

## Audit Report No. 43 2008-09

# Construction of the Christmas Island Immigration Detention Centre

## Introduction

- 8.1 In the latter part of 2001 several measures were introduced to address an increase in unauthorised arrivals to Australia. These measures included legislation excising Christmas Island, Ashmore and Cartier Islands and Cocos (Keeling) Islands from the migration zone for the purposes of unauthorised arrival as well as arrangements for the reception and accommodation of unauthorised boat arrivals and the processing of their claims for protection at various offshore locations.
- 8.2 In addition, on 11 March 2002, the Government decided to proceed urgently to construct a new purpose built permanent Immigration Reception and Processing Centre<sup>1</sup> on Christmas Island, together with the construction of essential infrastructure associated with the construction and on-going operation of the Centre. In terms of project delivery:

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1 The project is now referred to as the Christmas Island Immigration Detention Centre (CIIDC).

- the then Department of Immigration and Multicultural and Indigenous Affairs (DIMIA)<sup>2</sup> was to be responsible for the construction of the facility; and
  - the then Department of Transport and Regional Services (DOTARS)<sup>3</sup> was responsible for all associated infrastructure and headworks to support the facility, construction of staff housing in the Island's residential area and provision of the construction camp.
- 8.3 The project approved in March 2002 had been for a 1200 person facility to be built in 39 weeks for an indicative budget of \$242.9 million. By June 2002, architects and a Construction Contractor had been appointed. However, delays in the project timelines and increases in project costs had begun to emerge. By September 2002, the project estimate had increased to \$427 million with a delivery period in the order of 120 weeks.
- 8.4 After considering the work of a departmental taskforce as well as commercial and legal advice, in November 2002 the Government reaffirmed the need for the CIIDC [Christmas Island Immigration Detention Centre] project. However, following discussions with the appointed Construction Contractor, it was concluded that construction of a 1200 place purpose-designed and built facility could not be achieved within the budget, and it was decided to terminate the contract with the Construction Contractor.<sup>4</sup> After considering options, on 18 February 2003, the Government decided to respecify the project to an 800 place facility at a forecast estimate of \$276.2 million.

## Respecified project

- 8.5 Prior to the termination of the original construction contract entered into by DIMIA, a fully operational construction camp had been built, and some land clearing bulk earthworks for the CIIDC facility had been undertaken.

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2 The department is now known as the Department of Immigration and Citizenship (DIAC). It is referred to as DIMIA in relation to actions prior to its renaming and as DIAC in relation to actions since that time.

3 The department is now known as the Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG). As a result of the November 2007 Federal election and subsequent changes to the Administrative Arrangements Order, all relevant Territories staff and records associated with the CIIDC project and related infrastructure services for which DOTARS had been responsible were transferred to the Attorney-General's Department (AGD). The formal transfer occurred on 25 January 2008, with the physical relocation of the Territories staff occurring in March 2008. Local government services are provided on Christmas Island by the Shire of Christmas Island.

4 Termination took effect on 31 May 2003.

- 8.6 At the time the project was respecified, responsibility for delivering the CIIDC facility was transferred from DIMIA to the Department of Finance and Deregulation<sup>5</sup> (Finance), with a more conventional delivery method<sup>6</sup> to be adopted in an endeavour to provide greater cost certainty. Responsibility for the provision of associated infrastructure remained with DOTARS. Finance was to manage the facility construction project from 19 February 2003 to completion, which was expected to take 34 months (that is, practical completion by December 2005). The budget of \$276.2 million was allocated as follows:
- facility construction budget of \$197.7 million (referred to in this report as the Finance Budget Allocation);
  - \$58 million in budgeted costs for DOTARS to deliver housing and infrastructure works<sup>7</sup> and resume the mining lease on which the CIIDC would be constructed (the DOTARS Budget Allocation); and
  - \$20.5 million in budgeted costs associated with DIMIA's management of the project up to the February 2003 transfer of responsibility to Finance. DIAC was allocated a further \$3.1 million for project supervision and consultancies for the period from the February 2003 transfer of project management to Finance until project completion, but this allocation was not included in the \$276.2 million figure. Collectively, these amounts are referred to as the DIMIA Budget Allocation.
- 8.7 In June 2003, the proposal to construct a respecified, purpose-built CIIDC was referred to the Public Works Committee (PWC) for its consideration. The PWC's December 2003 report recommended that the respecified project proceed at its estimated facility construction cost of \$197.7 million.
- 8.8 A two-stage project delivery model was adopted by Finance for the remaining construction work for the CIIDC facility. The first stage was the 'Early Works', which were carried out under a lump sum contract arrangement and involved bulk earthworks. The second stage was the 'Main Works'.

