

ACT Auditor-General's Office

Performance Audit Report

Capital Works Reporting

Chief Minister and Treasury Directorate
Commerce and Works Directorate
Economic Development Directorate
Education and Training Directorate
Health Directorate
Territory and Municipal Services Directorate

June 2014

PA 13/15

Mrs Vicki Dunne
The Speaker
ACT Legislative Assembly
Civic Square, London Circuit
CANBERRA ACT 2601

Dear Mrs Dunne

I am pleased to forward to you a Performance Audit Report titled **Capital Works Reporting** for tabling in the Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

Dr Maxine Cooper
Auditor-General
27 June 2014

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1. REPORT SUMMARY AND CONCLUSIONS

INTRODUCTION

- 1.1 This report presents the results of a performance audit of reporting on the capital works program.
- 1.2 The scale of the Government's capital works program has increased markedly over the last decade with a 392 per cent increase, from \$141 million to \$695 million, in budget commitments for capital works from 2002-03 to 2013-14. A slightly lower investment of \$620 million was announced in the 2014-15 Budget. As at 30 April 2014, there were 529 capital works projects being progressed by the Government.
- 1.3 The delivery of the capital works budget, particularly the amount of the apparent unspent capital works budgets, has been the subject of discussion in the Legislative Assembly.¹ Over the decade to 2012-13, between 20.4 and 44.6 per cent of the capital works budget was not spent each year.
- 1.4 The Government announced reforms to capital project management in the 2009-10 ACT Budget. This included additional reporting by directorates to the Chief Minister and Treasury Directorate, the Budget Committee of Cabinet and the public. The objective of the reporting reforms was to:
- ... strengthen advice to Government on the progress of its capital program, including regular reports to the Budget Committee of Cabinet.²
- 1.5 A 2010 guidance paper prepared by the Chief Minister and Treasury Directorate restated and expanded the objective to:
- ... keep the Budget Committee of Cabinet up-to-date on the progress of the Capital Works Program. The improved reporting process is aimed at improving the overall delivery of present and future Capital Works Programs through enhancing the information provided to decision-makers.³
- 1.6 Given the increased size of capital works spending, and the recent reforms to capital works reporting, the Audit Office decided to examine the reporting of capital works to the Chief Minister and Treasury Directorate, the Budget Committee of Cabinet and the public.
- 1.7 This reporting to the Chief Minister and Treasury Directorate, the Budget Committee of Cabinet and the public is part of a broader suite of reporting on

¹ Questions without notice from former Legislative Assembly member Zed Seselja to the Treasurer, 7 May 2008, available at www.hansard.act.gov.au

² ACT Government, *2009-10 Budget Paper No. 4*, page 133, available at www.treasury.act.gov.au

³ ACT Department of Treasury, *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper*, January 2010, page 3

capital works to Ministers and Government. The main avenue for monitoring and control of projects is through Directors-General to their respective Ministers; however this reporting line was not the subject of the 2009-10 reforms and has not been considered in detail in this audit.

AUDIT OBJECTIVE

- 1.8 To provide an independent opinion to the Legislative Assembly on the effectiveness of reporting to the Chief Minister and Treasury Directorate, the Budget Committee of Cabinet and the public on the capital works program.

AUDIT CONCLUSIONS

- 1.9 The conclusions against the audit objective are set out below.

The capital works reporting initiatives introduced as part of the 2009-10 Budget have been effective in providing capital works information to the Chief Minister and Treasury Directorate and the Budget Committee of Cabinet, on a monthly and bi-monthly basis, respectively. Along with quarterly reports which are available to the public, these reports have increased the transparency of capital works projects and program's progress and can be used to hold directorates accountable.

Reports submitted to the Budget Committee of Cabinet have information that is dated. Although having contemporaneous information may not be possible given the current system used to generate it, the value of the Budget Committee of Cabinet being presented with weeks and even months-old information is questionable. Some information was incomplete and inaccurate; this, however, is likely to be addressed by all Directorates having quality control processes.

The majority (seven of eight) of projects considered by the Audit Office, which had an initial combined budgeted value of \$276.8 million and revised budget of \$302.6 million, were not physically completed on time as originally planned. However, almost all (seven of the eight projects) were completed within revised approved timeframes. Similarly, of the projects considered by the Audit Office, half (four of eight projects) were, or are on track to be, delivered within their original budget, with all to be delivered within revised approved budgets. More broadly, of approximately 700 projects physically and financially completed since 2009-10, 77 per cent were delivered within their original budget and 91 per cent delivered within revised budgets. The announcement of a project's initially estimated completion time and cost is a vexed issue as it may not actually reflect the real delivery time and cost of a project.

Roles in capital works reporting (Chapter 3)

The roles of the Budget Committee of Cabinet and the Chief Minister and Treasury Directorate in reporting capital works are documented and generally understood by directorates. However, this is not the case between the Commerce and Works Directorate's Shared Services Procurement team and other directorates, whose roles are critical in managing, and reporting on, delivery of the ACT's 529 capital works projects. Coordination of capital works reporting between directorates and Shared Services

Procurement can be improved by clarifying their respective roles.

The recently revised across-Government Capital Works Coordinators Group provides an opportunity for enhancing consistency with respect to capital works activities, including reporting, through across-Directorate knowledge sharing at an officer level. However, the Group's role was only defined in agreed terms of reference on 24 June 2014. It would be appropriate for its effectiveness to be monitored.

Quality of capital works reporting (Chapter 4)

Across each of the Territory and Municipal Services Directorate, Economic Development Directorate, Health Directorate and Education and Training Directorate projects reviewed, there was a high rate of compliance with identified reporting requirements demonstrating consistency with the concept of complete disclosure.

However, information reported to the Budget Committee of Cabinet was sometimes weeks, and even months, old and contained inaccuracies. While the Commerce and Works Directorate's Shared Services Procurement team has effective quality control practices, this is not the case for some other directorates who need to improve their quality control as well as their reporting of key project risks and associated mitigation measures.

The Commerce and Works Directorate has commenced procurement of a project management software system that is aimed at facilitating improvements in capital works management. The potential for this system to improve capital works reporting needs to be examined, especially if it can be used to integrate the different management systems used by directorates and reduce the dependence on manual processes.

KEY FINDINGS

1.10 The audit conclusions are supported by the following findings:

Roles in capital works reporting (Chapter 3)

- Capital works reporting initiatives introduced as part of the 2009-10 Budget have improved the provision of information to the Budget Committee of Cabinet (paragraph 3.11).
- The Budget Committee of Cabinet is responsible for budgeting and planning for the Territory's capital works program (paragraph 3.2). On a bi-monthly basis, the Budget Committee of Cabinet is presented with a report on Directorate's progress towards implementing its capital works funding decisions (paragraph 3.6). The *Cabinet Handbook* documents the role of the Committee (paragraph 3.2).
- Each Director-General is responsible for his or her directorate's delivery of a capital works project and the program of projects within that directorate (paragraph 3.32). Reflecting their accountability for delivery of capital projects, Directors-General are also responsible for reporting to their Minister as well as to the Chief Minister and Treasury Directorate and the Budget Committee of Cabinet on their Directorate's capital works program delivery progress (paragraph 3.33).

- The Budget Committee of Cabinet has noted each of the bi-monthly capital works progress reports presented to them since introduction of the reporting reforms (paragraph 3.10). This included acknowledgement of total program expenditure, major milestone progress and, in most cases, the identification of the number of ‘at risk’ projects. Bi-monthly reports are presented to the Budget Committee of Cabinet for information only and no formal action is sought (paragraph 3.12).
- Public reporting on capital works implementation occurs in quarterly capital works reports prepared by the Treasurer, annual budget papers, and directorates’ annual reports (paragraph 3.16). Compared with other jurisdictions, the ACT Government provides more detailed information (paragraph 3.19).
- There are varying report formats prepared from the same base data. Efficiencies could be gained through having consistency in format and content requirements (paragraph 3.41).
- As the central agency of Government, the Chief Minister and Treasury Directorate coordinates, develops and monitors the annual Budget and whole-of-Government capital works program (paragraph 3.21). Through issuing of guidelines, instructions, reporting templates and other communications, the Chief Minister and Treasury Directorate has satisfactorily documented its current role in capital works reporting (paragraph 3.27).
- Close cooperation between the Commerce and Works Directorate’s Shared Services Procurement team and directorates is critical to managing projects and mitigating risks to project budgets and timelines (paragraph 3.44). Directorates rely on data from Shared Services to inform their reporting on capital works (paragraph 3.47). However, the allocation of roles between internal directorate officials and Shared Services Procurement staff is not clearly articulated (paragraph 3.44).
- The Government’s Capital Works Coordinators Group provides a forum for sharing information at officer level (paragraph 3.68). However, the Group’s role was only defined in agreed terms of reference on 24 June 2014. The effectiveness of the Group needs to be monitored (paragraph 3.69).

Quality of capital works reporting (Chapter 4)

- The majority (seven of eight) of projects considered by the Audit Office were not physically completed on time as originally planned, although almost all (seven of eight projects) were completed within revised approved timeframes. Similarly, half (four of eight) were, or are on track to be, delivered within original budget, with all to be delivered within revised approved budgets (paragraph 4.54). More broadly, of approximately 700 projects physically and financially completed since 2009-10, 77 per cent were delivered within the original budget and 91 per cent were delivered within revised budgets (paragraph 4.59).
- Capital works reporting information can be some weeks, or even months, old when it is reviewed by the Budget Committee of Cabinet (paragraph 4.7). This current practice of eight to twelve week reporting timeframes is not consistent with existing guidelines which sought reporting to keep the Budget Committee of Cabinet up-to-date on capital works delivery progress (paragraph 4.12).

- Public release of capital works reporting occurs over an even longer timeframe (paragraph 4.8).
- On 16 June 2014 the Chief Minister and Treasury Directorate stated the *Capital Works Bi-monthly Reporting Process and Guidance Paper* to the Budget Committee of Cabinet, that was issued by the directorate in January 2010, no longer reflects the current process. The Directorate further stated reporting to Cabinet is not intended to provide contemporaneous information, instead it provides a point in time snapshot of progress (paragraph 4.10), given other avenues for management and control reporting (paragraph 4.11).
- Although the most recent Chief Minister and Treasury Directorate's direction does not give emphasis to the provision of information to the Budget Cabinet Committee as needing to be contemporaneous, the usefulness of information that is months old is questionable (paragraph 4.17).
- There were inaccuracies in directorate information reported to the Chief Minister and Treasury Directorate and the Budget Committee of Cabinet (paragraph 4.22).
- A failure to advise the Budget Committee of Cabinet, in a timely manner, of a significant matter occurred in one instance. An identified saving in the Bonner Primary School project's \$60 million budget was not disclosed to the Budget Committee of Cabinet until October 2012 (paragraph 4.18). This failure to advise of the saving in a timely manner is sufficiently significant to mislead report users (paragraph 4.19).
- The reporting inaccuracies identified indicate that quality control and assurances over capital works reporting could be improved (paragraph 4.23). Shared Services Procurement's quality checking for report data was found to be satisfactory (paragraph 4.25). However, no written quality assurance procedures were found in the Economic Development, Education and Training, Health or Territory and Municipal Services Directorates for the selected cases examined in this audit. As such, in directorates, quality control over reporting information may be compromised therefore errors are more likely to occur (paragraph 4.28). From a whole-of-Government perspective, the Chief Minister and Treasury Directorate conducts targeted quality assurance activities across all Directorates' reports (paragraph 4.29).
- For each of the Territory and Municipal Services, Economic Development, Health and Education and Training Directorate projects reviewed, there was a high rate of compliance with the identified reporting requirements demonstrating consistency in disclosure reporting (paragraph 4.53).
- However, there was a significant gap in directorates' reporting on program/project risks and their associated mitigation measures, even at a high level (paragraph 4.53). The lack of risk-related reporting to the Budget Committee of Cabinet means that information provided to the Committee is limited and this reduces the quality of reports. Furthermore, even when project risks are identified, the limited discussion of mitigation strategies to address these risks compromises the quality of reports (paragraph 4.80). Chief Minister and Treasury Directorate has advised project and risk reporting to Director/s-General and the responsible Minister is expected to be more detailed and up-to-date than the information provided to the Budget Committee of

Cabinet, since that other avenue for reporting is for management and control purposes (paragraph 4.47).

- Manual data handling and the duplication of input of financial and milestone information through off-line systems such as detailed and intricate spreadsheet-based records and reports was also evident (paragraph 4.35). Additionally, a number of the Oracle financial system's automated functions have not been fully employed (paragraph 4.36).
- The Commerce and Works Directorate has commenced procurement of a project management software system (paragraph 4.40). Shared Services Procurement do not yet have an implementation plan for the new system, although its stated aim is to roll the system out across Government (paragraph 4.41).

RECOMMENDATIONS

1.11 The audit made eight recommendations to address the audit findings in this report.

1.12 In accordance with Section 18 of the *Auditor-General Act 1996*, a final draft of this report was provided to the Directors-General of the auditee directorates for consideration and comment.

1.13 The directorates audited were:

- Chief Minister and Treasury;
- Commerce and Works;
- Economic Development;
- Education and Training;
- Health; and
- Territory and Municipal Services.

1.14 The Chief Minister and Treasury Directorate provided a coordinated response on behalf of all audited Directorates. The response is as follows:

The Government welcomes the report on the performance audit of Capital Works Reporting and the report's conclusion that the Capital Works reporting framework, originally introduced in 2009-10, has improved the provision of information to Cabinet and is well documented and understood across the directorates.

The Government has put in place a number of reforms to improve the delivery of the capital works program, partly reflecting its increase in size over the past ten years. These reforms include the:

- Capital Works monitoring and reporting framework;
- *The Capital Framework*; and
- *Partnerships Framework*.

These reforms, in particular the monitoring and reporting framework which has been in place since 2009-10, have made a contribution to improved delivery of the program. For example, over the last four years, the average expenditure against the program has

increased to 74.8 per cent compared to an average of 62.6 per cent for the preceding four year period.

The Government has traditionally estimated the earliest timing at which funds would be required and used those for budget allocation, so that projects do not get held up for reasons of funds availability. For this reason, unless a critical completion date has been set, agencies focus on delivering projects safely, to the necessary quality standards and within budget, rather than pressing forward to meet the estimated completion date set before a project commences.

The audit report suggests that information provided to the BCC was delayed; however, the objective of the high level Bi-monthly summary report compiled by CMTD is to provide a retrospective snapshot of progress in implementing the overall Capital Works Program and it is not intended as a contemporaneous management and control reporting tool. The Government continues to introduce improvements to the process of managing the capital works program by such initiatives as The Capital Framework (TCF) supported by a range of other mechanisms. The revised arrangements under TCF, which are supported by guidance materials, enable agencies to better estimate cost, time and quality pressures, assess and budget for risks more appropriately, and ensure lessons from past projects are captured and considered for similar projects in the future.

The greater use of post-implementation reviews and comprehensive risk analysis workshops for major and high risk projects will also enhance the delivery of capital works.

The Government is expanding the use of delivery model and contract types such as Design Construct Maintain Operate (DCMO); and Public Private Partnership (PPP) models.

The Partnerships Framework, launched in December 2013, focuses on the two delivery models of PPP and DCMO. It also addresses how unsolicited proposals are considered in relation to the Territory's infrastructure program. The Government has approved a set of general principles, policies and governance arrangements for delivery of major infrastructure under the above two delivery models.

This will place the Territory in an improved position to manage risks and achieve value for money in delivering its capital projects.

