



Government
of South Australia

Report
of the
Auditor-General

August 2013

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of the *Adelaide Oval Redevelopment and Management Act 2011*

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 January 2013 to 30 June 2013

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Dear President and Speaker

**Report of the Auditor-General: August 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 January 2013 to 30 June 2013**

Pursuant to section 9 of the *Adelaide Oval Redevelopment and Management Act 2011* (the Act), I herewith provide to each of you a copy of my report - 'Report of the Auditor-General: August 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 January 2013 to 30 June 2013'.

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 cursive script, appearing to read 'S O'Neill'.

S O'Neill
Auditor-General

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Report on the Adelaide Oval redevelopment pursuant to section 9 of the *Adelaide Oval Redevelopment and Management Act 2011* for the designated period 1 January 2013 to 30 June 2013

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 fourth Report to the Parliament in discharge of the requirements of the Act and follows my Reports of 29 February 2012, 31 August 2012 and 28 February 2013.

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

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

My previous Reports to Parliament included specific comment and analysis on the reporting terms of reference for the Auditor-General under the Act. I repeat below certain aspects of that commentary to explain the audit approach that I have taken in addressing the particular terms of reference and reporting on them.

1.4 Comment on the terms of reference

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

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

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

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

To determine the funds that have been made available and expended within the approved limit, as at the end of the current designated period, consideration is given to both the financial activity with respect to the redevelopment project in the current designated six month period ended 30 June 2013 and before the commencement of the period.

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

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

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

1.5 Approach to the review and preparing this Report

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

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

1.6 Executive summary of response to the terms of reference

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

	01.12.09 to 31.12.12 \$’000	01.1.13 to 30.06.13 \$’000	Total to 30.06.13 \$’000
Money made available	262 131	176 018	438 149
Money expended	257 066	113 223	370 289

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 4.2.2, 4.2.3 and 4.2.4 of this Report, Audit has not identified any other matters that would indicate the public money made available and expended for the purpose of and in connection with the redevelopment of Adelaide Oval envisaged by the Act was not managed and used properly and efficiently.

2. Term of reference one

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

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

This term of reference requires the Auditor-General to obtain information 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 unaudited financial statements of AOSMA up to the year ended 30 June 2013 and financial information obtained from AOSMA for the period from 1 July 2012 to 30 June 2013 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 30 June 2013

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

	01.12.09 to 31.12.12 \$'000	01.1.13 to 30.06.13 \$'000	Total to 30.06.13 \$'000
Money made available	262 131	176 018	438 149
Money expended	257 066	113 223	370 289

The Appendix to this Report provides a more detailed analysis of money made available and expended within the \$535 million limit to 30 June 2013.

2.2.1 Main items of expenditure

The following briefly describes the principal items of expenditure incurred for the periods 1 December 2009 to 30 June 2012, 1 July 2012 to 31 December 2012 and the period 1 January 2013 to 30 June 2013 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 - \$55 million.
- Payments to utility company - \$2.6 million.
- Ex gratia payments to SACA and the South Australian National Football League (SANFL) - \$2 million.

Period 1 July 2012 to 31 December 2012

- Payments to the principal 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 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.

Period 1 January 2013 to 30 June 2013

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

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

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

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 January 2013 to 30 June 2013 were the:

- Consolidated Account
- Adelaide Oval Redevelopment special deposit account.

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

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

A focused review of management reporting of project costs was completed. While the review did not identify any major shortcomings some matters for improvement were raised with DPTI and a detailed response was received. The review is discussed in detail in section 3.2.2 of this Report.

3.2.1 Maintenance of DPTI's detailed project ledger

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

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

These matters were the subject of communication with DPTI in April 2012. Audit recommended the development of policies and procedures specific to the redevelopment project 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 conveyed 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 fourth Report confirmed that DPTI procedures have, with immaterial exceptions, 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

3.2.2.1 Introduction

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

The review was completed and did not reveal any notable shortcomings. Certain matters were identified for improvement and communicated to DPTI. The review is discussed in more detail below.

3.2.2.2 Scope of review

The review considered the project reporting arrangements established to monitor the progress, key deliverables and cost of the project. This included aspects of the reporting arrangements between the main parties for the project, notably DPTI, the Project Control Group, project manager, principal construction contractor and cost consultant.

The specific areas considered were:

- the nature and extent of reporting
- timeliness of reporting
- processes in place to ensure the reliability of information used to monitor the project
- information flows and the roles and responsibilities of the various parties involved with the project
- key deliverables and relevant statutory requirements.