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5 Prior to the change of Government following the 2007 Federal Election, the department was known as the Department of Finance and Administration (DFA).

6 As opposed to the 'fast-track' process, involving parallel design and construction for the purpose-built CIIDC proposed for the original project.

7 Specifically, DOTARS was provided with funding for an additional port facility at Nui Nui (the main port is at Flying Fish Cove) and an associated upgrade to the link road, upgrade of other roads (including the construction of crab crossings), provision of housing for facility staff, construction of sports facilities and the provision of water, communications and power to the facility site.

- 8.9 The planned Main Works delivery strategy was to involve a modified lump sum form of contract that included a Guaranteed Maximum Price (GMP). GMP construction contracts are arrived at through a staged process that involves the construction tender being carried out prior to the completion of the design, and the Preferred Tenderer being involved in the final documentation of the design. Each party participating in the tender process is provided with construction drawings and specifications to a sufficient level of detail to allow them to submit a fixed price for the works based on the required dates for practical completion.
- 8.10 A three phase open tender process to appoint the Main Works Contractor was conducted between February and December 2004. Two tenders were received in August 2004, with prices of both tenders being above the available budget. As a result, the Finance Budget Allocation was increased by \$59 million. The Main Works Contract was signed in January 2005, with a stated GMP of \$207.9 million and a date for Practical Completion of 31 August 2006. A second budget increase (of \$60 million) was obtained by Finance in August 2006, during the construction stage.
- 8.11 Practical Completion by the Main Works Contractor of the CIIDC occurred in October 2007. However, various deferred and additional works had to be completed by Finance (through its contracted Project Manger) in order to bring the facility to a 'fit for purpose' condition such that it could be handed over to DIMIA. This handover occurred in April 2008. The estimated out-turn cost of the facility works is within the amended Finance Budget Allocation of \$317.0 million.
- 8.12 The PWC Manual requires<sup>8</sup> that, if there are significant changes to a project after it has been considered by the Committee and approved by the Parliament, proponent agencies are to report these changes and, if necessary, seek the Committee's concurrence. Finance advised the PWC of the budget increases in January 2008. In June 2008, the Committee announced that it would receive a briefing from Finance and DIAC on the development of the CIIDC, focusing on the increase in the total budget from \$276 million in 2003 to \$396 million. After a public briefing was held in June 2008, the PWC wrote to the ANAO advising that it had concerns about the costing provided to it in September 2003, and the subsequent management of the project. ANAO advised the PWC that the audit of the project, which at that time was underway, would assess the rigour of the project estimates and budgets as well as the management of the project in terms of its cost, timing and scope.

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8 Parliamentary Standing Committee on Public Works, *Manual of Procedures for Departments and Agencies*, March 2008, Edition 7.2, p. 38.

## The Audit<sup>9</sup>

### Audit scope and objectives

- 8.13 A performance audit of the CIIDC construction project was first included as a potential audit in ANAO's Planned Audit Work Program for 2006-07. As the project was not completed in 2006-07, the audit of the construction of the CIIDC was not commenced that year but was rescheduled as a potential topic in the 2007-08 Planned Audit Work Program.
- 8.14 The objective of the audit, in examining the construction of the CIIDC, was to assess:
- the adequacy of the planning and delivery processes for the project;
  - the value-for-money achieved in the delivery of the project, including with regard to the suitability of the centre for its intended purpose; and
  - the extent to which the *Public Works Committee Act 1969* (PWC Act) and approved procedures have been complied with.

### Overall audit conclusions

- 8.15 The ANAO made the following overall audit conclusion:

The CIIDC was a more difficult construction project than many others undertaken by the Australian Government. It involved numerous challenges and risks including the isolation of Christmas Island, shipping being adversely affected by the swell season (which typically runs for five months from November to March), the absence of a wharf suitable for ships to berth alongside and the facility being constructed on reclaimed mining land that was surrounded by a National Park. In addition, the construction works were of considerable scale (the CIIDC facility comprises more than 50 buildings and associated landscaping works) with an ambitious design and delivery timetable, and a tight budget.