The Government would like to thank the Auditor-General for this review of Capital Works Reporting and will consider the report's recommendations in further enhancing monitoring and reporting arrangements.

1.15 The Audit Office recommendations are shown below.

Recommendation 1 (Chapter 3)

Format of capital works reporting templates

The Chief Minister and Treasury Directorate should continue to review and streamline the templates for Directorate reporting on capital works progress to the Chief Minister and Treasury Directorate, Budget Committee of Cabinet and the public.

Recommendation 2 (Chapter 3)

Negotiated Service Provision Agreements

The Commerce and Works Directorate's Shared Services Procurement and directorates should develop capital works service level agreements, or the equivalent, by 31 December 2014. These should specify reporting responsibilities.

Recommendation 3 (Chapter 3)

Capital Works Coordinators Group

The Commerce and Works Directorate's Shared Services Procurement should monitor the effectiveness of the Capital Works Coordinators Group.

Recommendation 4 (Chapter 4)

Revision of guidance for capital works reporting to Budget Committee of Cabinet

The Chief Minister and Treasury Directorate should revise its *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper* to reflect the current purpose of reporting.

Recommendation 5 (Chapter 4)

Timeliness of reporting

The Chief Minister and Treasury Directorate should consult with the Budget Committee of Cabinet to determine the timeliness of information it requires in reports provided to it. The results of this consultation should be reflected in a revised *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper* (refer to Recommendation 4).

Recommendation 6 (Chapter 4)***Quality control***

All Directorates should quality control information to be included in capital works reports to the Chief Minister and Treasury Directorate and the Budget Committee of Cabinet, and have documented quality control procedures.

Recommendation 7 (Chapter 4)***Whole-of-Government project management information software system***

The Commerce and Works Directorate's Shared Services should finalise procurement of its project management software system having regard to:

- a) re-engineering supporting processes and procedures, particularly those governing such things as payment methods and financial system functionality;
- b) optimising the reporting module of the system to deliver reporting information to the Chief Minister and Treasury Directorate and Budget Committee of Cabinet; and
- c) integration with/or (where cost effective) replacement of software in other directorates.

Recommendation 8 (Chapter 4)***Reporting on capital works delivery risks***

The Chief Minister and Treasury Directorate should consult with the Budget Committee of Cabinet to confirm its information needs on project risks and associated mitigation strategies. The results of this consultation should be reflected in a revised *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper* (refer to Recommendation 4).

EXECUTIVE DELIBERATIONS AND DECISIONS

- 1.16 This report presents deliberations and decisions of the Budget Committee of Cabinet, inclusion of which the Audit Office considers is in the public interest. In accordance with Section 20(2) of the *Auditor-General Act 1996*, the

Chief Minister was consulted regarding inclusion of this deliberative information. On 12 June 2014, the Chief Minister advised:

I have no concerns with the use of 'Executive deliberations and decisions' in the draft report as provided for under Section 20(1) of the *Auditor-General Act 1996*. I agree with your conclusion that omitting the reporting to Cabinet of the Territory's capital works program would not be in the public interest.

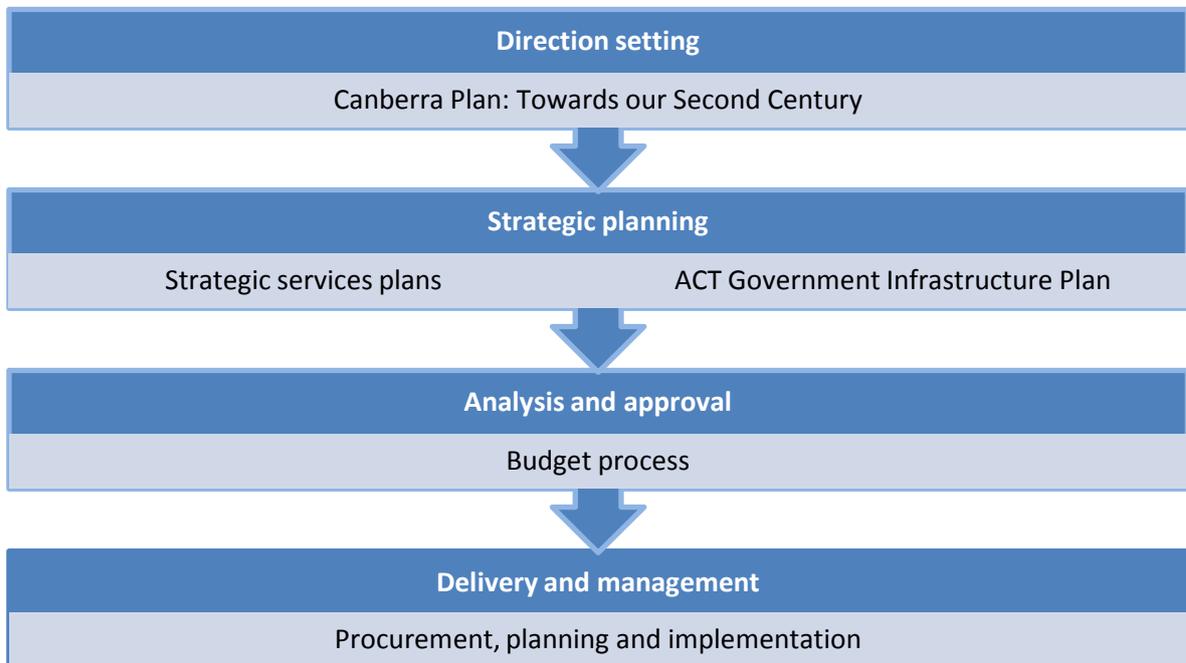
I note that significant improvements have been made in recent months in the capital works reports to Cabinet and the quality of information being provided to Chief Minister and Treasury Directorate (CMTD).

2. BACKGROUND

CAPITAL WORKS

- 2.1 Capital works usually involve creating or maintaining an asset. They can be major or minor, either in terms of expenditure, physical size or complexity.
- 2.2 The ACT Government has a wide range of capital works for example, constructing swimming pools, schools, hospitals, transitways, recreational trails or implementing IT systems and undertaking repairs of assets. Furthermore, capital works may be planned or unplanned. The latter usually being minor capital works.
- 2.3 The ACT's 2014-15 Budget Paper No. 3, with respect to capital works, states:
... infrastructure investment and delivery remains a key priority to ensure our community is well prepared to meet the economic, social, and environmental challenges of Canberra's second century.
- 2.4 Much of the Government's capital works reporting relates to the 'delivery and management' stage of the Infrastructure Framework, particularly focussing on the period between budget funding and finalisation of construction. The Government's Infrastructure Framework is shown in Figure 2.1.

Figure 2.1 ACT Government Infrastructure Framework



Source: Adapted from ACT Government Infrastructure Plan 2011-2021, page 6, available at www.cmd.act.gov.au

THE ACT GOVERNMENT'S CAPITAL WORKS PROGRAM

2.5 The scale of the Government's capital works program has increased markedly over the last decade with a 392 per cent increase, from \$141 million to \$696 million, in budget commitments for capital works from 2002-03 to 2013-14. A slightly lower level of investment of \$620 million was announced in the 2014-15 Budget. Over the period 2002-03 to 2013-14, total Government expenditure increased by 109 per cent (from \$2,197 million to \$4,586 million). As such, capital works investment has increased from 6 per cent to 15 per cent of total Government expenditure from 2002-03 to 2013-14 which demonstrates its growing importance in the Territory.

2.6 As at 30 April 2014, there were 529 capital works projects being progressed by the Government.

Table 2.1 Number of capital works projects being progressed and reported on by the ACT Government, as at 30 April 2014

Directorate/agency	Capital works construction	ICT projects	Property, plant and equipment	Total
Territory and Municipal Services	156 <i>Note 1</i>	1	7	164
Economic Development	114	0	4	118
Health	54	4	4	62
Education and Training	33	10	0	43
Community Services	36 <i>Note 2</i>	1		37
Justice and Community Safety	19	9	5	33
Environment and Sustainable Development	27	3	0	30
EPIC	13	0	0	13
Commerce and Works	0	13	0	13
Cultural Facilities Corporation	4	0	0	4
CIT	4	0	0	4
Office of the Legislative Assembly	4	0	0	4
Chief Minister and Treasury	0	3	0	3
Cemeteries	1	0	0	1
Total	465	44	20	529

Note 1: Includes two projects being progressed through the Australian Government-funded Black Spot road program.

Note 2: Includes nine projects being progressed by Housing ACT.

Source: ACT Auditor-General's Office analysis of agency capital works reporting

2.7 Historically, there have been issues with the delivery of capital works. For example, as shown in Table 2.2 below, over the 2002-03 to 2012-2013 period,

between 20.4 and 44.6 per cent of the capital works budget was not spent each year; with much of this unspent funding being rolled over into future years' budgets. This underspending against the capital works budget has been discussed in the Legislative Assembly.⁴

Table 2.2 Whole-of-Government capital works budgets and expenditure - original budget vs actual expenditure

Financial Year	Original budget (as announced in annual Budget Papers) \$ million	Actual expenditure to 30 June \$ million	Actual expenditure against original budget %
2002-03	141.399	96.876	68.5
2003-04	152.128	108.816	71.5
2004-05	232.794	129.028	55.4
2005-06	292.410	163.141	55.8
2006-07	336.959	218.069	64.7
2007-08	420.046	282.728	67.3
2008-09	474.082	296.472	62.5
2009-10	735.124	580.461	79.0
2010-11	755.716	601.655	79.6
2011-12	824.197	572.054	69.4
2012-13	813.720	578.774	71.1
2013-14	695.650	539.294 (Estimate) Note 1	77.5
2014-15	620.500	N/A	N/A

Note 1: Estimate excludes Information and Communications Technology and Property, Plant and Equipment.

N/A: Figures not yet available.

Source: ACT Auditor - General's Office, from Chief Minister and Treasury Directorate advice in the Directorate's *Capital Works Dashboard* and ACT Government, 2014-15 *Budget Paper No. 3*, pages 183 and 185

2.8 Expenditure on the capital works program has doubled since the introduction of the reporting reforms in 2009-10, and the percentage of capital works program expenditure against the budget has improved from an average of 62.6 per cent for the four years prior, to 74.8 per cent for the four years following its introduction.

⁴ See, for example, a question from a former Legislative Assembly member Zed Seselja to the then Treasurer (and response from then Treasurer, Mr Jon Stanhope), 7 May 2008, available at www.hansard.act.gov.au

REPORTING ON CAPITAL WORKS DELIVERY

2.9 The Government announced reforms to capital project management in the 2009-10 ACT Budget which included additional reporting.

2.10 The objective of the reporting reforms was to:

... strengthen advice to Government on the progress of its capital program, including regular reports to the Budget Committee of Cabinet.⁵

2.11 A 2010 guidance paper prepared by the Chief Minister and Treasury Directorate restated and expanded the objective of the reporting reforms to:

... keep the Budget Committee of Cabinet up-to-date on the progress of the Capital Works Program. The improved reporting process is aimed at improving the overall delivery of present and future Capital Works Programs through enhancing the information provided to decision-makers.⁶

2.12 In October 2013 advice to the Audit Office, the Chief Minister and Treasury Directorate indicated that improvements in capital works delivery were to be achieved by:

... providing transparency on progress for Ministers and increasing agency accountability.

2.13 A January 2010 letter to agency heads advised that the 2009-10 reforms were in response to a:

... substantial increase in the [capital works] program's size and a high degree of interest in its delivery.⁷

2.14 In this same correspondence, the new reporting requirements by directorates to the central agency, the Budget Committee of Cabinet, and the public were outlined. It was stated that the following was to occur:

- monthly meetings between the Treasurer and directorate Chief Financial Officers to track program delivery and identify risk areas early, to allow intervention where necessary;
- monthly reports from directorates to the Chief Minister and Treasury Directorate;
- instigation of a new requirement for bi-monthly reports from directorates to the Budget Committee of Cabinet; and
- quarterly reports on capital works released publicly.

⁵ ACT Government, *2009-10 Budget Paper No. 4*, page 133, available at www.treasury.act.gov.au

⁶ ACT Department of Treasury, *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper*, January 2010

⁷ Under Treasurer correspondence to Directors-General and agency Chief Executives, *Capital Works Bi-monthly Reporting Process and Guidance Paper – TSY-B09/763*, 5 January 2010, page 2

- 2.15 Meetings between the Treasurer and Chief Financial Officers were discontinued a year after the reforms commenced as they duplicated other forums and information sources.
- 2.16 Prior to introduction of the above reporting reforms, capital works delivery progress was publicly reported in annual budget papers and each Directorate's annual report; reporting on delivery progress to the Budget Committee of Cabinet did not occur in a regular or consistent manner.

ABOUT THIS AUDIT

Audit Objective

- 2.17 To provide an independent opinion to the Legislative Assembly on the effectiveness of reporting to the Chief Minister and Treasury Directorate, the Budget Committee of Cabinet and the public on the capital works program.

Audit Criteria

- 2.18 In considering reporting to the Chief Minister and Treasury Directorate, the Budget Committee of Cabinet and the public, the Audit Office examined whether:
- reporting requirements are clear, well known and adhered to across Government;
 - reported information on the cost and delivery progress of capital works is of high quality; and
 - Budget Committee of Cabinet is informed of delivery problems or risks and, where necessary, risk mitigation strategies are reported.

Selected Directorates and projects

- 2.19 Reporting procedures and systems were assessed by examining reporting on a selection of capital works projects across four Directorates, being the:
- Economic Development Directorate;
 - Education and Training Directorate;
 - Health Directorate; and
 - Territory and Municipal Services Directorate.
- 2.20 These directorates have significant capital works programs, as reflected in the Treasurer's advice to his ministerial colleagues in September 2013 that:
- ... the successful delivery of the 2013-14 [Capital Works] Program will rely heavily on the performance of Territory and Municipal Services Directorate, ACT Health, and

Economic Development Directorate, who between them are budgeted to deliver 78 per cent of the Program.⁸

- 2.21 In 2014-15, these directorates were budgeted to deliver 52 per cent of the capital works program.
- 2.22 The Education and Training Directorate has had a considerable capital works program in recent years, accounting for 11.3 per cent of the Territory’s capital works budgeted expenditure in 2014-15; as such, this directorate was also examined in this audit.
- 2.23 Capital works reporting to the Chief Minister and Treasury Directorate, the Budget Committee of Cabinet, and the public was examined for two projects in each of the selected directorates. These projects were selected to reflect a cross-section of project scale, value and type (for example, schools, road works, health facilities and community facilities).
- 2.24 Smaller and larger projects were selected with the assistance and advice from directorates. For the Health Directorate, the Audit Office considered information referred to the Auditor-General by the Minister for Health.
- 2.25 The considered projects allow for an examination of the capital works reporting system.
- 2.26 The selected projects had an initial combined budgeted value of \$276.8 million, which was revised upwards to \$302.6 million as shown in Table 2.3.