3.2.2.3 Main audit findings

The review raised findings and associated recommendations covering the following matters:

- reconciliation of project cost information between DPTI records and the cost consultant records and reports
- reporting on professional fees and contract variations

- cost management reporting recognition of defects rectification
- finalisation and endorsement of draft guidelines and procedures
- review of project cost accounts for integrity.

The review noted that the arrangements for preparing relevant report information requires compiling information from a range of sources and parties, reconciling related information and summarising actual and contracted costs, commitments and allowances for uncertainty. The cost consultant has a lead role in this process and is required to work with DPTI, the principal construction contractor and other consultants in preparing information.

The review of reporting on project progress has confirmed that the Project Control Group receives regular progress reports from both the project manager and the principal construction contractor that provide details of outcomes achieved and planned action. The review also confirmed that the Project Control Group has received regular reports from the cost consultant that are comprehensive.

Audit identified some areas for improvement including to control procedures to confirm the integrity of information provided by DPTI to the cost consultant, the approach to allowing for uncertain events, procedures to improve controls over reporting of variations to approved contracts and regular review of project job cost accounts for correctness of charging of costs to the accounts. The recommended improvements were raised in recognition of the importance for enhancing overall quality assurance processes as the project progresses to completion.

3.2.2.4 Response from DPTI

DPTI responded to each of the matters and recommendations raised. The responses provided clarifying information on certain aspects of information and reporting processes adopted for the project and also intended actions to strengthen some reporting and cost control measures. These included information provision to the cost consultant, report cost content improvement, enhanced reconciliation procedures and regular review of project cost accounts.

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 three Reports and this fourth Report are DTF, DPTI and AOSMA.

The Appendix to this Report (summary of money made available and expended within the \$535 million limit to 30 June 2013) shows that DPTI was the only entity that incurred material expenditure, from public monies, during the period from 1 January 2013 to 30 June 2013. 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 reflects on 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 4.2.2, 4.2.3 and 4.2.4 below, Audit has not identified any other matters that would indicate the public money made available and expended for the purpose of and in connection with the redevelopment of Adelaide Oval envisaged by the Act was not managed and used properly and efficiently.

4.2.1 *Project governance arrangements*

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

4.2.2 Procurement and payment of consultants

Previous reports have observed that the cost of professional service contractors, engaged to provide technical and design services, are a significant component of overall project costs with a budget of \$27 million. The use of single source offers to procure services was also noted along with the DPTI rationale for this approach to procurement.

The third Report advised that Audit would formally communicate to DPTI certain matters noted from a review of engagement and contract arrangements for professional service contractors.

The matters were communicated to DPTI and a response was received which was followed up by Audit during the current designated reporting period. The main matters for comment are provided below.

4.2.2.1 Contract documentation and approvals

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

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

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

In response to the audit findings DPTI advised that in some instances DPTI officers had departed from accepted practice to pay amounts due to service providers before all formal contract documentation and approvals were settled. DPTI indicated that there were delays in providing documentation to DPTI officers but that payments were for work that was performed in accordance with instructions. The delays in provision of documentation to DPTI officers, detailing the instructions to service providers, had contributed to delays in preparing formal contract documentation and obtaining formal approval for the contract arrangements.

DPTI advised it had prepared a memorandum to DPTI officers reminding them of accepted contract administration practices. Follow-up by Audit in the current reporting period established that the memorandum had not been approved and distributed to staff at the time of preparing this Report. DPTI management should give urgent attention to this matter.

4.2.2.2 Project manager contractual arrangement

The review identified payments to the project manager with respect to additional contracted works associated with coordinating the work of subcontractors and to conduct a technical design review.

The engagement of the project manager to coordinate the work of subcontractors related to the work of a third party service provider with specialist expertise in designing stadium IT facilities. Audit communicated a view to DPTI that the existing contract with the project manager provided for the project manager to engage subcontractors to provide consulting services and that the stadium IT facilities design services were subcontracted services contemplated by the original contract.

In response DPTI provided clarification of the contracted position of the project manager. It advised that coordinating the work of the stadium IT facilities designer with other design disciplines was outside the scope of the project manager's core project management service contract. DPTI further advised that engaging a specialist stadium IT facilities designer was initiated by AOSMA, as end user, with the support of DPTI, to ensure the highest possible level of project outcomes.