The CIIDC facility has been completed, has been accepted by DIAC as fit for its purpose and is now operational. However, this result has come at a considerably greater cost than budgeted at the time the project was respecified and over a substantially longer timeframe than had been expected. In this context, the audit has

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9 In this chapter, all references to 'the audit' are references to Audit Report No. 43 2008-09, unless specified otherwise.

underlined several important messages for agencies to bear in mind when managing future construction projects.

The first is that it is only after sufficient scoping and planning work has been undertaken that reliable estimates and delivery timeframes can be established. The scope, budget and timeframe for the respecified project was established after nine months of detailed design work, market place investigation and cost reviews incorporating expert costing advice. Nevertheless, the revised delivery timeframe of 34 months (as opposed to 39 weeks for the original project) was exceeded by 27 months and Finance's Budget Allocation was increased by 60 per cent. Factors contributing to this outcome included that, at the time the respecified budget was approved, the design brief had not been finalised, a concept design had not yet been prepared and the revised budget included very little in the way of a contingency allowance for risk.

The second message relates to the importance of managing a project as a whole when individual agencies have separate budgets for sub-parts that are interdependent.<sup>10</sup> For the CIIDC project, Finance was responsible for the facility construction aspect with DOTARS responsible for most of the infrastructure works necessary to connect the facility to the services on the Island, as well as for an upgrade of the Island's port crane. Early in the project, Finance consulted with DOTARS to ensure there were sufficient spare parts on the Island for the port crane (given its importance to project logistics) but Finance (and prior to February 2003, DIMIA) was not involved in DOTARS' decision-making processes relating to the construction of the additional port facility at Nui Nui, and the subsequent procurement of a new crane or the upgrade to the existing pedestal at Flying Fish Cove (due to the decision to relocate the existing, older, crane to Nui Nui). For budgetary reasons DOTARS decided to have the crane pedestal upgraded rather than a new pedestal constructed. The relatively modest initial saving in capital expenditure was more than offset by the effects on the facility construction project of the crane being taken out of service due to the discovery of major foundation

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10 ANAO has outlined in other reports the importance of having a lead agency, allied with associated risk management and whole-of-government performance management arrangements (see ANAO Audit Report No. 50 2004-05, *Drought Assistance*, Canberra, 2 June 2005, pp. 24-25). Similarly, in March 2005, all Departmental Secretaries endorsed a guide entitled 'Working Together' that emphasised the importance of a whole-of-government approach to inter-agency work.

faults in the pedestal.<sup>11</sup> This example emphasises the importance of a whole-of-government perspective in such decisions by agencies.

Thirdly, it is important that agencies manage projects by developing and following delivery strategies that reduce identified risks to acceptable levels. There are a number of possible approaches to the development and delivery of Commonwealth capital works projects, each involving different risks and having advantages and disadvantages. To provide greater cost certainty given the original project had been respecified partly due to significant budget increases, Finance's chosen project delivery strategy was to involve the main works contract being tendered based on a detailed and developed design, and the contract being signed based on a completed design.<sup>12</sup> The strategy was sound but was not followed. Instead, the design and tendering processes were overlapped and the design was not completed until some time after the construction contract was signed.<sup>13</sup> The departures from the planned approach contributed to the project delays and increased costs to the Commonwealth.

To capture both industry and its own experience in managing construction projects, Finance has developed a better practice guide to the delivery of major capital works, which at the time of the audit was being updated. The first draft of this guide was introduced in July 2005, during the construction phase of the CIIDC project. Where the guide has adequately addressed matters identified by this audit as requiring attention, this has been recognised (in lieu of an ANAO recommendation being made).<sup>14</sup>

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11 In this respect, ANAO has estimated a net delay effect on the project of one month and additional costs of \$6.4 million (a new pedestal was estimated to cost \$700 000 more than upgrading the existing pedestal).

12 The strategy recognised that:

- tendering the Main Works Contract before a well-developed design had been prepared and/or signing the construction contract before the design had been completed adversely affects the Commonwealth's ability to transfer the risk of design errors and omissions to the construction contractor; and
- delays during the design phases would ultimately cost less in time and money than delays in the construction phase.

13 The second budget increase (of \$60 million) was necessary, in large part, due to increased costs that resulted directly or indirectly from the change in approach.