Table 2.3 Selected projects for which capital works reporting was examined

Directorate	Selected projects	
Economic Development	Canberra CBD Upgrade – Stage 2 – Merry-go-round and Veterans’ Park	<p>This project included an upgrade of the Civic Carousel and Veterans’ Park in Civic. The project was funded \$4.300 million in the 2011-12 Budget. At that time, physical completion was anticipated in July 2012.</p> <p>The project was rescheduled during the design phase to better align with the overall CBD program of works, with a revised physical completion date of December 2012 identified in the 2012-13 Budget. The project was again rescheduled with the 2013-14 Budget identifying anticipated physical completion of the project in September 2013.</p>
	Gungahlin Pool	<p>This project included construction of aquatic and dry fitness areas, cafe, childcare and administration accommodation. It was funded \$26.300 million in the 2011-12 Budget. At that time, physical completion of the project was anticipated in June 2015. Delivery of the project was brought forward with the 2013-14 Budget identifying anticipated physical completion of the project in April 2014.</p>

⁸ Treasurer in Cabinet Information Paper 13/348, *2012-13 Capital Works Program Whole-of-government Bi-Monthly Update (as at 30 June 2013)*, 10 September 2013, paragraph 18

Directorate	Selected projects	
Education and Training	Gungahlin College	<p>The college incorporates a hub and arts precinct, library, gymnasium, theatres and technical facilities. The project was announced in the 2007-08 Budget with capital funding of \$60.700 million. At that time, completion of the project was expected in January 2010.</p> <p>The 2008-09 Budget revised the estimated total cost of the project stating:</p> <p style="padding-left: 40px;">The capital works program provides an additional \$5 million for the Gungahlin College Library to ensure sufficient space to serve the Gungahlin community well into the next decade. The additional \$0.325 million provided in the 2007-08 Supplementary Appropriation for the 'Gungahlin Well-Being Precinct' is also being reported as part of this project.</p> <p>The 2009-10 Budget provided an additional \$5.4 million for the project and revised the anticipated physical completion date to December 2010.</p> <p>The Directorate has advised:</p> <p style="padding-left: 40px;">Significant delay was experienced due to wet weather in 2010 which contributed to the need for Staged completion of the project.</p> <p>As such, the 2011-12 Budget again revised the anticipated physical completion date (to April 2011) and provided an additional \$3 million funding for the project to a total of \$74.407 million.</p>
	Neville Bonner Primary School	<p>This primary school project was to accommodate enrolment of 560 students. The project was announced in the 2011-12 Budget with funding of \$60.270 million. At that time, opening of the project was expected for commencement of the 2013 school year (February 2013).</p> <p>The Directorate has advised:</p> <p style="padding-left: 40px;">Delay in completion of the overall project primarily arose from the replacement of the design consultant and the Contractor and a subcontractor separately going into Administration... Other extensions of time were granted due to wet weather...</p> <p>Delivery of the project was revised with the 2012-13 Budget identifying anticipated physical completion of the project in December 2013. Subsequently, savings of \$14 million were identified in the 2013-14 Budget as well as a further \$3 million savings in the 2014-15 Budget. The 2014-15 Budget identified an estimated total cost for the project of \$43.270 million.</p>
Health	Adult Acute Mental Health Inpatient Unit	<p>This 40-bed project consists of patients' rooms, socialisation and outdoor areas, and areas for staff operations and amenity at Canberra Hospital. The project was announced in the 2008-09 Budget with capital funding of \$23.630 million. At that time, project completion was expected in September 2010.</p> <p>The 2009-10 Budget revised the expected physical completion of the project to June 2011, with the 2010-11 Budget further revising this date to October 2011. The 2011-12 Budget again revised the expected completion date to December 2011 and</p>

Directorate	Selected projects	
		<p>the 2013-14 Budget subsequently advised of an April 2012 completion date.</p> <p>The 2013-14 Budget also provided additional funding, with a total estimated cost for the project of \$28.480 million.</p>
	Centenary Hospital for Women and Children	<p>The 148-bed hospital incorporates a neonatal intensive care unit, paediatric unit, and extended and refurbished maternity and gynaecology units. The project was announced in the 2008-09 Budget with funding of \$90.000 million. At that time, project completion was expected in June 2012.</p> <p>Through the 2010-11 Budget, \$7.370 million was transferred to this project from the generic provision for Phase 1 of the Clinical Services Redevelopment Fund which the Directorate has advised:</p> <p style="padding-left: 40px;">... provides for unforeseen and emergent costs to ensure the building works are able to continue smoothly.</p> <p>The 2010-11 Budget also revised the expected physical completion of the project to September 2012.</p> <p>Subsequently, the estimated total cost of this project was increased in the 2011-12 Budget to \$111.060 million. The Budget papers stated:</p> <p style="padding-left: 40px;">The 2011-12 Capital Works Program provides an additional \$3.5 million for the Women and Children's Hospital. An additional \$10.190 million has also been transferred to this project. The funding is transferred from Clinical Services Redevelopment – Phase 2 (\$5.2 million), Provision for Project Definition Planning (\$2.710 million) and New Multistorey Car Park TCH (\$2.280 million).</p> <p>The Directorate has advised:</p> <p style="padding-left: 40px;">... scope and budget changed from the original (i.e. announced in the Budget) following further research on other hospitals.</p> <p>The 2012-13 Budget advised of a further change to the anticipated physical completion date of the project to August 2013, and the 2013-14 Budget again revising this date to November 2013.</p>
Territory and Municipal Services	Belconnen to City Bus Transitway – Stage 1	<p>This project includes a bus station at City West (in the Australian National University Exchange), dedicated bus lanes on Barry Drive and bus priority measures at traffic light intersections. The project was announced in the 2010-11 Budget with \$7.300 million capital funding. At that time, project completion was expected by June 2012.</p> <p>Through the 2012-13 Budget, the estimated total cost of this project was increased to \$8.500 million and the anticipated physical completion date extended to June 2013.</p>
	Canberra Centenary Trail	<p>The project is a self-guided trail for walkers and cyclists that circles Canberra. It is 145 km long and incorporates existing bicycle paths, footpaths and trails, supplemented by new trails and a campground. The project was announced in 2011 and funded \$3.300 million in the 2011-12 Budget. At that time, project completion was expected in July 2013.</p>

Directorate	Selected projects
	<p>The 2012-13 Budget announced a revised anticipated physical completion date of June 2014. On this the Directorate advised:</p> <p>The initial programmed works were completed in October 2013, three months late. The unspent (uncommitted) funds were directed to additional work on the project; hence the new estimated completion date of June 2014 to accommodate the new scope.</p>

Source: ACT Auditor-General's Office analysis of annual Budget Papers and Directorate advice

- 2.27 The whole-of-Government coordination of reporting on capital works projects by the central Chief Minister and Treasury Directorate was considered.
- 2.28 Additionally, as much of a directorate's reporting on capital works relies on transactional data from Commerce and Works Directorate's Shared Services Procurement team, the support services of this directorate were also considered.
- 2.29 The audit followed the Audit Office's Performance Audit Methods and Practices (PAMPr) and related policies, practice statements and guidance papers. The Audit Office followed Australian Standards and relevant ethical pronouncements in the conduct of this audit.

Previous Audits

- 2.30 A previous ACT Audit Office audit report, *Delivery of Budget Initiatives*, highlighted concerns about the implementation of capital initiatives in the 2007-08 and 2008-09 Budgets and, in relation to capital initiatives, concluded that agencies:

... did not perform well in the implementation of the capital initiatives. About 45 per cent of selected projects were not completed on time and within budget. Agencies spent less than 50 per cent of the funds provided during the years under review.

Significant delays in implementing the budget initiatives could increase final costs, and reduce the effectiveness of the Government budget strategy, in particular, the delivery of necessary infrastructure to support better service delivery to the ACT community.

There is scope to improve the processes used by agencies to implement budget initiatives, including planning, project management, risk management, and performance management.⁹

- 2.31 With respect to reporting on project delivery, the previous audit recommended:

Recommendation 4 – Agencies should:

- review their existing performance reporting system to improve the monitoring and reporting of project performance, especially against project milestones; and
- undertake and document post-implementation reviews of the project to identify any lessons learnt that may assist in the delivery of future initiatives.

⁹ ACT Auditor-General's Office, *Delivery of Budget Initiatives*, June 2010, page 4, available on the ACT Auditor-General's Office website, www.audit.act.gov.au

2.32 This recommendation was agreed by all of the audited agencies.

3. ROLES IN CAPITAL WORKS REPORTING

3.1 This chapter examines directorate roles in the reporting of capital works.

Conclusion

The roles of the Budget Committee of Cabinet and the Chief Minister and Treasury Directorate in reporting capital works are documented and generally understood by directorates. However, this is not the case between the Commerce and Works Directorate's Shared Services Procurement team and other directorates, whose roles are critical in managing, and reporting on, delivery of the ACT's 529 capital works projects. Coordination of capital works reporting between directorates and Shared Services Procurement can be improved by clarifying their respective roles.

The recently revised across-Government Capital Works Coordinators Group provides an opportunity for enhancing consistency with respect to capital works activities, including reporting, through across-Directorate knowledge sharing at an officer level. However, the Group's role was only defined in agreed terms of reference on 24 June 2014. It would be appropriate for its effectiveness to be monitored.

Key findings

- Capital works reporting initiatives introduced as part of the 2009-10 Budget have improved the provision of information to the Budget Committee of Cabinet (paragraph 3.11).
- The Budget Committee of Cabinet is responsible for budgeting and planning for the Territory's capital works program (paragraph 3.2). On a bi-monthly basis, the Budget Committee of Cabinet is presented with a report on directorates' progress towards implementing its capital works funding decisions (paragraph 3.6). The Cabinet Handbook documents the role of the Committee (paragraph 3.2).
- Each Director-General is responsible for his or her directorate's delivery of a capital works project and the program of projects within that directorate (paragraph 3.32). Reflecting their accountability for delivery of capital projects, Directors-General are also responsible for reporting to their Minister as well as to the Chief Minister and Treasury Directorate and the Budget Committee of Cabinet on their Directorate's capital works program delivery progress (paragraph 3.33).
- The Budget Committee of Cabinet has noted each of the bi-monthly capital works progress reports presented to them since introduction of the reporting reforms (paragraph 3.10). This included acknowledgement of total program expenditure, major milestone progress and, in most cases, the identification of the number of 'at risk' projects. Bi-monthly reports are presented to the Budget Committee of Cabinet for information only and no formal action is sought (paragraph 3.12).
- Public reporting on capital works implementation occurs in quarterly capital works reports prepared by the Treasurer, annual budget papers, and directorates' annual reports (paragraph 3.16). Compared with other jurisdictions, the ACT Government

provides more detailed information (paragraph 3.19).

- There are varying report formats prepared from the same base data. Efficiencies could be gained through having consistency in format and content requirements (paragraph 3.41).
- As the central agency of Government, the Chief Minister and Treasury Directorate coordinates, develops and monitors the annual Budget and whole-of-Government capital works program (paragraph 3.21). Through issuing of guidelines, instructions, reporting templates and other communications, the Chief Minister and Treasury Directorate has satisfactorily documented its current role in capital works reporting (paragraph 3.27).
- Close cooperation between the Commerce and Works Directorate's Shared Services Procurement team and directorates is critical to managing projects and mitigating risks to project budgets and timelines (paragraph 3.44). Directorates rely on data from Shared Services to inform their reporting on capital works (paragraph 3.47). However, the allocation of roles between internal directorate officials and Shared Services Procurement staff is not clearly articulated (paragraph 3.44).
- The Government's Capital Works Coordinators Group provides a forum for sharing information at officer level (paragraph 3.68). However, the Group's role was only defined in agreed terms of reference on 24 June 2014. The effectiveness of the Group now needs to be monitored (paragraph 3.69).

THE ROLE OF THE BUDGET COMMITTEE OF CABINET

Decision-makers on capital works projects

- 3.2 The Budget Committee of Cabinet is responsible for budgeting and planning for the Territory's capital works program. The Cabinet Handbook documents the role of the Committee, stating:

Budget Committee considers expenditure, revenue, capital, savings and investment proposals. The Committee meets ... regularly throughout the year to review agencies' performance (including the delivery of capital programs) and considers possible future Budget initiatives.

Budget Committee comprises all ministers, the Director-General of the Chief Minister and Treasury Directorate and the Under Treasurer.¹⁰

- 3.3 The Committee's decisions are articulated through the annual Budget papers; predominantly in Budget Paper No. 3 that provides the community with an overview of, among other things, the Territory's infrastructure and capital works program. Budget Papers also provide a breakdown by individual directorates, including identification of the estimated total cost and physical completion date of each funded project.

¹⁰ ACT Government, *Cabinet Handbook*, February 2013, page 8

- 3.4 The Chief Minister and Treasury Directorate has advised:
- ... the budget and completion time [anticipated in annual Budget Papers] is intended to be indicative and is premised on best case estimates which do not take into account developments arising from circumstances, such as latent conditions, market tested pricing and directorate-initiated scope changes.
- 3.5 The Directorate has also stated:
- ... unless a critical completion date has been set by Budget Cabinet Committee (BCC) or a Minister, then agencies focus on getting the project delivered safely, to the necessary quality standards and within budget, rather than pressing forward to meet what is likely to have been an early 'best of all circumstances'.
- 3.6 On a bi-monthly basis, the Budget Committee of Cabinet is presented with a report on directorates' progress towards implementing their capital works funding decisions. These reports provide financial and project implementation information and are intended to include identification of potential risks to the delivery of the capital works program and, where relevant, mitigation strategies taken to address risks.
- 3.7 In addition to their role in Budget Committee of Cabinet, each Minister is responsible for delivery decisions relating to individual projects within their portfolio; noting that, if they wish to extend a project's budget, they need to consult with the Treasurer. As discussed in paragraph 1.7, reporting to individual Ministers from their respective Directors-General was not the subject of 2009-10 reforms to capital works reporting and has therefore not been considered in detail in this audit.

Budget Committee of Cabinet use of capital works reporting

- 3.8 As mentioned in paragraph 2.11, a 2010 guidance paper, prepared by the Chief Minister and Treasury Directorate, to all directorates and agencies involved in capital works delivery indicates that reporting reforms sought to:
- ... keep the Budget Committee of Cabinet up-to-date on the progress of the Capital Works Program. The improved reporting process is aimed at improving the overall delivery of present and future Capital Works Programs through enhancing the information provided to decision makers.¹¹
- 3.9 Reporting targeted improvements in capital works delivery is to be achieved by:
- ... providing transparency on progress for Ministers and increasing agency accountability.

¹¹ ACT Department of Treasury, *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper*, January 2010, page 3

3.10 In line with this objective, the Budget Committee of Cabinet has noted each of the bi-monthly capital works progress reports presented to it since the introduction of the reporting reforms in 2009. Summaries of this are reported publicly and regularly released. For example, the summary of Cabinet outcomes for the meeting of 25 March 2014 advises:

... a meeting of the Budget Committee of Cabinet was convened. Ministers considered an update of the 2013-14 Capital Works Program.¹²

3.11 As noted in paragraph 2.16, prior to introduction of the above reporting reforms, reporting on capital works delivery progress to the Budget Committee of Cabinet did not occur in a regular or consistent manner. As such, capital works reporting initiatives introduced as part of the 2009-10 Budget have improved the provision of information to the Budget Committee of Cabinet.

3.12 Bi-monthly reports are presented to the Budget Committee of Cabinet for information only and no formal action is sought. This is reflected in the Cabinet decisions during 2009 to 2013 that indicate that its consideration of the bi-monthly reports included acknowledgement of total program expenditure, major milestone progress and, in most cases, the identification of the number of 'at risk' projects.

3.13 The Chief Minister and Treasury Directorate has advised:

The oversight of the capital program by BCC [Budget Committee of Cabinet] is at a strategic level across the program as a whole. Accordingly, the CMTD [Chief Minister and Treasury Directorate] Bi-monthly Information Paper is intended to be a snapshot of progress across the entire program rather than a contemporaneous management and control reporting tool. While BCC may discuss particular projects, given the number of projects underway at any one time in the overall Capital Works Program, BCC does not review progress on a project by project basis.