4.2.3 *Review of the principal construction contractor arrangements*

4.2.3.1 *Introduction*

My third Report conveyed that Audit was finalising a review of the procurement and contracting arrangements for the principal construction contractor of the Adelaide Oval Redevelopment project.

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.

The procurement of the principal construction contractor was a significant procurement process due to the value of the contract and the approach adopted by DPTI. Specific focus to probity measures was important in the context of the procurement approach adopted by DPTI which involved multiple stages:

- a registration of interest process
- a request for proposal stage
- obtaining and evaluating a Best and Final Offer from the preferred tenderer.

Contract negotiation provided for obtaining a Best and Final Offer from only the preferred tenderer which meant the process of settling fundamental elements of the contract, that is, the detailed design of the project and the contract amount, was determined by negotiation. This approach required careful consideration and implementation of probity and attention to documentation of the negotiation process to ensure the direct negotiations were transparent and accountable.

The review was completed and revealed a number of notable shortcomings. In a collective sense (number and nature of the shortcomings) Audit concluded that sufficient regard was not given to the effective implementation and application of appropriate probity standards throughout the entire procurement process. The specific matters noted with related recommendations were communicated to DPTI. The review is discussed in more detail below.

4.2.3.2 Scope of review

The review was directed to the extent to which the procurement and contract formation process aligned with the requirements of relevant public sector guidelines and standards, whether the procurement process was effectively planned and risk managed, and the arrangements applied for oversight of the procurement process by the Evaluation Panel and the Probity Auditor.

The specific areas considered were:

- development and approval of the procurement plan
- risk management approach and arrangements
- evaluation assessment and reporting processes
- probity auditor arrangements
- conflict of interest and confidentiality arrangements
- contract negotiation process
- documentation standards.

4.2.3.3 Main audit findings

As mentioned the review raised a number of notable shortcomings and related recommendations. The main matters were:

Procurement planning — Audit consideration of procurement planning established that the procurement plan for the principal construction contract was not completed before key procurement tasks were commenced, the plan was not formally approved and significant sections of the plan were not completed. The review also noted an evaluation plan was not implemented by DPTI notwithstanding the procurement plan provided for this document.

Risk management — The review of risk management arrangements noted that neither DPTI nor the external project manager had prepared and maintained, on an ongoing basis, formal documentation that identified, evaluated and recorded management action for key project risks.

Probity assurance — Consideration of arrangements implemented to provide probity assurance noted that a probity plan was not established to ensure probity was addressed for all elements of the procurement process. Audit further noted that a probity auditor was appointed after the commencement of the procurement process and as a consequence key aspects of the procurement process were not reviewed by the probity auditor.

Tender requirements and documentation — The Audit review of tender documentation identified instances where documentation provided by respondents to the request for proposal process did not address specific DPTI requirements. Audit also found that the preferred tenderer did not fully comply with DPTI's information requirements when submitting their Best and Final Offer.

Evaluation and negotiation — The review of the process of evaluating the preferred tenderer's Best and Final Offer noted the evaluation panel did not evaluate the offer as provided for in the tender documents as the project manager entered into direct negotiations with the preferred tenderer to agree a final design and price. Audit also noted that a detailed evaluation report was not produced describing the negotiation/assessment process and recommending the appointment of the contractor to DPTI and the Minister.

As mentioned in the introduction to this review commentary, the procurement of the principal construction contractor was a significant procurement process due to the value of the contract and the approach adopted by DPTI.

The approach adopted required careful implementation and application of probity throughout the entire process and careful attention to documentation of the negotiation process to ensure the direct negotiations were transparent and accountable.

In evaluating the probity of the principal construction contractor procurement I have given specific consideration to the combined effect of the following matters:

- application of the probity auditor arrangements
- the tenderers' non-compliance with documentation requirements provided for in the request for proposal process
- the exclusion of the evaluation panel from the review of the Best and Final Offer
- the limited documentation prepared to support the Best and Final Offer negotiations.

Having considered these matters I am of the view that sufficient regard was not given to the effective implementation and application of appropriate probity standards throughout the entire procurement process.

4.2.3.4 DPTI response

In response to the audit findings and recommendations DPTI has explained a range of factors that have given rise to the audit findings, including contextual background to the redevelopment project and the procurement of the principal construction contractor.

DPTI observed that the stadium redevelopment was a large and complex project that sought to develop an international multi-use facility for elite sport. It noted that it was responsible, on behalf of the Government, for managing the project to meet tight timeframes, which were determined by the users' fixture commitments, and to complete the project within a statutory cap on expenditure.