14 Audit Report No. 43 2008-09, pp. 13-15.

## ANAO recommendations

**Table 5.1 ANAO recommendations, Audit Report No. 43 2008-09**

1.	<p>ANAO <i>recommends</i> that, in future circumstances where the Department of Finance and Deregulation is delivering capital works projects that depend upon Commonwealth owned and/or operated infrastructure, project governance arrangements be developed to manage the risk and cost of project construction and infrastructure decisions being made in isolation by:</p> <ul style="list-style-type: none"> <li>(a) developing a stronger leadership model that sets out the mutual obligations of each agency to coordinate decisions of critical importance associated with interdependent activities; and</li> <li>(b) adopting a sound approach to preparation and management of the overall project budget by comparing design milestone estimates of the cost of works to the overall budget and subsequently accounting for the final (out-turn) cost.</li> </ul>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
2.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation informs the Public Works Committee of the project budget, the estimate of cost and order of accuracy on which the estimate is based when providing information to the Committee for projects it is delivering.</p>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
3.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation, prior to committing funds to a major construction contract:</p> <ul style="list-style-type: none"> <li>(a) provide decision-makers with an assessment of any factors that may be reasonably expected to increase the overall cost to the Commonwealth, or reduce the scope or quality of the works; and</li> <li>(b) support spending authorisation and approval processes by advising decision-makers on the maximum amount that may become payable under the contract, as well as an assessment of the most likely cost.</li> </ul>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
4.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation promote improved project delivery outcomes by:</p> <ul style="list-style-type: none"> <li>(a) providing decision-makers with a comprehensive assessment of risks and how they can be managed prior to making any significant departures from the planned project delivery strategy; and</li> <li>(b) implementing strategies aimed at promoting greater collaboration and teamwork between key consultants (including project managers, cost managers and designers) in working toward the established project objectives.</li> </ul>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
5.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation require its key project management and other advisers to participate in a post-project review of major construction projects soon after they are completed so as to identify aspects and processes that have been particularly successful as well as those where lessons can be learned.</p>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
6.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation:</p> <ul style="list-style-type: none"> <li>(a) when seeking additional funds for its capital works projects, develop budget breakdowns that clearly identify the elements that are proposed to be revised; and</li> <li>(b) explicitly recognise within its internal guidance material the requirement to report significant project changes, including to the budget, to the Public Works Committee.</li> </ul>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	



## The Committee's review

8.16 The Committee held a public hearing on Wednesday 18 November 2009, with the following witnesses:

- Australian National Audit Office (ANAO);
- Attorney-General's Department (AGD);
- Department of Finance and Deregulation (Finance); and
- Department of Immigration and Citizenship (DIAC).

8.17 The Committee took evidence on the following issues:

- structural sustainability of the centre;
- transfer of responsibility for the project to Finance;
- unique nature of the project;
- cost estimates;
- overlapping of design and construction phases;
- post-implementation review; and
- protocols for whole-of-government contracts.

### Structural sustainability of the centre

8.18 The Committee queried whether or not sufficient thought had been given to the structural sustainability and design of the centre considering the environmental conditions of the island. Although transport costs had placed constraints on both the choice of design and materials, Finance maintained that environmental factors such as salt, humidity and high rainfall had been taken into account with regard to the selection of materials.<sup>15</sup> Finance added that the facility had been designed to cope with seismic activity.

### Transfer of responsibility for the project to Finance

8.19 The ANAO report noted that in 2002 DIMIA and DOTARS were given responsibility for the original CIIDC project.<sup>16</sup> This decision was made to

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15 Mr Richard Scott-Murphy, Department of Finance and Deregulation (Finance), pp. 2-3. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 18 November 2009, with page numbers relating to the Proof Committee Hansard.

16 Audit Report No. 43 2008-09, p. 43.

facilitate a 'fast-track' process whereby design and construction could proceed together.<sup>17</sup> After project estimates and the timeline escalated, the project was respecified, a more conventional delivery method adopted and responsibility for the project transferred to Finance.<sup>18</sup>

- 8.20 The Committee asked why the project had gone to DIMIA first instead of directly to Finance. The ANAO told the Committee that at the time it was not unusual for a department to take on responsibility for its own construction projects.<sup>19</sup> The ANAO understands that the increase in the estimated cost of the project and the extended timeframe led to the decision to transfer the responsibility to Finance 'in an endeavour to provide greater cost certainty'.<sup>20</sup>

### Unique nature of the project

- 8.21 The ANAO report referred to the unique nature of the CIIDC project noting:

... the proposed purpose built permanent facility was recognised as being the first of its kind and, as such, there was no precedent upon which cost estimates could be accurately established.<sup>21</sup>

- 8.22 Finance reiterated this concept throughout the inquiry maintaining:

This project was unique in that it was the first purpose-designed and built Immigration Detention Centre in Australia, and as such there were no established benchmarks with which it could be compared.<sup>22</sup>

- 8.23 The Committee questioned the uniqueness of the project and the lack of benchmarks considering previous experience setting up and running the Baxter detention centre. DIAC explained that the CIIDC was unique in the sense that it had been designed as an immigration reception and processing centre rather than an immigration detention centre:

We take clients all the way through from reception to health, identity and security all within the centre premises. On the

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17 Audit Report No. 43 2008-09, p. 43.