Treasurer's role

3.14 Among other things, the Treasurer manages the annual budget, financial reporting and capital works. The Treasurer is responsible for consolidated whole-of-Government reports on delivery of the Territory's capital works program, including:

- a whole-of-Government summary of Directorate's bi-monthly reports to the Budget Committee of Cabinet; and
- a quarterly report which is released publicly. This report is prepared by the Chief Minister and Treasury Directorate and is discussed further in paragraph 3.16.

3.15 The Treasurer also supports the Chief Minister in providing strategic direction for infrastructure delivery in the Territory. This is done through the Government's annual Infrastructure Plan, a ten-year strategic planning document that provides

¹² ACT Government, 25 March 2014 - *Summary of Cabinet Outcomes*, available at www.cmd.act.gov.au

an overview of key infrastructure projects funded through the current Budget or considered for funding over the coming decade. The Plan relates to, but does not replace, annual budget decisions for funding specific projects. There are no direct reporting requirements associated with the Infrastructure Plan, and so it was not considered as part of this audit.

Public Accountability

- 3.16 Public reporting on capital works implementation occurs in quarterly capital works reports prepared by the Treasurer, annual budget papers, and directorates' annual reports.
- 3.17 Quarterly capital works reports contain an overview and information on expenditure, milestones and particular programs, such as the land release program and social housing. These reports are published on the Chief Minister and Treasury Directorate's website. The quality of these reports is discussed in Chapter 4.
- 3.18 Annual budget papers necessarily focus on reporting against financial aspects of capital projects. Similarly, directorates' annual reports also focus on financial information for each capital works project, refer to Table 3.1 below. Capital works reporting in directorates' annual reports was in place prior to the introduction of reporting reforms in 2009-10. No substantive amendments to Annual Report Direction requirements for capital works reporting have been made in recent years.

Table 3.1 Example of capital works reporting in directorate Annual Reports

Project	Revised Practical Completion Date	Original Value (\$'000)	Revised Value (\$'000)	Prior Year Expenditure (\$'000)	2012-13 Expenditure (\$'000)	Total Expenditure to Date (\$'000)
Works in progress 2012-13						
Parks, Conservation and Land						
Canberra Centenary Trail	Jun-14	3,300	3,300	259	1,060	1,319

Source: Territory and Municipal Services Directorate, *Annual Report 2012-13 – Volume 1*, Appendix 3 – Capital Works 2012-13 (Section C14), page 183

- 3.19 The ACT Government reports to the public on its acquisition and construction of capital. This is done in budget papers and each directorate's annual report. Compared with other jurisdictions, the ACT Government provides more detailed information.
- 3.20 However, the Queensland Department of Public Works is currently producing an online reporting tool that is intended to:
- inform users on the status of Queensland Government building projects;

- provide the ability to search building projects using criteria, including project name;
- enable users to create their own lists of projects of interest; and
- provide project commentary (when available).

THE ROLE OF THE CHIEF MINISTER AND TREASURY DIRECTORATE

- 3.21 In its capacity as the central agency of Government, the Chief Minister and Treasury Directorate coordinates, develops and monitors the annual Budget and whole-of-Government capital works program.
- 3.22 As mentioned in paragraph 3.2, the Director-General and the Under Treasurer are also members of the Budget Committee of Cabinet.

Whole-of-Government budget monitoring

- 3.23 The Finance and Budget Division, as part of the Chief Minister and Treasury Directorate, is responsible for advising the Government and agencies on the development of the Territory's Budget. This includes consideration of capital works proposals developed by agencies.
- 3.24 The Division's Infrastructure and Budget Management team is responsible for coordinating the development, and ongoing monitoring, of the Territory's capital works program.
- 3.25 The team serves as a central coordination point for the ACT Government capital works program. It uses directorates' capital works reporting information in monitoring the capital works program and to develop the Treasurer's whole-of-Government report to Cabinet, Ministers, and the public. The Chief Minister and Treasury Directorate advised that Directorate's responses in monthly report templates are the main source of data that it uses to monitor the progress and delivery of the whole-of-Government capital works program.
- 3.26 In addition to the Infrastructure and Budget Management team, individual units in the Division are responsible for the day-to-day financial oversight of capital works projects, and liaise directly with agencies in regards to this.
- 3.27 Through issuing of guidelines, instructions, reporting templates and other communications, the Chief Minister and Treasury Directorate has satisfactorily documented and explained its current role in capital works reporting.
- 3.28 The Chief Minister and Treasury Directorate identified a range of uses for which directorate capital works reporting is employed, refer to Table 3.2.

Table 3.2 Chief Minister and Treasury Directorate identification of how capital works reporting data is used

Target	Use
Internal Chief Minister and Treasury Directorate use	Monthly dashboards (high-level summaries of whole-of-Government capital works expenditure etc.)
	Assists in informing the Territory's borrowing needs, that is, timing of borrowings
	Tracking expenditure on works funded from the Capital Improvement Program Fund and monitoring programs such as the Urban Improvement Program, and the Local Initiatives Package of works
	Input to analysis relating to trends, locations and types of infrastructure investment in Canberra over time
	Budget development including: <ul style="list-style-type: none"> reviewing, and providing templates for, re-profiling provided by agencies, that is, projects flagged at risk or with limited, or no spend to date; providing information regarding project status for feasibility and design projects to inform budget proposals for construction bids; and input to advice on scope to defer/cancel low priority or delayed projects
Reporting to Cabinet/Ministers	Bi-Monthly Budget Committee of Cabinet Information Papers
	Monthly briefing papers for the Treasurer for meetings with Chief Financial Officers' (note, these meeting were cancelled within a year of introduction of the 2009-10 reporting reforms)
	Detailed data, comparisons, graphs etc. for use in the Budget Papers, ad-hoc briefings and speeches for Ministers and Executives
Reporting to the Australian Government	Maintaining the National Infrastructure Construction Schedule
Reporting to the public	Quarterly capital works reports
	Project information used for the Procurement call tender schedule
	Project information used for Canberra Construction Snapshot (an Economic Development Directorate on-line publication)

Source: ACT Auditor - General's Office, from Chief Minister and Treasury Directorate advice

3.29 Monthly dashboards, which are developed by the Chief Minister and Treasury Directorate for their own use, were also shared with the Treasurer, for example as part of question time briefing papers to inform Legislative Assembly debate.

3.30 An examination of the Directorate's files from 2013-14 identified 24 formal briefing papers to the Treasurer and correspondence between Ministers regarding projects at risk in terms of time, scope and/or budget, with a further 30 briefing papers identified in 2012-13. It is acknowledged that verbal briefings may also have been provided.

DIRECTORATE REPORTING ROLES AND RESPONSIBILITIES

- 3.31 Most ACT directorates and agencies manage capital works, and are responsible for the reporting on delivery of their funded projects in the capital works program.
- 3.32 Each Director-General is responsible for his or her directorate's delivery of a capital works project and the program of projects within that directorate. The Chief Minister and Treasury Directorate has advised:
- ... individual Ministers hold respective Director/s-General accountable for performance against agreed project budgets, timeframes and scope.¹³
- 3.33 Reflecting their accountability for delivery of capital projects, Directors-General are also responsible for reporting to their Minister as well as to the Chief Minister and Treasury Directorate and the Budget Committee of Cabinet on their directorate's capital works program delivery progress. In correspondence to agency heads on 5 January 2010, the then Under Treasurer advised:
- ... the governance arrangements applying to capital projects are better reflected if agencies report directly to Cabinet on their respective programs, with a consolidated overview provided by Treasury ... Cabinet agreed during the 2009-10 Budget process that agencies would be the entity providing the report. This reflects the governance arrangements and preserves agency accountability applying to the delivery of capital projects.¹⁴
- 3.34 Project managers in directorates are responsible for monitoring and delivering their respective projects, and reporting on a project's progress to their Director-General. Methods for managing capital works programs vary between agencies.
- 3.35 The Economic Development, Education and Training and Health Directorates have established centralised teams to deliver their capital works programs. Territory and Municipal Services Directorate project managers are located across divisions and program areas with a single central Capital Works Coordinator; each division and branch had varying requirements for the management and reporting of their projects.

Directorate finance teams

- 3.36 Finance teams in directorates play a critical role in capital works progress reporting by consolidating project data, including accrual information from Shared Services Procurement.
- 3.37 The Chief Minister and Treasury Directorate has advised that, as part of end-of-year accounting acquittal processes, each directorate is required to

¹³ As noted in paragraph 1.7, this reporting line was not the subject of the 2009-10 reforms and has not been considered in detail in this audit.

¹⁴ Under Treasurer correspondence, *Capital Works Bi-monthly Reporting and Guidance Paper*, Treasury, January 2010

report full project expenditure against project implementation during the year. This information is provided in parallel with directorates' June monthly reporting requirements. This end-of-year acquittal reporting requires the signature of the directorate's Chief Financial Officer.

- 3.38 In addition to end-of-year acquittals, directorate finance teams also prepare, with contributions from project managers and staff from Shared Services Procurement, monthly reports to the Chief Minister and Treasury Directorate on delivery progress for capital works projects.
- Regardless of the size of the capital works project, each month directorates are required to report expenditure on approved projects. Information on capital works projects covers over 500 projects (refer to Table 2.1).
 - Historically, reporting templates presented over 70 pieces of information for each capital works project, with much of this information based on pre-populated or formulae-based fields. However, from October 2013, the Chief Minister and Treasury Directorate consolidated this monthly reporting to present information against a smaller set of fifteen financial and implementation metrics. These include reporting against delivery of functional briefs, development applications, construction progress percentage, and physical and financial completion.
 - Where variations to a project's planned budget have been approved by the Treasurer, these are required to be presented in monthly reports to the Chief Minister and Treasury Directorate, and in project descriptions in bi-monthly Cabinet information papers.
- 3.39 Generally, project managers are consulted during the preparation of monthly reports to the Chief Minister and Treasury Directorate.
- 3.40 Directorates, other relevant Government agencies, and Shared Services Procurement can all initiate financial capital works transactions. These are processed by Shared Services Finance, which also maintains each directorate's financial ledger. Capital works reporting by directorates relies on the information contained in this financial ledger.
- 3.41 There are varying report formats prepared from this same base data; spreadsheet-based reporting to the Chief Minister and Treasury Directorate and predominantly narrative-based reporting to the Budget Committee of Cabinet and the public. The Audit Office considers that efficiencies could be gained through having consistency in format and content requirements for reports. Accordingly, to achieve this, templates for reporting need to be reviewed and streamlined. This view was supported by some directorates surveyed by the Audit Office, one of which stated:
- A common format could supply the necessary information for all reporting on the program, and reduce the need for Treasury and agencies to produce multiple reports on the same information (and at the same time).

- 3.42 As mentioned in paragraph 3.38, the Chief Minister and Treasury Directorate does review reporting formats. The Directorate should continue to do so, with a view to achieving consistency in format and content requirements for reports.

Recommendation 1 (Chapter 3)

Format of capital works reporting templates

The Chief Minister and Treasury Directorate should continue to review and streamline the templates for Directorate reporting on capital works progress to the Chief Minister and Treasury Directorate, Budget Committee of Cabinet and the public.

COMMERCE AND WORKS DIRECTORATE'S SHARED SERVICES PROCUREMENT ROLE

- 3.43 In administering their capital works programs, directorates are supported by the Commerce and Works Directorate's Shared Services Procurement team.
- 3.44 Close cooperation between the Commerce and Works Directorate's Shared Services Procurement team and directorates is critical to managing projects and mitigating risks to project budgets and timelines. However, as discussed below, the allocation of roles between internal directorate officials and Shared Services Procurement staff is not clearly articulated (compared to the roles of the Budget Committee of Cabinet and of the Chief Minister and Treasury Directorate).

Transactional services and contracts

- 3.45 Currently, Shared Services Procurement provides for directorates, and other Government agencies responsible for capital works delivery, to be invoiced for payments by Shared Services Procurement to contractors on their behalf. Invoices are accompanied by an itemised account and a summary financial report. One directorate noted that summary financial progress reports do not accompany invoices in all instances, and two of the four audited line directorates advised that selected invoices contained errors. These discrepancies in Shared Services Procurement invoicing do not appear to be widespread or regular.
- 3.46 Shared Services Procurement reports to directorates through project invoices, invoice summaries, accrual assessments, monthly summary reports and monthly meetings. The methods of reporting vary with each directorate's requirements for information at particular times and in particular formats.
- 3.47 Directorates rely on financial and project management data from Shared Services to inform their reporting on capital works to the Chief Minister and Treasury Directorate, and the Budget Committee of Cabinet.
- 3.48 The 2011 review of ACT Public Sector structures and capacity, *Governing the City State*, noted concerns about the ability of Shared Services to support Government agencies.

- 3.49 Reforms introduced to address these concerns include:
- a greater focus on higher risk, higher value tendering arrangements; and
 - the introduction of *The Capital Framework* which is an upfront assessment of capital works funding proposals in the ACT. It received Government endorsement on 2 October 2013, and applies to projects funded by the 2014-15 Budget.
- 3.50 *The Capital Framework* will affect all aspects of capital works procurement and management. It is discussed in paragraphs 4.75 to 4.78. It broadens the scope for Shared Services Procurement staff to increase their role in the day-to-day management of capital works projects. Nonetheless, the Audit Office noted instances where information flowing between Shared Services Procurement and directorates were compromised by ambiguity in reporting roles and responsibilities as well as unclear expectations.
- 3.51 Currently, directorates do not have a formal, written agreement with Shared Services Procurement for procuring, managing or reporting on capital works. An agreement codifies the rights, responsibilities and protocols of partners in arrangements of the type existing between Shared Services Procurement and directorates. These agreements enable stakeholders to deal with essential matters such as fees, products, obligations, dispute resolution, penalties (if any), subsidiary agreements, communications and other governance matters.
- 3.52 Written agreements can directly address some of the observed ambiguity in roles, and allow parties to negotiate and record the salient details of their relationship. Furthermore, a clear articulation of roles can limit risks relating to gaps in, and duplication of, effort.
- 3.53 Such agreements existed in the past, but the 2006 commencement of Procurement Solutions (the precursor to Shared Services Procurement) saw a 'move from a contractually based relationship to a more collegiate, policy based relationship between Procurement Solutions and its clients'.¹⁵
- 3.54 A paper titled *Detailed Project Responsibilities - Capital Works* was agreed in October 2006 by the Government's Chief Executive working party on the centralisation of procurement. In that paper, the respective responsibilities of directorates and Shared Services Procurement were standardised for all capital works projects. Although still Shared Services Procurement policy, this document did not appear to be applied to projects considered in this audit.

