants detailing progress in implementing the project.

#### **4.2.4 Payments by DPTI related to operations of AOSMA**

My first and second Reports noted that Audit had identified 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 this review identified two payments by DPTI of a material nature in February 2012 to the SANFL (approximately \$960 000 excluding GST) and SACA (approximately \$1 009 000 excluding GST).

The payments to the SANFL and SACA were made on the basis of invoices and supporting documentation provided by the two bodies and related to the cost of legal and public relations services and reimbursement of salary costs for SANFL and SACA staff. The payment to the SANFL was authorised by the Chief Executive, DPTI and noted by the Minister for Transport and Infrastructure while the payment to SACA was authorised by the Minister for Transport and Infrastructure on the recommendation of the Chief Executive.

As commented on in my second Report I wrote to the Chief Executive, DPTI noting my view that these payments appeared to relate to AOSMA and not the Adelaide Oval redevelopment. In response 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.

The DPTI request to the Treasurer seeking approval of these payments advised that they would be funded from the contingency provisions approved by Cabinet and, in preparing my Reports, this expenditure has been included in the expenditure against the \$535 million limit approved by the Act.

Audit procedures performed in preparing this third Report followed up DPTI expenditure against the Treasurer's approval of up to \$300 000 expenditure on behalf of AOSMA. The review identified payments totalling approximately \$466 000, which appeared to be aligned with the operations of the AOSMA, and exceeded the \$300 000 limit approved by the Treasurer in June 2012. It is noted that the majority of the expenditure in excess of the \$300 000 approved limit (ie approximately \$135 000) was paid in previous designated periods. Following completion of this Report I intend to write to DPTI recommending it seek the Treasurer's approval for the expenditure in excess of the previously approved amount.

The review of payments to professional service providers also noted that one contract, entered into by DPTI in May 2012, incorporated provision of services which were, in part, directly related to the Adelaide Oval redevelopment and other services which were predominantly related to the operations of AOSMA. This contract was one of the contracts referred to in section 4.2.1 of this Report. It is accepted that the services provided to AOSMA were related to the services provided to the redevelopment project and there were benefits to both the redevelopment project and to AOSMA by integrating the procurement of services to DPTI and AOSMA.

In my opinion effective coordination of the services did not require DPTI to incur costs on behalf of AOSMA or preclude structuring the contractual arrangements to allocate costs between the redevelopment project and AOSMA and for AOSMA to meet the cost of the services that were related to its operations. Following the completion of this Report I intend to write to DPTI recommending it seek to allocate contract costs between the redevelopment project and the AOSMA component and seek to recover relevant costs from AOSMA.

## **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 the 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 this Report has confirmed that the Adelaide Oval Licence Area sublicense between the Minister and AOSMA still had not been finalised.

## **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
- the Auditor-General to audit the accounts of the sinking fund and examine certain matters provided for in the Act.

In preparing this Report Audit sought to understand the status of the sinking fund and was advised by AOSMA that, to date, the sinking fund had not been established.

## **5.3 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 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 2012 record 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.

#### **5.4 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 Australian Football League (AFL), which 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 AFL has advised that, subject to final approval from the AFL Commission, it is prepared to contribute \$5 million to meet the cost of certain aspects of the redevelopment of the western grandstand. No funding from the AFL has been received at the time of finalisation of this Report.

#### **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 follows from 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 funding deed.

As advised in the previous Report the funding to AOSMA and expenditure by AOSMA to procure certain works will 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. During the designated reporting period DPTI transferred \$16.4 million to AOSMA pursuant to the funding deed between the Minister and AOSMA. Further, AOSMA have advised Audit that, as at 31 December 2012, approximately \$460 000 has been expended from the funds provided by the Minister.

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

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 has 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, 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 Project reporting to the PWC**

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 three quarterly reports to the PWC with respect to the redevelopment project, notably for the quarters ending December 2011, March 2012 and June 2012.

## **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 31 December 2012

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

	\$'000
<b>Total State Government funding available for the project</b>	535 000
<b>Monies appropriated to DTF:</b>	
Monies appropriated to DTF less amounts transferred to DPTI to 30 June 2012	5 970
Monies appropriated to DTF during the period 1 July 2012 to 31 December 2012:	
Appropriation to DTF	-
<i>Less:</i> Monies transferred to DPTI from Contingency	-
<b>Total monies appropriated to DTF less amounts transferred to DPTI to 31 December 2012</b>	5 970
<b>Monies appropriated to DPTI:</b>	
Monies appropriated to DPTI/received from DTF to 30 June 2012	165 021
Monies appropriated to DPTI/received from DTF during the period 1 July 2012 to 31 December 2012:	
Appropriation to DPTI	91 140
<i>Less:</i> Monies received from DTF from Contingency	-
<b>Total monies appropriated to DPTI/received from DTF to 31 December 2012</b>	256 161
<b>Total amount which has been made available for the project to 31 December 2012</b>	262 131
<b>Total amount of State Government funding still to be made available for the project</b>	272 869

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

	\$'000
<b>Total State Government funding available for the project</b>	535 000
<b>Monies expended on the project by DTF:</b>	
Expenditure by DTF prior to 30 June 2012	5 970
Expenditure by DTF during the period prior to 1 July 2012 to 31 December 2012:	
Expenditure by DTF	-
<b>Total expenditure by DTF to 31 December 2012</b>	5 970
<b>Monies expended on the project by DPTI:</b>	
Expenditure by DPTI prior to prior to 30 June 2012	166 635
Expenditure by DPTI during the period 1 July 2012 to 31 December 2012:	
Expenditure by DPTI	84 461
<b>Total expenditure by DPTI to 31 December 2012</b>	251 096
<b>Total expenditure on the project to 31 December 2012</b>	257 066
<b>Balance of State Government funding still to be expended</b>	277 934