18 Audit Report No. 43 2008-09, pp. 45-46.

19 Mr Brian Boyd, ANAO, p. 3.

20 Audit Report No. 43 2008-09, p. 10; Mr Brian Boyd, ANAO, p. 4.

21 Audit Report No. 43 2008-09, p. 43.

22 Audit Report No. 43 2008-09, p. 31.

mainland we have different arrangements and that certainly makes it unique.<sup>23</sup>

## Cost estimates

8.24 The Committee queried why cost estimates could not have been more accurate for the project considering the expertise and experience available across Australia. Finance affirmed that it had drawn on professional consultants during the cost estimate process but maintained that the project still faced a unique set of circumstances:

The unique nature of this project was delivering a detention facility in the environmental conditions evident at Christmas Island. There was no basis upon which they could draw for estimating the sort of variance that you might get for delivering a complex project on Christmas Island. The order of accuracy that they can impart in those estimates is constrained by that lack of data.<sup>24</sup>

8.25 The Committee asked the Audit Office for its opinion on the estimates process and the resulting shortfall. The ANAO identified the budget as the problem rather than the estimates. The budget was insufficient:

From our perspective, the estimates for some time had been saying 'You won't be able to design and construct this project within the budget.' So the estimates had a degree of accuracy to them. The budget was the problem. Trying to get it within budget was where the problems were arising.<sup>25</sup>

8.26 The ANAO added that the time frame caused further problems:

... because the time frames were so short, the department went to tender before its own strategy said it probably should have. Therefore you had a less mature design on which people were pricing, and that then led to further cost increases.<sup>26</sup>

## Overlapping of design and construction phases

8.27 With regard to the time frame, the ANAO noted that the design for the respecified project was to be prepared in four stages with a 'hold point'

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23 Ms Jackie Wilson, Department of Immigration and Citizenship (DIAC), p. 5.

24 Mr Richard Scott-Murphy, Finance, p. 5.

25 Mr Brian Boyd, ANAO, p. 6.

26 Mr Brian Boyd, ANAO, p. 6.

after each stage where design work would stop until DIMIA approved each stage.<sup>27</sup> This process would cause some delay during the design phase but would forestall more costly delays during the construction phase.<sup>28</sup> The ANAO found that this strategy had not been followed and this had directly contributed to the escalation of costs and time.<sup>29</sup>

- 8.28 The Committee questioned why Finance had abandoned the original delivery method and decide to overlap the design and construction phases of the project. Finance claimed that it was under time pressure from DIMIA to complete the facility and this had led to the decision.<sup>30</sup> The Committee asked for clarification as to the nature of those time pressures.
- 8.29 Finance reiterated that the pressure came from the urgency to complete the facility.<sup>31</sup> DIAC explained that pressure had been generated because the project was already well behind schedule when it was respecified and handed over to Finance to complete.<sup>32</sup> Under further questioning, DIAC confirmed that it had sufficient space in existing facilities to cope with demand and had not immediately utilised the CIIDC when it was completed.<sup>33</sup>

## **Post-implementation review**

- 8.30 The ANAO noted the importance of a post-implementation review of construction projects to determine whether or not the project has achieved the expected business benefits.<sup>34</sup> Additionally the ANAO recommended that Finance conduct a post-project review to 'identify aspects and processes that have been particularly successful as well as those where lessons can be learned'.<sup>35</sup>
- 8.31 The Committee noted that no post-implementation review of the CIIDC project had been conducted at the time of the audit and asked Finance if a 'lessons learned' review had been undertaken to determine what should or should not be done to ensure better outcomes for future construction projects. Finance told the Committee there had been no formal, lessons

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27 Audit Report No. 43 2008-09, p. 22.