DPTI also reflected that the procurement process occurred concurrently with negotiations with stakeholders to settle facilitation agreements, as required by the Act, to support the ongoing use and operation of the stadium by the different sports. It further observed that the project involved consultation with a number of stakeholders, represented on the Project Control Group, as well as briefing the responsible Minister to ensure risks associated with the project were understood and addressed and opportunities were realised.

DPTI notes special procurement arrangements for the main contract with the principal construction contractor were established. Innovative arrangements adopted included aspects of private sector construction procurement, seldom used in public sector projects. These practices included engaging a private sector project manager, using a design and construction contract incorporating an innovative approach to project specification and negotiating the final contract using a Best and Final Offer process. DPTI considered that these features supported establishing a contract which responded effectively to the statutory cap on project expenditure.

DPTI also considered that the arrangements had due regard to the objectives and risks inherent in the project and accepted principles of accountability and transparency but with the clear objective of establishing a viable design and construction contract that could deliver on the Government's objectives within the constraints and funding cap imposed by the legislation.

In addition to providing these comments DPTI provided specific responses and intended actions to the audit findings arising from the review.

4.2.3.5 Concluding Audit comment

DPTI's response, including the discussion of the context in which the procurement of the principal construction contractor occurred, and the detailed responses and intended actions to the specific audit findings, have received full consideration. Having considered the DPTI response I am still of the view that the procurement of the principal construction contractor did not give sufficient regard to the effective implementation and application of appropriate probity standards throughout the entire procurement process.

DPTI has proposed actions with respect to the specific audit findings and recommendations, including intended reviews of certain practices. It also proposes an overall review of the project on its completion to determine if there are any lessons that can be learnt from the project to inform state and national government procurement practices for future projects of a similar scale and complexity. Audit will monitor DPTI progress in implementing these intended actions.

4.2.4 Payments by DPTI related to operations of AOSMA

My three previous Reports have each noted certain expenditure by DPTI that was aligned to the operations of AOSMA and not directly associated with the Adelaide Oval redevelopment.

The third Report indicated my intention to write to DPTI about the identification of certain expenditure considered aligned to AOSMA with recommended actions. The matters were communicated to DPTI and are discussed below.

4.2.4.1 Request for Treasurer's approval

As discussed in my second Report Audit identified two payments by DPTI of a material nature in February 2012 to the SANFL (approximately \$960 000 excluding GST) and SACA (approximately \$1 009 000 excluding GST).

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

Audit procedures performed in preparing the third Report followed up DPTI expenditure against the Treasurer's approval of up to \$300 000 of further 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. My communication to DPTI recommended that it seek the Treasurer's approval for any expenditure in excess of the previously approved amount.

Audit follow-up of this matter indicates that DPTI has not obtained the Treasurer's approval to treat further expenditure as ex gratia contributions to AOSMA. Urgent attention should be given by DPTI management to finalise this matter.

4.2.4.2 Recovery of professional service provider costs from AOSMA

The third Report also mentioned the identification of professional service provider contract payments that were, in part, directly related to the Adelaide Oval redevelopment and other services that were predominantly related to the operations of AOSMA.

My communication to DPTI noted certain costs of professional services provided by the contract project manager and cost consultant to AOSMA in management support for the \$18 million grant provided by the State Government to AOSMA to procure certain works and assets for the Adelaide Oval redevelopment. The \$18 million was provided to AOSMA under an executed Deed of Grant. It represented a significant component of the overall \$30 million funding provided to the State Government by the Commonwealth Government in June 2012 towards the Adelaide Oval redevelopment.

The total cost of engaging the professional service providers to support the procurement of works and assets by AOSMA was:

- the project manager - \$631 500
- the cost consultant - \$119 600.

My communication recommended that DPTI consider allocating professional services costs relating to performing the requirements of the Deed of Grant between the redevelopment project and AOSMA and seek to recover relevant costs from AOSMA.

In response to this communication DPTI advised that the work performed by the project manager and cost consultant had commenced before the decision to provide funding to AOSMA to procure specified works and that the project professional services budget had included allowance for, and could meet the cost of these services. DPTI noted that seeking to recover these costs from AOSMA would reduce AOSMA's capacity to deliver the works contemplated by the Deed of Grant between the Minister and AOSMA.