¹⁵ Response by Chief Executive of Territory and Municipal Services Directorate to the Auditor-General's Office report *Road Projects, Fairbairn Avenue and Horse Park Drive*, February 2009, page 78, available on the ACT Auditor-General's Office website, www.audit.act.gov.au

- 3.55 In addition to the 2006 paper, a 2012 paper for the Government's Strategic Board¹⁶ documented Shared Services Procurement's involvement and varying responsibilities with directorates. Again, however, this document did not appear to have been applied to projects considered in this audit.
- 3.56 Recently, Shared Services Procurement has made some progress in documenting and formalising its relationship with directorates. It proposes to implement a head agreement, called a partnership agreement, with directorates and subsidiary agreements containing, for example, details of day-to-day working arrangements and communication plans. It is intended that these subsidiary agreements will be negotiated between Shared Services Procurement and directorates.
- 3.57 Shared Services Procurement has advised that it envisages the head agreement will be executed by the Director-General of Commerce and Works Directorate, and the Director-General of the client directorate.
- 3.58 Shared Services Procurement has yet to determine how the proposed head partnership agreement will be applied, and how existing arrangements for the provision of Shared Services Procurement's services, whether or not these arrangements have been formalised, will become part of the new agreement for service provision.
- 3.59 Arrangements for information provided to, or by, Shared Services Procurement are documented informally, or are based on the mutual understanding of Shared Services Procurement and directorate operational staff. As such, reporting on project delivery progress is reliant on the skills, commitment and ease of communication between staff of directorates and Shared Services Procurement.
- 3.60 How Shared Services Procurement and directorates divide their responsibilities for project management is central to their relationship. A related matter is whether relationships between Shared Services Procurement and directorates should be uniform, based on a template service level agreement or memorandum of understanding.
- 3.61 A template solution is not Shared Services Procurement's preferred position, as currently its roles vary by directorate and by project. As noted above, it is working toward a directorate-particular set of service level agreements, where the multiple tasks of day-to-day collaboration are negotiated under a head agreement. Given that work has been proceeding on agreements, setting a date may assist in fostering their timely completion; accordingly 31 December 2014 is suggested.

¹⁶ As described in the Cabinet Handbook, the Strategic Board is the senior management team for the ACT Public Service, comprising all directors-general. It is chaired by the Director-General of the Chief Minister and Treasury Directorate, as Head of the ACT Public Service. Alongside other functions, the Board supports Cabinet by providing consolidated advice and collective support in relation to setting and delivering government priorities and responding to emerging strategic issues.

- 3.62 The Health Directorate is drafting a memorandum of understanding, called a Scope of Services, for application to stakeholders – including Shared Services Procurement – in the delivery of the Health Infrastructure Program. Roles of contractors and Shared Services Procurement are also summarised in each Project Management Brief.

Recommendation 2 (Chapter 3)

Negotiated Service Provision Agreements

The Commerce and Works Directorate's Shared Services Procurement and directorates should develop capital works service level agreements, or the equivalent, by 31 December 2014. These should specify reporting responsibilities.

Across-Government capital works groups

- 3.63 Project control groups exist where project complexity or risks warrant. A project control group consists of interested parties from directorates, Shared Services Procurement and, in some cases, the Chief Minister and Treasury Directorate. Such groups provide for project-specific decision making and sharing of information.
- 3.64 In addition to these project-specific groups, there are currently two sub-committees of the Strategic Board that are of relevance to capital works reporting, being the:
- Capital Works and Procurement Committee; and
 - Finance Committee.
- 3.65 The Capital Works and Procurement Committee is comprised of Deputy Directors-General (or Executive Directors) with responsibility for major capital works, or relevant policy responsibility, and procurement representing each directorate. Its terms of reference state:
- The Committee provides whole-of-government leadership and strategic direction on the planning and delivery of ACT Government infrastructure and procurement, providing advice to the Strategic Board, as well as promoting across government coordination on:
- infrastructure strategy and planning
 - advice on priorities for ACT Government capital investments
 - monitoring delivery of ACT Government capital works program
 - methodologies for enhanced delivery and outcomes of ACT Government's capital works program
 - operational and delivery issues such as infrastructure standards
 - procurement processes for capital works, as well as more generally
 - monitor the Better Procurement, Better Value initiative to deliver government procurement savings.

3.66 The Finance Committee is comprised of Chief Finance Officers from each directorate. Its terms of reference state:

The Committee is responsible for discussing and promulgating:

- whole of government budget processes and budget pressures
- financial management and accounting issues
- the budgetary and financial aspects of whole of government initiatives and reforms.

3.67 These terms of reference for these sub-committees of the Strategic Board are currently the subject of an internal Government review by the Economic Development Directorate.

3.68 Another group, the Capital Works Coordinators Group, provides a forum for sharing information and seeks to be a technical discussion group on aspects of the delivery of capital works. The Group could assist directorates in implementing capital works administrative changes.

3.69 The Capital Works Coordinators Group has recently been revitalised and met in March 2014. However, until late June 2014 the group did not have terms of reference and, therefore, its role was undefined and its future unclear.

3.70 On 24 June 2014 the Group's Terms of Reference were agreed by the Capital Works and Procurement Committee. The Group's effectiveness will need to be monitored.

3.71 While not specifically targeting capital works reporting, the Group may facilitate across-directorate knowledge sharing on reporting matters noting that, in this respect, one surveyed directorate stated:

All agencies would benefit from further instruction on how the reporting templates should be completed and what is relevant information to include. This could be provided within the template, as a separate guide and/or through direct training and demonstration.

Recommendation 3 (Chapter 3)

Capital Works Coordinators Group

The Commerce and Works Directorate's Shared Services Procurement should monitor the effectiveness of the Capital Works Coordinators Group.

Project reporting from construction contractors to Shared Services Procurement

3.72 Construction contractors are another major stakeholder in capital works reporting.

- 3.73 For contract and project managers, and for Shared Services Procurement, each of the two main types of contracts used in the capital works projects considered by the Audit Office identified differing stakeholder responsibilities:
- the Project Management Contract establishes a direct relationship between the ACT and all contractors. Shared Services Procurement manages each contract under a Project Management Contract agreement, and must then pay each invoice. On large and complex projects this is a significant overhead for Shared Services Procurement;¹⁷ and
 - the GC21 contract assigns payment of project contractor invoices to a project manager, relieving Shared Services Procurement of this responsibility if it is not the project manager.
- 3.74 Information exchanged by contractors and Shared Services Procurement is included in documents required by industry practice and construction contracts. These documents include briefs, tenders, plans, development applications, contracts, completion documents and monthly reports from the Territory's representative under the contract.
- 3.75 Standard contracts commonly do not provide a template for monthly reporting by contractors. However, these standard contracts do require contractors to report on extensions of time, cash flow variations, quality assurance and work health and safety. Shared Service Procurement reviews information provided regularly by contractors, including reviews of their contractors' monthly reports.

¹⁷ The Commerce and Works Directorate has advised:

In the past the main contracts used were PMA [Project Management Agreement contract] and AS2124. The PMA and GC21 were the main contracts used in the ... contracts considered [by the Audit Office]. Currently, the main contracts in use are GC21 and AS2124. CWD [the Commerce and Works Directorate, Shared Services Procurement] is also using other contracts such as Design and Construct and its variants, and Managing Contractor. CWD no longer uses the PMA for large projects.

4. QUALITY OF CAPITAL WORKS REPORTING

- 4.1 This chapter considers the quality of capital works reporting information through examining reporting timeliness, factual correctness, completeness and ease of understanding of material in reports.

Conclusion

Across each of the Territory and Municipal Services Directorate, Economic Development Directorate, Health Directorate and Education and Training Directorate projects reviewed, there was a high rate of compliance with identified reporting requirements demonstrating consistency with the concept of complete disclosure.

However, information reported to the Budget Committee of Cabinet was sometimes weeks, and even months, old and contained inaccuracies. While the Commerce and Works Directorate's Shared Services Procurement team has effective quality control practices, this is not the case for some other directorates who need to improve their quality control as well as their reporting of key project risks and associated mitigation measures.

The Commerce and Works Directorate has commenced procurement of a project management software system that is aimed at facilitating improvements in capital works management. The potential for this system to improve capital works reporting needs to be examined, especially if it can be used to integrate the different management systems used by directorates and reduce the dependence on manual processes.

Key findings

- The majority (seven of eight) of projects considered by the Audit Office were not physically completed on time as originally planned, although almost all (seven of eight projects) were completed within revised approved timeframes. Similarly, half (four of eight) were, or are on track to be, delivered within original budget, with all to be delivered within revised approved budgets (paragraph 4.54). More broadly, of approximately 700 projects physically and financially completed since 2009-10, 77 per cent were delivered within the original budget and 91 per cent were delivered within revised budgets (paragraph 4.59).
- Capital works reporting information can be some weeks, or even months, old when it is reviewed by the Budget Committee of Cabinet (paragraph 4.7). This current practice of eight to twelve week reporting timeframes is not consistent with existing guidelines which sought reporting to keep the Budget Committee of Cabinet up-to-date on capital works delivery progress (paragraph 4.12).
- Public release of capital works reporting occurs over an even longer timeframe (paragraph 4.8).
- On 16 June 2014 the Chief Minister and Treasury Directorate stated the *Capital Works Bi-monthly Reporting Process and Guidance Paper*, that was issued by the directorate in January 2010, no longer reflects the current process. The Directorate further stated reporting to Cabinet is not intended to provide contemporaneous

information, instead it provides a point in time snapshot of progress (paragraph 4.10), given other avenues for management and control reporting (paragraph 4.11).

- Although the most recent Chief Minister and Treasury Directorate's direction does not give emphasis to the provision of information to the Budget Cabinet Committee as needing to be contemporaneous, the usefulness of information that is months old is questionable (paragraph 4.17).
- There were inaccuracies in directorate information reported to the Chief Minister and Treasury Directorate and the Budget Committee of Cabinet (paragraph 4.22).
- A failure to advise the Budget Committee of Cabinet, in a timely manner, of a significant matter occurred in one instance. An identified saving in the Bonner Primary School project's \$60 million budget was not disclosed to the Budget Committee of Cabinet until October 2012 (paragraph 4.18). This failure to advise of the saving in a timely manner is sufficiently significant to mislead report users (paragraph 4.19).
- The reporting inaccuracies identified indicate that quality control and assurances over capital works reporting could be improved (paragraph 4.23). Shared Services Procurement's quality checking for report data was found to be satisfactory (paragraph 4.25). However, no written quality assurance procedures were found in the Economic Development, Education and Training, Health or Territory and Municipal Services Directorates for the selected cases examined in this audit. As such, in directorates, quality control over reporting information may be compromised therefore errors are more likely to occur (paragraph 4.28). From a whole-of-Government perspective, the Chief Minister and Treasury Directorate conduct targeted quality assurance activities across all Directorates' reports (paragraph 4.29).
- For each of the Territory and Municipal Services, Economic Development, Health and Education and Training Directorate projects reviewed, there was a high rate of compliance with the identified reporting requirements demonstrating consistency in disclosure reporting (paragraph 4.53).
- However, there was a significant gap in directorates' reporting on program/project risks and their associated mitigation measures, even at a high level (paragraph 4.53). The lack of risk-related reporting to the Budget Committee of Cabinet means that information provided to the Committee is limited and this reduces the quality of reports. Furthermore, even when project risks are identified, the limited discussion of mitigation strategies to address these risks compromises the quality of reports (paragraph 4.80). Chief Minister and Treasury Directorate has advised project and risk reporting to Director/s-General and the responsible Minister is expected to be more detailed and up-to-date than the information provided to the Budget Committee of Cabinet, since that other avenue for reporting is for management and control purposes (paragraph 4.47).
- Manual data handling and the duplication of input of financial and milestone information through off-line systems such as detailed and intricate spreadsheet-based records and reports was also evident (paragraph 4.35).

Additionally, a number of the Oracle financial system's automated functions have not been fully employed (paragraph 4.36).

- The Commerce and Works Directorate has commenced procurement of a project management software system (paragraph 4.40). Shared Services Procurement do not yet have an implementation plan for the new system, although its stated aim is to roll the system out across Government (paragraph 4.41).

TIMELINESS OF REPORTING

4.2 The requirement for timely information reflects one of the qualitative characteristics of useful information identified in the International Accounting Standards Board's September 2010 *Conceptual Framework for Financial Reporting*:

Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.¹⁸

4.3 Formal capital works reporting occurs through:

- monthly directorate reporting on progress of approved capital works projects to the Chief Minister and Treasury Directorate;
- bi-monthly directorate reporting on capital works program progress to Budget Committee of Cabinet; and
- quarterly whole-of-Government reporting to the public.

4.4 Directorates have around three weeks from the end of the each month to report to the Chief Minister and Treasury Directorate on progress with capital works projects. Table 4.1 shows when 2013-14 reports were due to the Chief Minister and Treasury Directorate.

¹⁸ International Accounting Standards Board, *Conceptual Framework for Financial Reporting*, September 2010, paragraph QC29, page 21

Table 4.1 2013-14 Directorate capital works reporting timetable

Reporting as at	Agency reporting due to Chief Minister and Treasury Directorate	Reporting timeframe – calendar days
31-Jul-13	22-Aug-13	22
31-Aug-13	20-Sep-13	20
30-Sep-13	18-Oct-13	18
31-Oct-13	22-Nov-13	22
30-Nov-13	18-Dec-13	18
31-Dec-13	24-Jan-14	24
31-Jan-14	21-Feb-14	21
28-Feb-14	21-Mar-14	21
31-Mar-14	18-Apr-14	18
30-Apr-14	23-May-14	23
31-May-14	20-Jun-14	20
30-Jun-14	18-Jul-14	18

Source: ACT Auditor - General's Office analysis of Chief Minister and Treasury Directorate-issued reporting timetable

- 4.5 The Chief Minister and Treasury Directorate advised that directorates submitted their monthly reports on time, or within one or two days of the due date. This statement could not be independently verified by the Audit Office, as limited transmission records are kept by the Directorate.
- 4.6 The bi-monthly reports are considered by the Budget Committee of Cabinet when the schedule of Cabinet business permits. An October 2013 paper from the Chief Minister and Treasury Directorate, *The Capital Works Program Monitoring and Reporting*, stated:
- ... during the final stages of Annual Budget preparation, and when meetings are less regular, the bi-monthly reports may have delayed consideration.¹⁹
- 4.7 Capital works progress information considered by the Budget Committee of Cabinet is not contemporaneous. Over the 2010 to 2013 period there was an average of an eight week gap between the period-end and Cabinet's consideration of reporting information. In some cases this delay was as long as twelve weeks. The projects considered by the Audit Office had initially estimated delivery timeframes of between 13 and 48 months (averaging 29 months). An eight to twelve week timeframe for Cabinet's consideration can represent 20 per cent of a project's delivery timeframe.

¹⁹ Chief Minister and Treasury Directorate, *The Capital Works Program Monitoring and Reporting produced for the ACT Audit Office*, October 2013, page 4

4.8 Public release of capital works reporting occurs over a longer timeframe. For example, year-end capital works reports from the period 2008-09 to 2011-12 were not released to the public until October each year (and in one case, November), four months after the end of the financial year.

4.9 The Chief Minister and Treasury Directorate has advised:

The Bi-monthly Information Papers are consistently compiled by CMTD [Chief Minister and Treasury Directorate] in the six weeks following the availability of information for the relevant period and are then scheduled for consideration when the BCC [Budget Committee of Cabinet] has time in its program. The information compiled in each paper is seen and cleared for lodgement by relevant Ministers or the Treasurer in advance of Budget Cabinet consideration.

4.10 On 16 June 2014 the Directorate stated:

... from recent discussions it has become apparent that the Guidance Paper on Bi-monthly Reporting to the BCC [Budget Committee of Cabinet] that was issued by this directorate in January 2010 no longer reflects the current process and templates ... The reporting to BCC is provided to keep Ministers informed about how the overall Capital Works Program is tracking, both across the whole of government and at Directorate level.

It is not intended to provide contemporaneous information, instead it provides a point in time snapshot of progress with the Program at the end of each second month and provides a historic record. The aggregate report compiled in this directorate also shows comparisons with previous years.

4.11 The Directorate further advised:

... the nature of the high level Bi-monthly summary report compiled by CMTD [Chief Minister and Treasury Directorate] is to provide a retrospective snapshot of progress in implementing the overall Capital Works Program and it is not intended as a contemporaneous management and control reporting tool.