28 Audit Report No. 43 2008-09, p. 23.

29 Audit Report No. 43 2008-09, pp. 23-24.

30 Mr Richard Scott-Murphy, Finance, p. 7.

31 Mr Richard Scott-Murphy, Finance, p. 8.

32 Ms Jackie Wilson, DIAC, pp. 8-9.

33 Ms Jackie Wilson, DIAC, p. 9.

34 Audit Report No. 43 2008-09, pp. 164-65.

35 Audit Report No. 43 2008-09, p. 167.

learned review of the CIIDC but that, as a direct result of the difficulties encountered with this project, the Department has introduced a two-stage Cabinet approval process<sup>36</sup>, the Gateway Review<sup>37</sup> process and developed internal best practice guidelines.<sup>38</sup> These include a Post Occupancy Evaluation (POE) and a Lessons Learned workshop:

The purpose of the POE is to ensure that project is working as intended, and the users are operating the facility(ies) as expected. The Lessons Learned workshop aims to identify positive and negative project experiences and outcomes, with a view to improving future project outcomes. Process improvements that are identified through these activities are incorporated within the Better Practice Guide.<sup>39</sup>

### Recommendation 13

**The Committee recommends that the Department of Finance and Deregulation (Finance) provide to the Joint Committee of Public Accounts and Audit (JCPAA) the results to date of the implementation of the Post Occupancy Evaluation process and the Lessons Learned workshops as soon as such information is available.**

- 8.32 The Committee is aware that the ANAO undertook a review of the initial implementation of the two-stage process and the Gateway Review process during Audit No. 20 2008-09 *Approval of Funding for Public Works*. The Committee understands that at that time the two processes had not been in operation for any length of time and it was difficult to determine their effectiveness in improving cost estimates and risk management of construction projects.
- 8.33 The Committee notes that an audit into the Administration of the Gateway Review Process is listed as a *potential* audit on the Audit Work Program for 2010-11. Considering the dependence being placed on the two-stage

36 Audit Report No. 43 2008-09, p. 32.

37 'Gateway involves short, intensive reviews at critical points in the project's lifecycle by a team of reviewers not associated with the project. This provides an arm's length assessment of the project against its specified objectives, and an early identification of areas requiring corrective action.' (Department of Finance and Deregulation, <<http://www.finance.gov.au/gateway/index.html>>, accessed 14 January 2010.)

38 Mr Richard Scott-Murphy, Finance, p. 13.

39 Finance, *Submission No. 9*.

process and the Gateway Review process to mitigate risk in future Commonwealth construction projects the Committee recommends:

#### **Recommendation 14**

**The Committee recommends that the Australian National Audit Office (ANAO) undertake an audit into the effectiveness of the implementation of the two-stage Cabinet approval process and the Gateway Review process in mitigating risk for Commonwealth construction projects since their introduction.**

### **Protocols for whole-of-government contracts**

- 8.34 The ANAO noted the difficulties experienced by the CIIDC project due to lack of leadership and coordination between the three agencies involved.<sup>40</sup> Despite a whole-of-project budget, decisions were taken by the three agencies independently leading to unacceptable budget overruns.<sup>41</sup> The ANAO recommends that in future governance arrangements be implemented for similar projects that provide a stronger leadership model, better coordination and milestones to track costs.<sup>42</sup>
- 8.35 The Committee asked what steps had been taken to implement this recommendation. Finance told the Committee that it has included lead agency arrangements in its Better Practice Guide that will be distributed to all its agencies.<sup>43</sup>

### **Conclusion**

- 8.36 The Committee recognises that it is difficult at this distance to apportion blame but is gravely concerned at the mismanagement of Commonwealth funds for this project. The Committee is particularly concerned by the substantial discrepancy between the initial cost estimate and final cost of the project and apparent failure to identify significant risk factors in the project.

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40 Audit Report No. 43 2008-09, pp. 77-80.

41 Audit Report No. 43 2008-09, pp. 82-86.

42 Audit Report No. 43 2008-09, p. 86.

43 Mr Richard Scott-Murphy, Finance, p. 15; Finance, *Submission No. 9*.

- 8.37 The Committee feels that more could have been done during the planning stage to develop a realistic estimate of the cost of the project and is not satisfied with the argument that the uniqueness of the project led to such serious miscalculation of costs and risks.
- 8.38 The Committee notes that Finance has taken positive steps to implement the two-stage approval process, the Gateway Review process and develop a Better Practice Guide to address the shortcomings identified throughout the design, planning and construction of the CIIDC. The Committee urges all government departments to ensure project governance arrangements and a strong leadership model are in place for whole-of-government contracts.

