

Report 5 of 2021

Adelaide Oval redevelopment
for the designated period
1 July 2020 to 31 December 2020



Report of the Auditor-General

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for the designated period
1 July 2020 to 31 December 2020

Tabled in the House of Assembly and ordered to be published, 2 March 2021

Second Session, Fifty-Fourth Parliament

By authority: S. Smith, Government Printer, South Australia

*The Auditor-General's Department acknowledges and respects
Aboriginal people as the State's first people and nations, and
recognises Aboriginal people as traditional owners and occupants of
South Australian land and waters.*



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ISSN 0815-9157



26 February 2021

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Dear President and Speaker

**Report of the Auditor-General:
Report 5 of 2021 *Adelaide Oval redevelopment for the designated
period 1 July 2020 to 31 December 2020***

Under section 9 of the *Adelaide Oval Redevelopment and Management Act 2011*,
I present to each of you Report 5 of 2021 *Adelaide Oval redevelopment for the designated
period 1 July 2020 to 31 December 2020*.

Acknowledgements

The audit team for this report was Salv Bianco, Philip Rossi, Grace Lum and Michael Banks.

I express my appreciation for the cooperation and assistance provided by staff of the Adelaide Oval SMA Limited, South Australian Government Financing Authority, the Department of Treasury and Finance and the Department for Infrastructure and Transport during the audit.

Yours sincerely

A handwritten signature in black ink that reads 'Richardson'.

Andrew Richardson
Auditor-General

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1 Executive summary

1.1 Introduction

This is the nineteenth Report to the Parliament on the Adelaide Oval redevelopment. The report is required by the *Adelaide Oval Redevelopment and Management Act 2011* (the Act) for each six-month period beginning on 1 January and 1 July each year.

This Report addresses my obligation under the Act to report on the Adelaide Oval Hotel development. I am required to report on this development as:

- the Adelaide Oval Hotel is a development for the purposes of the Act
- public money was made available to Adelaide Oval SMA Limited (AOSMA) through a \$42 million loan facility.

We address the Act's requirements as three terms of reference. Terms of reference two and three are explained and discussed in sections 4 and 5.

Term of reference one is no longer applicable as explained in section 2.3.1.

On 7 August 2019 the Treasurer entered into a loan facility to provide funds to AOSMA of up to \$42 million at a fixed interest rate of 4.5% per annum to fund the hotel development. Money was appropriated from the Consolidated Account in the 2019-20 and 2020-21 State Budgets to meet drawdowns of the loan facility by AOSMA. As at 31 December 2020 the Treasurer had advanced \$42 million to AOSMA. The loan facility has a repayment period of 10 years.

Construction of the hotel was substantively completed in September 2020 and the hotel opened for customers on 25 September 2020.

For this designated reporting period our review focussed on:

- assessing the public accounts used to make loan funds available to AOSMA for the hotel development
- whether loan funds were used for purposes allowed for under the loan agreement
- arrangements put in place by AOSMA to manage hotel construction activity
- the processes established by the South Australian Government Financing Authority (SAFA) to manage the loan arrangement and ensure the obligations of AOSMA and the State are met.

Section 3 provides further background about the hotel development and loan arrangement.

As discussed in section 2.3.3, this is my last report on the hotel development under the Act.

1.2 Conclusion

The audit conclusions on each term of reference for the six-month period to 31 December 2020 are as follows.

1.2.1 Term of reference one

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

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

Due to the effect of section 8(2) of the Act our obligation to report on this section ceased on 1 December 2019.

1.2.2 Term of reference two

We found that the state of the public accounts that are relevant to the Adelaide Oval Hotel development was satisfactory.

1.2.3 Term of reference three

On the basis of information obtained and reviewed to date we have not identified anything for the designated period that indicates the public money made available for the purpose of and in connection with the Adelaide Oval Hotel development was not managed and used properly and efficiently. We did identify some areas for improvement and these are detailed in section 5.3.

2 Background

2.1 Introduction

The Act came into operation on 29 September 2011. Section 9 of the Act incorporates requirements for the financial supervision and reporting by the Auditor-General on the redevelopment of the Adelaide Oval envisaged by the Act. This Report discharges those requirements.