4.12 This purpose, and the current practice of eight to twelve week reporting timeframes, is not consistent with the existing *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper* that sought reporting to keep the Budget Committee of Cabinet 'up-to-date on progress' (refer to paragraph 2.11). Accordingly, the guidance paper needs to be revised.

Recommendation 4 (Chapter 4)

Revision of guidance for capital works reporting to Budget Committee of Cabinet

The Chief Minister and Treasury Directorate should revise its *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper* to reflect the current purpose of reporting.

4.13 The long reporting timelines in information reported to the Budget Committee of Cabinet are likely to be the result of several factors. During the audit complex invoice payment arrangements were noted as a factor which may contribute to

delays in collating information reported to the Chief Minister and Treasury Directorate and to Cabinet.

- Audit Office analysis, confirmed by Shared Services Procurement officers, showed that, should suppliers grant 30 day payment terms, 55 days (or 8 weeks) can elapse from the receipt of invoices from contractors in Shared Services Procurement until invoicing of directorates. This is because there is one payment run in the financial system per month, on around the 24th of each month.
- Payments to contractors are governed by the *Building and Construction Industry (Security of Payments) Act 2009*. In certain circumstances, the Act imposes strict time limits on payments, adding to the complexity of the payment system.

4.14 In its *Shared Services Centre – [Financial] Audit Management Report for the Year Ended 30 June 2012* the Audit Office recommended that the Commerce and Works Directorate consider simplification of invoice payment. The Report stated:

... arrangements between Shared Services and other agencies should be reviewed in consultation with the Chief Minister and Treasury Directorate with a view to simplifying them. These arrangements could be simplified by having agencies pay building suppliers directly for capital works and discontinuing the practice of having Shared Services pay invoices from building suppliers and then recover these amounts from agencies.²⁰

4.15 However, the Chief Minister and Treasury Directorate has advised:

A decentralised approach to paying invoices for capital works projects would undermine the efficiency and effectiveness of the centralised procurement and Shared Services model and would require additional resources in agencies.

4.16 While it is respected that this particular issue is complex, it does highlight that time delays in reporting may be due to factors that are not readily identifiable.

4.17 Although the most recent Chief Minister and Treasury Directorate's direction does not give emphasis to the provision of information to the Budget Committee of Cabinet as needing to be contemporaneous, the usefulness of information that is months old is questionable. Accordingly, the Budget Committee of Cabinet should be consulted to determine what it requires in terms of information timeliness, and this needs to be reflected in a revised *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper*.

²⁰ ACT Auditor-General's Office, *Shared Services Centre – [Financial] Audit Management Report for the Year Ended 30 June 2012*.

Recommendation 5 (Chapter 4)

Timeliness of reporting

The Chief Minister and Treasury Directorate should consult with the Budget Committee of Cabinet to determine the timeliness of information it requires in reports provided to it. The results of this consultation should be reflected in the revised *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper* (refer to Recommendation 4).

FAILURE TO ADVISE AND INACCURACIES

- 4.18 A failure to advise the Budget Committee of Cabinet, in a timely manner, of a significant matter occurred in one instance. An identified saving in the Bonner Primary School project's \$60 million budget was not disclosed to the Budget Committee of Cabinet until October 2012, with expected project cost savings subsequently reflected in the 2013-14 Budget.²¹ This is despite the Education and Training Directorate being aware of the possible savings very early in the project when tenders for construction, submitted in November 2011, were around \$10 million under budget.
- 4.19 This identified saving represents over 15 per cent of the project value. Therefore, failure to advise of the saving in a timely manner is sufficiently significant to mislead report users, and restricts the capacity of capital works reports to be used to quickly inform improvements in the monitoring and delivery of the capital program.
- 4.20 The Directorate advised that it has:
- ... complied with the ACT Government Capital Works Program guidelines in advising the Budget Committee of Cabinet of potential savings. In line with the guidelines, the Directorate formally advised the Budget Committee of Cabinet when certainty around savings was known. Certainty could not have been provided to the Cabinet earlier as the project was impacted by the builder entering voluntary administration.
- 4.21 While formal amendment of reported budgets should only occur after agreed by the Treasurer, disclosure of project risks is also required under the existing *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper*; even if there was some uncertainty about the final quantum of savings, the Audit Office considers the matter should still have been disclosed to the Budget Committee of Cabinet under these risk-related discussions.

²¹ A further \$3 million saving was reflected in the 2014-15 Budget.

- 4.22 There were inaccuracies in directorate information reported to the Chief Minister and Treasury Directorate and the Budget Committee of Cabinet. For example:
- for the period to 30 June 2013, the Education and Training Directorate's reporting on the total program value of capitalised ICT works was incorrectly presented due to an erroneous summation formulae in the Directorate's reporting spreadsheet. The actual ICT capital program for the period should have been valued at \$51.187 million instead of the reported \$20.990 million;
 - similarly, another summation error was observed in the Education and Training Directorate's December 2012 spreadsheet, as the 'total capital works expenditure to date' was reported at \$233.395 million. This should have been \$4.260 million higher. These summation errors were confirmed by the Chief Minister and Treasury Directorate on 28 March 2014; and
 - in an Economic Development Directorate case, project status reporting to the Budget Committee of Cabinet was not updated to advise of the commencement of construction, despite construction having been underway for a number of months.

Quality control and assurance

- 4.23 Quality control and assurance procedures and systems can be used to minimise inaccuracies in reporting. The reporting inaccuracies identified in paragraphs 4.18 to 4.22 indicate that quality control and assurances over capital works reporting could be improved.
- 4.24 Directorates rely on data from Shared Services Procurement when preparing monthly capital works progress reports to the Chief Minister and Treasury Directorate and bi-monthly reporting to the Budget Committee of Cabinet.
- 4.25 Examples of Shared Service Procurement's quality checking for report data were satisfactory for the case study projects examined in this audit as:
- Shared Services Procurement's Commercial Team regularly engaged with the contractors and client directorates to check, and where necessary correct, progress reporting data;
 - its Civil Team has formalised its quality control of data it provides to directorates through a *Quality Checklist for Civil Projects Monthly Project Review*. This checklist, which is publicly available,²² requires assessment against 21 points including budget, program, variations, extensions of time and risks; and
 - the Health Infrastructure Program team located in Shared Services Procurement employs a similar checklist.

²² Available at www.procurement.act.gov.au

- 4.26 These internal quality assurance procedures were supported by targeted external reviews.
- 4.27 In submission of implementation information to Cabinet every two months, Directors-General, and in some cases Ministers, signed the Information Paper, thus certifying the veracity of the reported information.
- 4.28 However, no written quality assurance procedures were found in the Economic Development, Education and Training, Health or Territory and Municipal Services Directorates for the selected cases examined in this audit. As such, quality control over reporting information may be compromised.

Recommendation 6 (Chapter 4)

Quality control

All Directorates should quality control information to be included in capital works reports to the Chief Minister and Treasury Directorate and the Budget Committee of Cabinet, and have documented quality control procedures.

- 4.29 Similarly, from a whole-of-Government perspective, the Chief Minister and Treasury Directorate conduct targeted quality assurance activities across all directorates' reports. Each month, on receipt of agency progress reporting, the Chief Minister and Treasury Directorate conducts an initial check of reported information. The Chief Minister and Treasury Directorate's review is informal but can result in requests for a revision of information. However, this check is aimed at ensuring internal consistency of the reports' figures and integrity of the reports' spreadsheet formulae rather than a guarantee of the accuracy of figures in directorates' reporting.
- 4.30 The outcomes of these reviews can result in feedback to directorates about their capital works reporting. Directorates, when surveyed about the feedback they receive on compliance with report content requirements, stated that it was restricted to spreadsheet errors, queries on overspends and allocation of budget funds advising:
- [feedback was] generally in relation to apparent errors on the completed spreadsheet or an accidental overwrite or a formula. If a project is over spent, the situation may be questioned.
- 4.31 This feedback focuses on formula accuracy and reflects the Chief Minister and Treasury Directorate's internal work instructions, *Capital Works Monthly Reporting - How to do: Step 2 - Proof checking the report*. It does not, however, address a significant gap, identified in this audit, in directorates' reporting, being on program/project risks and their associated mitigation measures. This gap in the reporting of risks and mitigation measures is illustrated in Table 4.2 and discussed further in paragraphs 4.54 to 4.85.

4.32 While Chief Minister and Treasury Directorate feedback to agencies and Directorates on their submitted reports is desirable, responsibility for the accuracy of reporting information does, and should, rest with directorates themselves.

Dependence on manual processes

4.33 Staff in Shared Services Procurement use the whole-of-Government integrated financial management package, Oracle, to pay contractors, invoice directorates and generate reporting information.

4.34 Currently, most reporting on projects relates to financial matters. A surveyed directorate advised that an emphasis on financial accountability relegates management of other vital aspects of the capital project. Having a broader emphasis beyond financial outputs may foster better project outcomes.

4.35 Shared Services Procurement and directorates each maintain a distinct general ledger in the Oracle financial system. This results in manual data handling and the duplication of input of financial and milestone information through off-line systems. For example:

- project staff in Shared Services Procurement maintain detailed and intricate spreadsheet-based records and reports;
- the Territory and Municipal Services Directorate has developed an 'on-line analytical processing' database system that contains basic project management features and receives data from the financial system;
- the Economic Development Directorate is trialling the Territory and Municipal Services Directorate application;
- the Health Directorate tendered publically for an information and document management system for its Health Infrastructure Program. The system Health purchased is well known project management software (Project Centre). An implementation plan is being developed; and
- other directorates have tried internet-based document management applications, with mixed success.

4.36 Additionally, a number of the Oracle financial system's automated functions have not been fully employed. For example, system functionality could be used to link budgets and purchase orders to allow payments to be made with reference to the budget to cover them.

4.37 Two consultancies, the first by Protiviti in February 2012 and then more recently by KPMG in May 2013, have reported to Shared Services Procurement on the inadequacy of the current financial system in supporting project management. This audit concurs with the findings of these consultancies.

- 4.38 Users in directorates advised KPMG, in its review, that the financial system:
- does not meet project management needs;
 - was not implemented optimally;
 - is not understood by users and clients;
 - has limited reporting;
 - is limited and lacks data integrity; and
 - has encouraged staff to adopt spreadsheet work-around systems in preference to the financial system. As noted in paragraph 4.35, the Audit Office observed spreadsheet-based systems were used in both the Territory and Municipal Services Directorate and Economic Development Directorate.
- 4.39 The KPMG review recommended implementing a purpose-built front-end Project Capital Management System that would use the Oracle system as its financial module.
- 4.40 In October 2013, the Director-General of the Commerce and Works Directorate agreed to a select procurement for a project management software system. She also agreed to administrative arrangements to support the procurement and the software implementation. Shared Services Procurement's early costing of the proposed replacement system has indicated that it is cost beneficial compared to the current system.
- 4.41 Shared Services Procurement do not yet have an implementation plan for the new system, although its stated aim is to roll the system out across Government. The Commerce and Works Directorate has completed some preliminary systems analysis, identifying 161 features that are 'highly desirable', 'desirable' and 'nice to have'.
- 4.42 Implementation of a new project management software system presents an opportunity to re-engineer supporting processes and procedures, including those dealing with reporting. If implemented across Government, the system could reduce the reliance on manual systems and therefore facilitate whole-of-Government improvements in the timeliness and factual correctness of capital works reporting information.
- 4.43 While at present, Shared Services' focus is on securing a system for use within Shared Services Procurement, it is important that, where possible and cost effective, this system is integrated with systems used in other directorates.

Recommendation 7 (Chapter 4)

Whole-of-Government project management information software system

The Commerce and Works Directorate's Shared Services should finalise procurement of its project management software system having regard to:

- a) re-engineering supporting processes and procedures, particularly those governing such things as payment methods and financial system functionality;
- b) optimising the reporting module of the system to deliver reporting information to the Chief Minister and Treasury Directorate and Budget Committee of Cabinet; and
- c) integration with/or (where cost effective) replacement of software in other directorates.

COMPLETENESS OF REPORTING

4.44 Full disclosure reporting requires that reported information be sufficiently complete to avoid misleading readers because significant facts or information have been omitted. The disclosure concept also requires revealing information that would be useful in decision-making.

4.45 In its January 2010 *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper*, Treasury stated:

Agencies submit a Progress Report, in the form of a Cabinet Information Paper (IP) every second month. The Information Paper is to inform the Budget Committee of Cabinet on the progress in delivery of the Capital Works projects and identify any agency specific issues. ... Information covered in the IP should provide the Budget Committee of Cabinet with an accurate and thorough update on the delivery of the agency's program, including potential risks and proposed mitigation strategies.²³

4.46 This Guidance Paper identified the following minimum information requirements for reporting to Cabinet:

- program background. Reporting must include a brief outline of the agency's program including a split of capital works into construction, information, communication and technology and plant and equipment classifications; and
- an update on delivery progress. The Guidance Paper advises that:

Agencies should:

- identify program/project achievements for the period, including delivery progress and highlights of project deliverables in the two-months covered by the report;

²³ ACT Department of Treasury, *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper*, January 2010, page 3

- identify significant outcomes and benefits of these achievements delivered to the community (including completed projects);
- summarise financial and non-financial (milestone) information collected through the established monthly reporting process ... each agency's most recent monthly template should be attached as supporting documentation;
- provide commentary and supplementary advice on those projects that are experiencing delays or are at risk (projects identified as orange or red using the traffic light system); and
- provide details of risk mitigation strategies and/or remedial action plans (where applicable).

4.47 On 16 June 2014 the Chief Minister and Treasury Directorate advised:

The level of risk reporting in the Bi-Monthly Information Papers is intended to be high level and to indicate whether there have been significant changed risks to project budget, time and/or scope, as well as whether risk treatment actions are being implemented. A traffic light system is used to indicate how many and which projects were at low, medium and high risk for budget, time and/or scope when the report was prepared, and this gives insight into trends on risk at the program level, as well as which projects have been identified as at high risk.

By contrast, project and risk reporting to Director/s-General and the responsible Minister is expected to be more detailed and up-to-date than the information provided to BCC [Budget Committee of Cabinet], since that other avenue for reporting is for management and control purposes.

4.48 In February 2014, the Australian National Audit Office stated that:

Performance reporting regimes have been receiving increasing attention in many Organisation for Economic Co-operation and Development countries, including Australia, since the mid-1980s. Over time, there has been a trend to move away from a narrow focus on reporting on financial inputs, towards integrated models that are intended to provide a clearer picture of the results or outcomes that have been achieved from the expenditure of public money.²⁴

4.49 In line with this shift towards an integrated reporting approach, the milestone reporting to the Budget Committee of Cabinet requires information against fifteen progress points relating to both financial and non-financial matters. These include progress milestones such as finalisation of concept and design briefs, development applications, construction progress percentage, and physical and financial completion.

4.50 This milestone reporting also forms the basis of more regular (monthly) reporting from directorates to the central Chief Minister and Treasury Directorate.

4.51 Quarterly reporting to the community reflects a summarised statement against the above reporting requirements by presenting an overview of achievements in the quarter as well as discussion of major project delivery progress, a short program overview, listing program expenditure details by agency and by project, and discussing non-financial (milestone) outcomes. It does not, however, present

²⁴ Australian National Audit Office Report No. 21 2013-14, *Pilot Project to Audit Key Performance Indicators*, 27 February 2014

commentary on those projects that are experiencing delays or are at risk, or details of risk mitigation strategies; some information on project risks can be deciphered from financial variations to projects presented as an attachment to the quarterly reports.