In August 2013 Cabinet considered and approved DPTI meeting, from the overall project professional services budget, the costs of engaging the project manager and cost consultant to support AOSMA in procuring the works funded from Commonwealth money. The Cabinet submission also provided that any future funding that may be granted to AOSMA from the \$12 million balance of the \$30 million Commonwealth funding would be subject to supplementary legal arrangements, and require AOSMA to make appropriate allocations for any professional services costs and clarify any matters regarding ownership of procured assets.

5. Other matters of importance

5.1 Lease and licence arrangements

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

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

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

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

My first Report highlighted that the:

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

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

Audit follow-up in preparing 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 it has obtained a report, from the project cost consultant, which provides an estimate of the total forecast capital expenditure, over a 20 year period, and the required annual sinking fund contribution. AOSMA further advised that it had established a bank account to hold sinking fund monies and had sought the Treasurer's approval of the planned annual contributions and the date for commencement of contributions to the sinking fund.

5.3 Other funding sources and commitments

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

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

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

During the current designated reporting period the Minister for Transport and Infrastructure wrote to the Commonwealth Minister for Sport seeking approval to vary the terms of agreement for the advance of monies by the Commonwealth. The variations agreed by the State and Commonwealth Ministers included changes to the timing of completion of works and to the scope of works to enhance the parklands adjacent to the stadium.

As communicated in my previous Reports 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.

5.4 Funding proposal for AOSMA

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

The proposal to provide funding to AOSMA followed the receipt of funding from the Commonwealth Government discussed above. The Cabinet submission proposed that since the funding from the Commonwealth Government covered works already allowed for in the contract with the principal construction contractor (such as an underground car park), the \$18 million be used to procure other certain works associated with the Adelaide Oval redevelopment. The Cabinet submission further advised that AOSMA was well placed to

procure the works as they related to items concerning the playing surface, oval operations and equipment with which the SANFL and SACA have previous operational experience. The funding and procuring of the certain works are to be managed and controlled through a Deed of Grant.

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 \$1.6 million (representing the balance of the \$18 million) to AOSMA pursuant to the Deed of Grant between the Minister and AOSMA. Further, AOSMA has advised Audit that, as at 30 June 2013, approximately \$2.1 million has been expended from the funds provided by the Minister. This matter is further discussed in section 5.6.

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

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

Consistent with the Crown Solicitor's advice the funding provided to, 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.

5.6 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.

Since 30 June 2012 DPTI has recognised further expenditure of \$113 million against the statutory expenditure cap, as is reflected in the Appendix to this Report, which has been recognised within the DPTI balance sheet as capital work in progress.

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

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

5.7 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 quarterly reports to the PWC with respect to the redevelopment project, for each quarter up to and including March 2013.

6. A final matter

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

Appendix

Summary of money made available and expended within the \$535 million limit to 30 June 2013

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

	\$'000
Total State Government funding available for the project	535 000
Monies appropriated to DTF:	
Monies appropriated to DTF less amounts transferred to DPTI to 31 December 2012	5 970
Monies appropriated to DTF during the period 1 January 2013 to 30 June 2013:	
Appropriation to DTF	-
<i>Less:</i> Monies transferred to DPTI from Contingency	-
Total monies appropriated to DTF less amounts transferred to DPTI to 30 June 2013	5 970
Monies appropriated to DPTI:	
Monies appropriated to DPTI/received from DTF to 31 December 2012	256 161
Monies appropriated to DPTI/received from DTF during the period 1 January 2013 to 30 June 2013:	
Appropriation to DPTI	176 018
Monies received from DTF from Contingency	-
Total monies appropriated to DPTI/received from DTF to 30 June 2013	432 179
Total amount which has been made available for the project to 30 June 2013	438 149
Total amount of State Government funding still to be made available for the project	96 851

Extent to which the \$535 million has been expended

	\$'000
Total State Government funding available for the project	535 000
Monies expended on the project by DTF:	
Expenditure by DTF prior to 31 December 2012	5 970
Expenditure by DTF during the period prior to 1 January 2013 to 30 June 2013:	
Expenditure by DTF	-
Total expenditure by DTF to 30 June 2013	5 970
Monies expended on the project by DPTI:	
Expenditure by DPTI prior to 31 December 2012	251 096
Expenditure by DPTI during the period 1 January 2013 to 30 June 2013:	
Expenditure by DPTI	113 223
Total expenditure by DPTI to 30 June 2013	364 319
Total expenditure on the project to 30 June 2013	370 289
Balance of State Government funding still to be expended	164 711