This is the nineteenth Report to the Parliament on the Adelaide Oval redevelopment. For the purpose of this designated period the Adelaide Oval redevelopment involves the design and construction of a hotel (the Adelaide Oval Hotel development). Section 2.3 explains how my reporting obligations under the Act apply to this project.

2.2 Structure of this Report

Section 1 provides an executive summary of the matters arising from the audit for the three reporting terms of reference provided in the Act.

My substantive Report is in sections 4 and 5, which cover the two remaining terms of reference. In addressing them I have provided an overview of my understanding of, and the approach taken to address, each term of reference and the outcome of my audit.

2.3 Requirements of the Act relevant to this Report

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

- Section 9(1)(a) – the extent to which money has been made available or expended within the \$535 million limit specified by the Act during the designated period.
- Section 9(1)(b) – the state of the public accounts that are relevant to the redevelopment of Adelaide Oval envisaged by the Act.
- Section 9(1)(c) – the extent to which it appears that public money made available to any entity, including an entity that is not a public authority, for the purposes of, or in connection with, the redevelopment of Adelaide Oval envisaged by the Act has been properly and efficiently managed and used during the designated period.

I sought advice to clarify my ongoing reporting obligations after 1 December 2019, being the end date specified in the Act that the expenditure limit of \$535 million applies. After receiving this advice I formed the view that:

- reporting on the \$535 million limit ceased on 1 December 2019
- I have an ongoing obligation to monitor and report on future developments for the Adelaide Oval

- the Adelaide Oval Hotel project is a development for the purpose of the Act and I am required to report on it.

This is further discussed below.

2.3.1 Reporting on the \$535 million limit is complete

For the first term of reference, the effect of section 8(2) of the Act is that the \$535 million limit prescribed under section 8(1) ceased on 1 December 2019. Consequently, my obligation to report on the matters under section 9(1)(a) also ceased at the end of the designated period in which that date fell.

2.3.2 Ongoing monitoring and reporting on Adelaide Oval developments

The obligations under sections 9(1)(b) and (c) are not time limited and extend to any future redevelopment that would fall under section 10(3) of the Act, whether it occurred before or after 1 December 2019. This is because of the apparent purpose of section 9 (to supervise expenditure relating to redeveloping the Adelaide Oval) and the ongoing supervision of AOSMA under section 6 of the Act extending beyond the expiry of the \$535 million limit.

This means that I have an ongoing obligation to:

- monitor any future redevelopment activity on the Adelaide Oval that falls under section 10(3) of the Act
- report on this redevelopment activity under sections 9(1)(b) and (c) of the Act if public money is made available to any entity for the purpose of, or in connection with, this activity.

2.3.3 Adelaide Oval Hotel reporting obligations

Based on the ongoing monitoring and reporting obligations described in section 2.3.2, I am required to report on the Adelaide Oval Hotel development as:

- the Adelaide Oval Hotel is a development for the purposes of the Act
- public money was made available to AOSMA in the form of a \$42 million loan from the Treasurer funded from money appropriated from the Consolidated Account.

As at 31 December 2020 the loan was fully drawn down and expenditure on the hotel development was completed. Consequently, this is my last report on the Adelaide Oval Hotel development under the Act as public money made available has been fully used.

The audit approach I have taken in addressing and reporting on the terms of reference is explained in sections 4 and 5.

2.4 Comment on the terms of reference

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

Within the South Australian jurisdiction, public money may only be made available through an appropriation process, which provides Parliamentary authorisation for the application of money from the Consolidated Account. While it is a necessary first step, the appropriation process in itself does not make funds available to agencies. Money will only be available for expenditure by agencies when they draw down appropriation funding from the Consolidated Account. Both agencies and officers of the Department of Treasury and Finance (DTF) exercise some discretion in determining if, and when, appropriation funding is drawn down.

My capacity to respond to the requirements of the Act is supported by the provisions of the *Public Finance and Audit Act 1987* (PFAA) that empower me to require parties to provide information and explanations and obliges the parties to respond to my requests.