- 4.52 While transparency and openness with the public about project risks may be desirable, there can be drawbacks; on this the Chief Minister and Treasury Directorate has advised on 12 June 2014 that:

Such information is not needed by the general public, unless there is a flow-on effect to public safety and security.

Risks may not materialise and/or be avoided by treatments and may change quite quickly. Risks may be magnified by public knowledge, e.g. people trying to see for themselves what constitutes the risk or providing uninformed commentary and advice on management of the risk. Publishing commercially sensitive risks may be irresponsible and create negative consequences, given that negotiation about risk management is a necessary and ongoing part of capital works project delivery.

Publishing information about risks and managing public reaction could even lead to those risks being less well managed, or involving further costs, delays and effort.

- 4.53 For each of the Territory and Municipal Services, Economic Development, Health and Education and Training Directorate projects reviewed, there was a high rate of compliance with the identified reporting requirements demonstrating consistency in disclosure reporting, as evident from information in Table 4.2. However, there was a significant gap in some directorates' reporting on program/project risks and their associated mitigation measures, even at a high level (refer to paragraph 4.47).

Table 4.2 Compliance with Cabinet capital works reporting requirements

Reporting requirement	Economic Development Directorate	Education and Training Directorate	Health Directorate	Territory and Municipal Services Directorate
Program Background	Regularly reported at a Directorate level	Regularly reported at a Directorate level	Regularly reported at a Directorate level	Regularly reported at a Directorate level
Delivery Progress				
Identify program/project achievements for the period	Major project achievements and status updates were reported on a regular basis	Major project achievements and status updates were reported on a regular basis	Major project achievements and status updates were reported on a regular basis	Major project achievements and status updates were reported on a regular basis
Identify significant outcomes and benefits of these achievements delivered to the community	This was regularly reported at a Directorate level	This was regularly reported at a Directorate level	This was regularly reported at a Directorate level	This was regularly reported at a Directorate level
Summarise financial and non-financial (milestone) information	Generally reported in a complete and up-to-date manner. The Audit Office observed only one instance of incomplete reporting over the review period. Note 1	While reported on a regular basis, omissions were observed. In thirteen instances over two reporting periods, the Directorate advised 'stage completed' where disclosure of specific milestone completion dates was required. Similarly over the same reporting period a number of data fields (for which information should have been available) were left blank. The Directorate has advised it considers this was appropriate, noting the identified fields resulted from changes to reporting templates and related to projects that were well advanced. See Note 2	Tested documents shows a generally high level of completeness however, reports from June 2013 onwards were a considerably truncated version of the reporting template.	Reported in a complete and up-to-date manner.

Reporting requirement	Economic Development Directorate	Education and Training Directorate	Health Directorate	Territory and Municipal Services Directorate
<p>Provide commentary and supplementary advice on those projects that are experiencing delays or are at risk</p>	<p>While one of the projects considered by the Audit Office was identified as high risk during the December 2011 and February 2012 (and delivery of the other project was identified as being moderately risky from December 2012 to April 2013) the Audit Office considers commentary and supplementary advice discussing these risks was minimal. Note 3</p>	<p>Reporting for projects considered by the Audit Office discussed key risks including scope changes, weather issues, and the key contractor going into administration.</p>	<p>While the projects considered by the Audit Office were regularly identified as being at risk, the Audit Office considers commentary and supplementary advice discussing these risks was minimal. Note 4</p>	<p>When projects were identified at risk, reporting disclosed the reason these risks were arising and what was being done to address them. However, despite both projects considered by the Audit Office being delivered later than originally planned (and one over the original budget), risk related reporting was variable. For example, for one project delivered 9 months later than originally planned and 16 per cent over the original budget, reporting from 2012 onwards identified the project as being moderately risky in only one instance.</p>
<p>Risk mitigation strategies and/or remedial action plans (where applicable)</p>	<p>Despite projects identified as being at risk, mitigation strategies and/or remedial action plans to address these risks were not discussed.</p>	<p>In most instances where the projects considered by the Audit Office were identified as being at risk, discussion of mitigation strategies to address project risks was presented.</p>	<p>Despite projects identified as being at risk, mitigation strategies and/or remedial action plans to address these risks (such as staging of works and external consultant reviews) were only discussed regularly for one of the projects considered by the Audit Office. Note 5</p>	<p>When delivery of a project was identified as high risk, mitigation strategies were discussed. However, this occurred only once over the review period. As such, the Audit Office considers there was insufficient reporting against this requirement, though this is likely to have been driven by the ad hoc identification of risks mentioned above.</p>

- Note 1: Reporting on the Gungahlin Pool project's progress to the Chief Minister and Treasury Directorate and to Cabinet for the period to 31 August 2011 (considered by Cabinet 24 October 2011) did not include data on actual monthly expenditure for August, even though this information would have been data available (given this was reporting for period to end-August).
- Note 2: Reporting on the Gungahlin College project's progress to the Chief Minister and Treasury Directorate and to Cabinet for the periods 30 April 2011 (considered by Cabinet on 20 June 2011) and 30 June 2011 (considered by Cabinet on 15 August 2011). Over the same two reporting periods, progress reporting for the Neville Bonner Primary School project was left blank against reporting fields for which data should have been available. The Directorate has advised:
These instances relate to a period in which new fields were included in the reports and for projects that were well advanced, it was appropriate to record the fact that the stage was completed.
- Note 3: Reporting on the Gungahlin Pool project's progress identified the project as high risk and noted 'timing pressures exist for this project' but did not disclose the anticipated length of timing overruns, their cause, or strategies to mitigate their impact.
- Note 4: For example, when reporting on the Centenary Hospital for Women and Children for the period 30 April 2011 (considered by Cabinet on 20 June 2011) the Directorate advised:
The project value has been increased from \$97.37m [to \$107.56 million] due to a range of pressures but provided no further commentary or detail of what these pressures or whether they were, or could be addressed. Similarly, December 2012 and February 2013 reporting on the Adult Acute Mental Health Inpatient Unit identified the project as high risk and noted 'budget overruns' but did not disclose the anticipated amount of these overruns, their cause, or strategies to mitigate their impact. The reports did not advised that a consultant had been engaged to conduct a 'full financial assessment of the project due to budget overruns'.
- Note 5: Adult Acute Mental Health Inpatient Unit.

Source: Audit Office analysis of Budget Committee of Cabinet papers

Identification and reporting on risks and mitigation measures

Identification of risks

- 4.54 The majority (seven of eight) of projects considered by the Audit Office were not physically completed on time as originally planned, although almost all (seven of eight projects) were completed within revised approved timeframes. Similarly, of the projects considered by the Audit Office, half (four of eight) were, or are on track to be, delivered within original budget, with all to be delivered within revised approved budgets as shown in Table 4.3.
- 4.55 Given these delivery results, there were risks to the delivery of originally planned timeframes. For three of the reviewed projects, financial risks resulted in a variance of 20 per cent or more from the original budget and the latest estimated project cost.²⁵

²⁵ These were the:

- Education and Training Directorate's Gungahlin College project (delivered 20 per cent over the original budget). As outlined in Table 2.3, this project saw significant delays as well as agreed scope changes. The project was delivered over budget primarily due to changes in scope of the project. The additional funding associated with approved scope increases (around 16 per cent) were reflected in the 2007-08, 2008-09 and 2009-10 Budgets. Cost pressures associated with this project were funded through the 2011-12 Budget. The Directorate's Neville Bonner Primary School project also saw a substantive variance, of 28 per cent, between the original budget and latest cost estimates, albeit under rather than over budget; and
- Health Directorate's Adult Acute Mental Health Inpatient Unit, which went 20 per cent over the original budget, and the Centenary Hospital for Women and Children, with changes to the project's scope, which was 23 per cent over original budget.

- 4.56 This is not an improvement against a base-line of 2007-08 and 2008-09 Budget initiatives, prior to introduction of the reporting reforms, as considered in the Audit Office's 2010 audit, *Delivery of Budget Initiatives*. That audit stated:
Agencies, however, did not perform well in the implementation of the capital initiatives for which they received funding in the 2007-08 and 2008-09 budgets. About 45 per cent of selected projects were not completed on time and within budget.²⁶
- 4.57 The 2010 audit found:
... agencies spent less than 50 per cent of the funds provided during the years under review.
Significant delays in implementing the budget initiatives could increase final costs, and reduce the effectiveness of the Government budget strategy, in particular, the delivery of necessary infrastructure to support better service delivery to the ACT community.
There is scope to improve how agencies implement budget initiatives, including planning, project management, risk management, and performance management.²⁷
- 4.58 As shown in Table 4.3, only one of the eight projects considered in this audit (Economic Development Directorate's Gungahlin Pool project) was delivered by the originally announced completion date, with physical completion of the other seven projects an average of 12 months later than originally planned. There was a very large variability between the original financial forecasts and actual capital works expenditure for the eight case projects considered in this audit; ranging from 35 per cent under budget to 23 per cent over budget. Substantially less variability was observed between revised and actual timelines and budgets.
- 4.59 The Audit Office notes that, more broadly, of approximately 700 projects physically and financially completed since 2009-10, 77 per cent were delivered within the original budget and 91 per cent were delivered within revised budgets.

²⁶ ACT Auditor-General's Office, *Delivery of Budget Initiatives*, 2010, page 4, available at www.audit.act.gov.au

²⁷ ACT Auditor-General's Office, *Delivery of Budget Initiatives*, 2010, page 5, available at www.audit.act.gov.au

Table 4.3 Capital works project expenditure and delivery/completion – selected projects

Capital Works Physical Completion						
Directorate	Selected project	Original Physical Completion Date <i>Note 1</i>	Revised Physical Completion Date	Actual Physical Completion	Timing Variance, Actual to Original	Timing Variance, Actual to Revised
Economic Development Directorate	Canberra CBD Upgrade Stage 2 – Merry-go-round and Veterans' Park Note 2	Jul 2012	Sep 2013	Aug 2013	14 months late	On time
	Gungahlin Pool Note 3	Jun 2015	Apr 2014	Apr 2014	13 months early	On time
Education and Training Directorate	Gungahlin College Note 4	Jan 2010	Stage 1 – Jan 2011 Stage 2 – Feb 2011 Stage 3 - Apr 2011	Apr 2011	14 months late	On time
	Neville Bonner Primary School Note 5	Feb 2013	Dec 2013	Stage 1: Nov 2012 Stage 2: Apr 2013	3 months late	On time
Health Directorate	Adult Acute Mental Health Inpatient Unit Note 6	Sep 2010	December 2011	Mar 2012	18 months late	3 months late
	Centenary Hospital for Women and Children Note 7	Jun 2012	Stage 1: Aug 2012 Stage 2/3: Nov 2013	Stage 1: Aug 2012 Stage 2/3: Dec 2013	17 months late	On time
Territory and Municipal Services Directorate	Belconnen to City Bus Transitway – Stage 1 Note 8	Jun 2012	June 2013	Mar 2013	9 months late	On time
	Canberra Centenary Trail Note 9	Jul 2013	Jun 2014	June 2014	Project ongoing, estimated 11 months late	Project ongoing, estimated on time

Quality of capital works reporting

Capital Works Expenditure						
Directorate	Selected project	Original Budget (\$ million)	Revised Budget (\$ million)	Actual cost (\$ million)	Cost Variance, Actual to Original Budget	Cost Variance, Actual to Revised Budget
Economic Development Directorate	Canberra CBD Upgrade Stage 2 – Merry-go-round and Veterans' Park Note 2	4.300	4.300	Financial completion of project ongoing, current expenditure 4.010	Project ongoing, estimated on budget	Project ongoing, estimated on budget
	Gungahlin Pool Note 3	26.300	26.300	Financial completion of project ongoing, current expenditure 23.673	Project ongoing, estimated on budget	Project ongoing, estimated on budget
Education and Training Directorate	Gungahlin College Note 4	60.700	74.407	74.075	22 per cent over budget	On budget
	Neville Bonner Primary School Note 5	60.270	43.270	Financial completion of project ongoing, current expenditure 40.770	Project ongoing, estimated on budget	Project ongoing, estimated on budget
Health Directorate	Adult Acute Mental Health Inpatient Unit Note 6	23.630	28.480	28.480	20 per cent over budget	On budget
	Centenary Hospital for Women and Children Note 7	90.000	111.060	111.060	23 per cent over budget	On budget
Territory and Municipal Services Directorate	Belconnen to City Bus Transitway – Stage 1 Note 8	7.300	8.500	8.500	16 per cent over budget	On budget
	Canberra Centenary Trail Note 9	3.300	3.300	Financial completion of project ongoing, current expenditure 2.741	Project ongoing, estimated on budget	Project ongoing, estimated on budget

- Note 1: The Chief Minister and Treasury Directorate advised the original planned physical completion date is:
 ... set before the project is tendered and prior to any work commencing. This target date does not take into account developments arising from a range of circumstances, such as latent conditions. It assumes the project will be delivered with no impediments (some of which are outside the control of government).
 The Directorate further advised:
 ... unless a critical completion date has been set by Budget Cabinet Committee (BCC) or a Minister, then agencies focus on getting the project delivered safely, to the necessary quality standards and within budget, rather than pressing forward to meeting what is likely to have been an early 'best of all circumstances' estimate of the completion date. Some of the key reasons for completion dates being later than originally estimated include the time taken to work through environmental clearances, which has been the subject of considerable legislative change of recent years, and a level of optimism bias associated with the preparation of individual project budgets. It is also common for projects to be operational prior to physical completion. For example, road works may be completed, but due to seasonality it may not be an appropriate time to undertake landscaping works... For this reason, the public report may well refer to projects being substantially complete and in use, whilst the report for BCC may still indicate works are in progress.
- Note 2: Canberra CBD Upgrade Stage 2 – Merry-go-round and Veterans' Park
 Directorate reporting as at 30 April 2014 stated the project spend at \$4.010 million. The project has not been financially completed.
- Note 3: Gungahlin Pool
 The project was opened to the public in May 2014 following physical completion in April 2014. The project has now entered a 'defects and liabilities' stage ahead of future financial completion.
- Note 4: Gungahlin College
 The Gungahlin College administration, teaching and learning spaces, theatre and audio visual facilities were ready for the start of the 2011 school year. The gymnasium was handed over to the college in February and the community library and CIT facilities were handed over in April 2011. This project was physically completed with a 'defects and liabilities' period expiring in April 2012.
 The 30 April 2014 report shows total expenditure on the project at \$74.075 million against a total approved budget of \$74.407 million.
- Note 5: Neville Bonner Primary School
 The Neville Bonner Primary School opened at the start of the 2013 school year. While physically completed, the project has now entered a 'defects and liabilities' stage ahead of anticipated financial completion in July 2014. The 30 April 2014 report shows total project spend at \$40.622 million against a total approved budget of \$46.27 million.
- Note 6: Adult Acute Mental Health Inpatient Unit
 This cost excludes a link bridge, costed at \$6.030 million, and design works of \$2.290 million. This project has been physically completed with a 'defect liability' period expiring in June 2013. Directorate reporting as at 30 April 2014 indicates the project has not been financially completed. Directorate reporting as at 30 April 2014 stated the spend to date was \$28.469 million.
 A briefing to the Minister for Health in May 2013 stated 'the actual budget position [for the project] as at 31 March 2013 is \$29.637 million'. This was qualified by notes that the project was, at the time, in a 'defect liability' period and that it was not possible to quantify the end cost of the project until the completion of the 'defect liability' period. The Directorate has advised:
 ...as a forecast end cost at that stage, the amount included estimates of the final cost of some items which were reduced on execution of the work.
 The Directorate has also advised that \$600,000:
 ...has been reported in another project (CSR2 – which provides for unforeseen and emergent issues) to provide for unforeseen issues associated with 2 trade contractors (landscape and generator). Shared Services Procurement advised that these unforeseen expenses are now confirmed as totalling \$190,000.
 The CSR2 appropriation provides for:
 ...the relocation of services, refurbishment of major infrastructure at the Canberra Hospital and early construction works for new facilities associated with the CADP [Capital Asset Development Plan, the predecessor of the Health Infrastructure Program]. The initiative will also allow for unforeseen and emerging issues associated with CADP design and implementation, to be addressed as they arise to ensure that the overall CADP program of works progresses.
- Note 7: Centenary Hospital for Women and Children
 The Health Directorate has advised 'scope and budget changed from the original ... following further research on other hospitals'. The total estimated cost of this project was increased incrementally through the 2010-11 and 2011-12 Budgets. The expected date of physical completion was also extended through the 2010-11, 2012-13 and 2013-14 Budgets.
- Note 8: Belconnen to City Bus Transitway – Stage 1
 Through the 2012-13 Budget, the estimated cost of the project was increased from \$7.300 million to \$8.500 million and the anticipated physical completion date extended to June 2013.
- Note 9: Canberra Centenary Trail
 The trail, as originally scoped, was opened in October 2013. Additional works were added to the project, this other work continues to be performed.
- Sources: ACT Government, *2007-08 Budget Paper No. 3*, page 87 and *Budget Paper No. 4*, pages 373 and 374
2008-09 Budget Paper No. 4, page 372 and *Budget Paper No. 5*, pages 53 and 54
2009-10 Budget Paper No. 4, page 375

