Submission No. 9

Joint Committee of Public Accounts and Audit
Questions on Notice
Review of Auditor-General's Reports Nos. 32 (08/09) to 1 (09/10)

Re: Audit Report No. 43 (08-09) – Construction of the Christmas Island Immigration Detention Centre

1. The ANAO found that a lot of the risk management plans were not updated or were insufficient. Given the scope of the project, why did this happen, and what improvements has Finance made to ensure this does not happen again?

While the formal plan may not have been updated and issued as regularly as ideal, the Project Director visited the site on a monthly basis, conducting informal risk assessments on each of these visits with the Project Manager and other relevant stakeholders. Risk issues arising in this regard were identified and communicated through a monthly travel report.

Risks were monitored on a monthly basis, and reported internally to Finance's Executive through monthly reports.

Since receiving responsibility for the Christmas Island Immigration Detention Centre (CIIDC) Project, Finance has put considerable effort into improving its business processes and has developed a Better Practice Guide for delivery of capital works projects we deliver. The guidance within this document includes risk assessments and management plans, and requires formal risk assessments to be undertaken on all projects. The risks must be monitored by, and reported through the project governance framework including Project Control Groups and at a higher level, Steering Committees. Generally updates of the Risk Management Plan occur on a monthly basis, or for less complex projects, at key project milestones.

2. Please advise the Committee why a Guaranteed Maximum Price contract was entered into when it was obvious that a lot of contract variations would be required?

The number of contract variations that may be required is rarely obvious at the commencement of construction. In selecting a Guaranteed Maximum Price contract for the delivery of this project, Finance defined the risks that the Contractor was to bear and then agreed with DIAC to tightly control Client Initiated Variations. Paragraph 4.10 of Audit Report 43 states:

> *DIMIA agreed to limit its requests for client initiated variations during the Main Works Contract as a means of containing costs and simplifying Finance's contract administration and superintendency role.*

There were however, during the course of the project three significant variations associated with:

- delays incurred during the Main Works Contract investigation and design finalisation phase, and also a shortfall in cost savings (approximately $24.7m);

- landscaping provisional sum increase ($6m); and
- disputed delay claims settled through mediation in September 2007, including the port crane failure ($12.24m).

In addition to these three major variations there were only a handful of additional variations, amounting to approximately $830,000, that were awarded to the Main Works Contractor. This was around 0.3% of the final contract value.

3. The audit report notes that Finance, the Project Manager and Cost Manager did not exercise any oversight or authority over the DIMA and DOTARS budget allocations, meaning the entire project was lacking the benefits of a lead agency. While the project's Interdepartmental Committee is beneficial, why was no lead agency appointed for the project?

Finance notes the ANAO advice outlined in *Audit Report 43: Construction of the Christmas Island Immigration Detention Centre*, that references *Audit Report 50: 2004-2005*, which states the ANAO has emphasised the importance of having a lead agency. Finance also recognises the benefits that might result from the 'Working Together' guide, endorsed by Departmental Secretaries in March 2005.

The Government decision regarding the allocation of project responsibilities was taken in February 2003. At that time, the then Government decided Finance would be responsible for the delivery of the CIIDC, and that the Department of Transport and Regional Services (DoTARS) would be responsible for the provision of related infrastructure.

An earlier Government decision of 11 March 2002, had established an Interdepartmental Committee comprising the then DIMA, DoTARS, PM&C and Finance, to oversight the project. While this arrangement remained in place following the February 2003 decision – no lead agency was authorised by Government in either March 2002 or February 2003.
In response to the recommendations in Audit Report 50, and to more broadly address this governance issue, Finance has included Lead Agency arrangements in Property and Construction Division's (PCD) Better Practice Guide.

4. Why wasn't the crane at Flying Fish Cove identified as a significant risk to the success of the project, and why didn't Finance contact DOTARS to discuss this issue?

Prior to the commencement of construction of the CIIDC, DoTARS had responsibility for the procurement and installation of a new, or near new port crane. Furthermore, the old port crane was relocated to Nui Nui to provide an additional option for off-loading cargo and to provide a level of redundancy, particularly for during the swell season.

Finance consulted with the former DoTARS early in the project to ensure there were sufficient spare parts on the island for the port crane.