2010-11 Budget Paper No. 3, page 145

2011-12 Budget Paper No. 3, pages 86, 160, 164 and 177 and Budget Paper No. 4, page 131, 238 and 331

2012-13 Budget Paper No. 4, page 120

2013-14 Budget Paper No. 4, pages 148 and 302

2014-15 Budget Paper No. 4, page 220

Audit Office analysis of Directorate monthly report data; Question Time Brief, *Neville Bonner Primary School*, 22 May 2013; Chief Minister media release, *Centenary Hospital for Women and Children marks milestone for health system*, 11 December 2013

Reporting on risks

4.60 While there was a very large variability between originally forecast and actual expenditure on capital works, as shown in Table 4.3, reporting by directorates on project risks is very limited as there was minimal commentary and supplementary advice discussing key risks. Furthermore, for some of the risks reported, there are issues with their associated mitigation measures, for example:

- the Economic Development Directorate did not identify any remedial action for budget and timeline overruns in its reporting to the Budget Committee of Cabinet. One of its projects (refer to Table 4.3) was delivered thirteen months early and another fourteen months later than originally planned, with the physical completion date revised through two successive Budgets; and
- the Health Department, while having inadequacies in its reporting on mitigation strategies to the Budget Committee of Cabinet on risk mitigation strategies and/or remedial actions (as shown in Table 4.2), did commission a number of independent reviews of its capital works delivery. These included a January 2013 review of the Adult Acute Mental Health Inpatient Unit project by Protiviti and a broader assessment of the Health Infrastructure Program's governance by PricewaterhouseCoopers in May 2013. The results of these reviews were reported to the Minister for Health, who provided a copy of the Protiviti *Review of Construction of the Adult Acute Mental Health Inpatient Unit* to the Audit Office for information in June 2013 following circulation of the Office's forward audit program. The results of these reviews are discussed in paragraphs 4.71 to 4.73.

4.61 However, even when mitigation strategies were reported, this did not mean projects were delivered according to their originally planned times. For example, in responding to overruns on the original budget and time line for the Belconnen Bus Transitway – Stage 1 project, the Territory and Municipal Services Directorate reported to the Budget Committee of Cabinet that it had reviewed cash requirements over the life of the project, and was engaging with stakeholders to resolve differences. Nonetheless, these remedial actions did not prevent the project being delivered nine months later than originally planned and requiring revisions to agreed delivery timelines through the 2012-13 Budget.

4.62 Similarly, the Education and Training Directorate did have mitigation strategies identified for at-risk projects, as noted in Table 4.2. The reported mitigation

strategies related to identifying alternative funding opportunities, staging of works, contingency plans to accommodate students in other schools if delays occurred, and conducting value management studies to identify opportunities for project savings. Nonetheless, these remedial actions did not prevent the Neville Bonner Primary School or the Gungahlin College projects being completed later than originally planned and also requiring revisions to agreed delivery timelines and budgets.

4.63 Decisions to change project scope, budget or timeframes can occur for a number of reasons, including to produce better outcomes or longer-term value for money. For example:

- the Health Directorate has advised:
... scope and budget changed [for the Centenary Hospital for Women and Children] from the original (i.e. announced in the Budget) following further research on other hospitals.
- the Economic Development Directorate advised:
The [Canberra CBD Upgrade – Stage 2 – Merry-go-round and Veterans' Park] project was rescheduled during the design phase to better align with the overall CBD program of works.

4.64 On a number of occasions, concerns with changes to project scopes were raised with the Budget Committee of Cabinet. For example, on 18 October 2010, the then Treasurer, Katy Gallagher MLA, advised Cabinet that a number of capital works projects were experiencing cost pressures. The cost pressures resulted from, inter alia, expansion of a project's scope. She stated that:

The BCC [Budget Committee of Cabinet] should always be consulted in regard to any significant changes to a project's scope, particularly where these will result in additional costs.

4.65 The following year, 2011, the Treasurer raised concerns with project scoping:

Project overspends/scoping issues have recently been highlighted and discussed in the estimates hearings ... it is then essential that projects are delivered within the agreed scope and cost with contingency funding only used to manage project risks as they are realised.

4.66 Changes in scope were evident in six of the eight capital works projects considered in this audit, being:

- Adult Acute Mental Health Inpatient Unit;
- Belconnen to City Bus Transitway – Stage 1;
- Centenary Hospital for Women and Children;
- Canberra Centenary Trail;
- Gungahlin College; and
- Neville Bonner Primary School.

4.67 Scoping concerns relating to Health Directorate projects were raised with the Budget Committee of Cabinet in August 2011. In August 2012, scoping concerns

were still apparent with the Budget Committee of Cabinet being advised of 'under performance' by the Health Directorate 'mainly due to issues around planning, implementation, scope and timing of related and interdependent projects issues'.

4.68 Even though concerns regarding project scoping were brought to the Budget Committee of Cabinet's attention, the capital works reporting was not used as a mechanism to manage the risk of scope change. However, directorate project managers may have been independently attempting such controls.

4.69 When surveyed about capital works reporting as part of this audit, one Directorate stated:

The [monthly capital works] report can be useful as a means of informing the Directorate's finance area of project progress, but it has little value as a reporting tool for in-depth project reporting.

4.70 The Chief Minister and Treasury Directorate has confirmed the reports are not intended for in-depth project reporting, stating:

Bi-monthly reporting is not the avenue for providing time critical information to Ministers, nor for seeking Minister's decisions on proposals to change project scope, budget or timing.

Health Directorate reviews of capital works delivery

4.71 As noted in paragraph 4.60, the Health Directorate commissioned a number of independent reviews of its capital works delivery; in particular, a January 2013 Protiviti review of the Adult Acute Mental Health Inpatient Unit project and a broader assessment of the Health Infrastructure Program's governance by PricewaterhouseCoopers in May 2013. These reviews of the Health Directorate's capital works delivery identified that:

- the senior executives needed clear and concise reports to fulfil their governance responsibilities. They did not receive this information; and
- reasons for this were poor design of reports and project governance, and no interested party having a complete perspective of the project.

4.72 The reviews made recommendations on basic project management issues such as:

- engagement of specialist skills in projects;
- policies and skills developed for project management;
- lists of important stages and project needs;
- consolidate and review documentation for project management;
- review roles of committees and meetings involved in project management;
- regular and independent reviewing of HIP projects; and
- develop project and contract management criteria.

- 4.73 The Health Directorate has introduced revised governance arrangements to consolidate the lessons from the Adult Acute Mental Health Inpatient Unit and other projects. The Directorate has reported regularly to its internal Audit and Risk Management Committee on its progress towards implementing these recommendations.
- 4.74 However, as of May 2014, implementation of review recommendations was ongoing:
- Implementation of the eleven recommendations from the PricewaterhouseCoopers review of the Health Infrastructure Program's governance was initially estimated to be completed by 30 June 2013. To date, only one recommendation's implementation has been completed. Advice to the Directorate's Audit and Risk Management Committee on 15 May 2014 indicated implementation of all recommendations is now anticipated by June 2014;
 - Implementation of six of the sixteen recommendations from the Protiviti review of construction of the Adult Acute Mental Health Inpatient Unit is yet to be completed. Advice to the Directorate's Audit and Risk Management Committee on 15 May 2014 indicated implementation of all recommendations is anticipated by June 2014.

Measures to improve identification of risks

- 4.75 As noted in paragraph 3.49, on 2 October 2013 the Government endorsed *The Capital Framework*. While this Framework does not focus on reporting arrangements, it does introduce substantive procedural reforms targeting the key reporting gap identified in this audit, that being better identification and mitigation of project risks. Implementation of this framework is overseen by the Commerce and Works Directorate.
- 4.76 The Framework is a major development in capital project initiation and management, and will affect:
- the stages of projects initiation;
 - the type of contract used, and therefore how the project will be managed; and
 - who provides information to Shared Services Procurement, client directorates and Government; when it is provided and how.
- 4.77 The Framework seeks to improve capital works delivery through a six stage process:
- Stage 1: Investment logic workshop – through this stage, *The Capital Framework* requires that the problem to be addressed by the capital project be identified, as well as the benefits of possible solutions to it;
 - Stage 2: Early project overview – this stage replaces the previous Budget processes concept approval stages. It requires consideration of the project

by both the Chief Minister and Treasury Directorate and Commerce and Work Directorate through an 'early project overview';

- Stage 3: Single assessment framework – this stage replaces the previous Budget processes construction approval stage and involves a detailed assessment of project options. The Commerce and Works Directorate and the Chief Minister and Treasury Directorate comment on the project at Stages 2 and 3. After this stage, a proposal on the project is presented to the Budget Committee of Cabinet. If the project is approved by the Budget Committee of Cabinet, and funded through the annual budget, the project proceeds to Stage 4;
- Stage 4: Project procurement – this stage is unchanged from the current system;²⁸
- Stage 5: Implementation of the project – as above; this stage is unchanged from the current system; and
- Stage 6: Post implementation review.

4.78 The Framework divides projects into three separate tiers based on their project value and risk. Smaller or less risky projects may not be required to fulfil all review stages, with larger or more risky projects being subjected to all review stages including cross-Directorate examination by the Chief Minister and Treasury Directorate and the Commerce and Works Directorate. The identified risk tiers are:

- Tier 1: Under \$10 million;
- Tier 2: Between \$10 million to \$50 million; and
- Tier 3: Over \$50 million or over \$10 million and assessed as high risk.

Measures to improve reporting on risks

4.79 As mentioned in paragraph 3.38, a template was developed identifying reporting information requirements. A reporting template was revised in August 2012 to seek summarised information about directorates' use of contingency funds for capital works projects. An allowance for contingencies is included in the construction budget to cover costs generated by events that are unlikely to, but could, occur. It is based on a formal and informal analysis of the risks of a project. The Territory and Municipal Services Directorate did not generally supply the contingency information requested in the reporting template.

4.80 The lack of risk-related reporting to the Budget Committee of Cabinet means that information provided to the Committee is limited and this reduces the quality of reports. Furthermore, even when project risks are identified, the limited discussion of mitigation strategies to address these risks compromises the quality of reports.

²⁸ Stages 4 and 5 in the list following are included for completeness: they are not intrinsically part of *The Capital Framework*.

- 4.81 When surveyed, a Directorate commented about the reporting of risky projects stating:
- ... a project which is fundamentally sound is subject to the same level of review and scrutiny as a project that has some real or potential issues. This appears to generate a lot of data but not much real information and confuses detail with transparency.
- 4.82 To address this issue, the Chief Minister and Treasury Directorate further revised the reporting template in October 2013, during the course of this audit, and sought to provide further guidance on reporting requirements relating project and program risks. The reporting template requires that projects classified as 'at risk' should now report on:
- the size of the project contingency;
 - the amount of contingency utilised to date;
 - the nature of the risk or risks that have materialised;
 - the adequacy of the remaining contingency; and
 - details of risk mitigation strategies or remedial action plans (or both).
- 4.83 These recent actions to address gaps in reporting against project and program risks should address, if fully implemented, issues identified in this audit. Directorate adherence to the requirements for reporting against project and program risks is critical to achieving complete disclosure in capital works reporting.
- 4.84 However, against existing 2010 guidelines, which identify commentary and supplementary advice on identified at-risk projects (as well as details of risk mitigations strategies or action plans where applicable) as minimum information requirements (see paragraph 4.46), the current level of risk-related reporting is inadequate.
- 4.85 The Budget Committee of Cabinet should therefore be consulted to confirm its information needs on project risks, and associated mitigation strategies. The results of this consultation should be reflected in a revised *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper* (refer to Recommendation 4).

Recommendation 8 (Chapter 4)

Reporting on capital works delivery risks

The Chief Minister and Treasury Directorate should consult with the Budget Committee of Cabinet to confirm its information needs on project risks and associated mitigation strategies. The results of this consultation should be reflected in a revised *Capital Works Program Bi-monthly Monitoring and Reporting to the Budget Committee of Cabinet Guidance Paper* (refer to Recommendation 4).

APPENDIX A: AUDIT CRITERIA, APPROACH AND METHOD

AUDIT CRITERIA

The Audit Office examined whether:

- reporting requirements are clear, well known and adhered to across Government;
- reported information on the cost and progress of capital works is of high quality; and
- Budget Committee of Cabinet is informed of delivery problems or risks and, where necessary, risk mitigation strategies are reported.

AUDIT APPROACH AND METHOD

The performance audit was conducted under the authority of the *Auditor-General Act 1996*, and in accordance with the principles, procedures, and guidance contained in Australian Auditing Standards relevant to performance auditing. These standards prescribe the minimum standards of professional audit work expected of performance auditors. Of particular relevance is the professional standard on assurance engagements, *ASAE 3500 Performance Engagements*.

The audit approach and method consisted of:

- interviews and discussions with key staff in the:
 - Chief Minister and Treasury Directorate;
 - Commerce and Works Directorate;
 - Economic Development Directorate;
 - Education and Training Directorate;
 - Health Directorate; and
 - Territory and Municipal Services.
- a survey of non-audited agencies and audited directorates which receive capital works appropriations from the ACT Budget;
- identification and review of directorate policies, controls and procedures; and
- review of relevant directorate information and documentation from approximately 240 electronic and 180 paper files relating to:
 - capital project progress reports;
 - yearly financial reports;
 - briefing papers;

- whole-of-Government and directorate-specific information papers to the Budget Committee of Cabinet, as well as a limited number of other project-specific Cabinet Submissions; and
- decisions of Government.

Auditing Standard ASAE 3500 requires that an audit considers events up to the date of the report. This will be achieved by providing all audited Directorates opportunities to inform the audit team of any significant events affecting audit findings between completion of fieldwork and finalisation of the audit report.

AUDIT REPORTS

Reports Published in 2013-14	
Report No. 4 / 2014	Gastroenterology and Hepatology Unit, Canberra Hospital
Report No. 3 / 2014	Single Dwelling Development Assessments
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