The crane was understood to be critical to the projects logistics, as these significant measures indicate.

The catastrophic failure of the port crane was not a reasonably foreseeable event, and not something that contingency planning would contemplate given the measures already taken.

5. Given there may be the need to expand the facility in the future, what steps have been taken to improve project governance, planning and reporting in accordance with the recommendations made by the ANAO?

Finance has agreed to implement all recommendations made by the ANAO. Accordingly, steps are being taken to amend PCD's Better Practice Guide for the delivery of capital works projects, to provide guidance in this regard. At this stage Finance does not have a role in delivering the current expansion of accommodation in the facility.

6. Why did Finance provide such a specific cost estimate of $177.8 million for the project, given the level of project uncertainty at the time the project was taken to the Public Works Committee, when the ANAO believes estimates to the nearest $20 million would have been more appropriate?

At the time of providing the estimated cost of $177.8m there was no Public Works Committee (PWC) guidance, requirement or precedent; that specified a range of estimated cost should have been communicated to PWC.

Finance agreed with the ANAO Recommendation No. 1 in Report No. 20 2008-09 and ANAO Recommendation No. 2 in Report No. 43 2008-09 that Finance informs the PWC as to the order of accuracy of project estimates when informing the PWC on projects it is delivering. Finance is incorporating these requirements in PCD's Better Practice Guide.

7. This project experienced numerous delays, and also failed to adequately consult with DIAC at the appropriate 'hold points'. Why did this occur?

Finance consulted with DIAC closely for the duration of the project. At the hold-points, it was initially intended design work would stop for 20-30 working days in order to allow internal review and approval of the documentation by DIAC. However, in order to minimise program delays, work on the next design stage continued concurrently with the DIAC review. Notwithstanding this, DIAC still approved the design at the key milestones and provided relevant comments which were incorporated into the design. The Audit Report notes comments from the Principal Consultant that advise this is typical industry practice, the rationale being minor abortive design work is of significantly lower impact than a one month hold-point in the program.

8. Why was no risk based cost assessment undertaken on the risks of budget blow outs?

The Government decision of February 2003 was informed by advice that there was expected to be a level of variability in the project budget, associated with the many unknowns of constructing the Centre on a remote island. It is for this reason that the Government decision of February 2003 provided a mechanism for seeking additional project funds should they be required following market testing of the works.

A costed risk assessment was undertaken early in the project's life in mid-2003. This assessment identified potential risk impacts totaling up to $80m, with a probable impact of around $20m.

Since 2003 Finance has significantly improved its procedures for the assessment of probability and consequence of identified risk events. Current practice within Finance's PCD implements this procedure to assess project contingencies. This process involves for each risk identified, an assessment of the probable monetary impact of the risk event being realised and the likelihood of this occurring. Summation of these elements provides an indication of the required contingency. Following such a process however does not provide a guarantee against cost increases as, a highly unlikely yet high value worst-case cost impact risk event may still occur, and this would not be contained within the project's contingency.

9. I understand some of the materials used to build the facility were sourced from Indonesia and were of poorer quality than we are used to in Australia. Was the source or standard of building materials discussed with the Main Works Contractor at any time during construction?

The Main Works Contractor's procurement strategy involved shipping steel from Australia to Indonesia for pre-fabrication and galvanising. Other significant materials procured in Indonesia were aggregates and cement for concrete production. This strategy was discussed during the tender process and accepted as an integral part of the Contractor's proposal.

The specification of material was in accordance with Australian Standards and normal building practice in Australia. In respect of structural steel, the Contractor had inspectors on site in the fabrication yard in Indonesia during production.

The quality of the materials procured and supplied under the contract between Finance and the Builder were in accordance with relevant Australian standards; and more broadly, the contract.

10. The absence of a post-implementation review is unacceptable. What steps are being taken to make sure this never happens again?

Since receiving responsibility for the CIIDC Project, Finance has put considerable effort into improving its business processes and has developed a Better Practice Guide for delivery of capital works projects we deliver. The Better Practice Guide now requires the completion of both a Post Occupancy Evaluation (POE) and a 'Lessons Learned' workshop following the completion of the project.

The purpose of the POE is to ensure the 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.