2.5 Approach to the review and preparing this Report

In preparing this Report, as required by section 9 of the Act, we identified and reviewed relevant documentation and other information.

Consistent with established audit practice, our review considered a sample of transactions and associated documentation and information. The matters addressed in this Report reflect our understanding of the documentation and other information we considered at the time of preparing it.

3 Adelaide Oval Hotel development

3.1 Background

In November 2018 AOSMA and the SA Government announced a project to construct a hotel at the Adelaide Oval integrated into the eastern façade of the existing stadium structure.

On 30 June 2019 the then Minister¹ consented to AOSMA undertaking a hotel development at the Adelaide Oval.

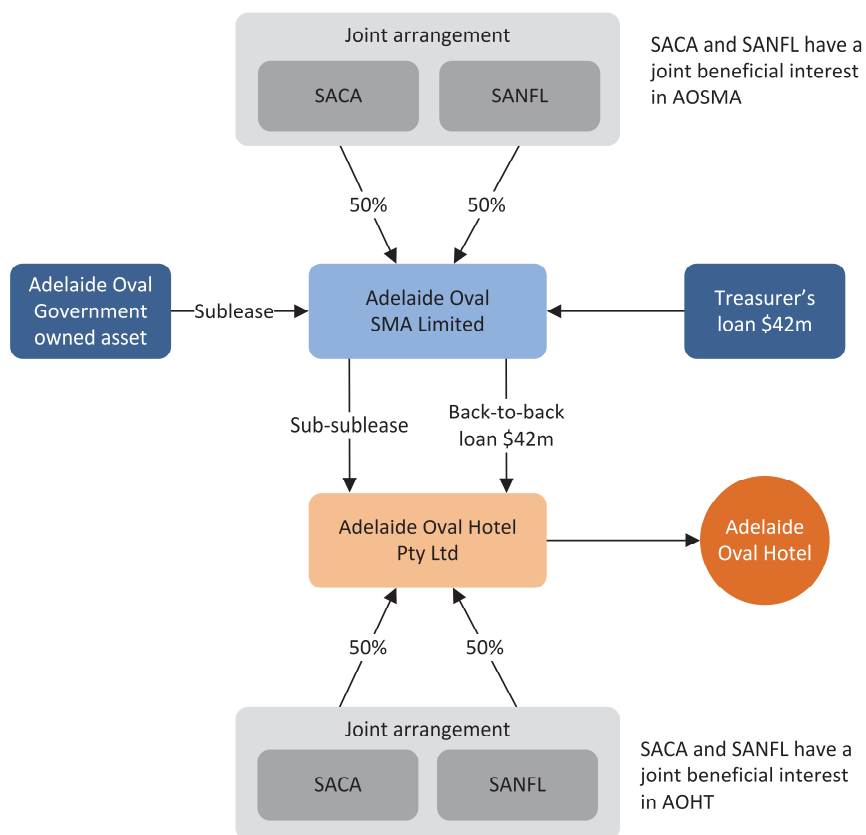
Adelaide Oval is owned by the SA Government and subleased to AOSMA for 80 years.

The hotel development and operations are being managed by a separate trust company, the Adelaide Oval Hotel Pty Ltd² (AOHT), under a sub-sublease and licence agreement with AOSMA. AOHT is a jointly controlled entity of the South Australian National Football League (SANFL) and the South Australian Cricket Association (SACA).

To finance the hotel build, AOSMA entered into a loan facility agreement with the Treasurer on 7 August 2019, then entered into a back-to-back loan agreement with AOHT to on-lend these funds.

Figure 3.1 provides an overview of the hotel development arrangements.

Figure 3.1: Adelaide Oval Hotel development arrangements



¹ Minister for Transport, Infrastructure and Local Government.

² The Adelaide Oval Hotel Pty Ltd is trustee for the Adelaide Oval Hotel Trust.

AOHT and Built Environs Pty Ltd entered into a construction contract on 1 July 2019 to construct a 138-room hotel. Major works construction commenced onsite in October 2019.

Design was overseen by COX Architecture and the project was managed by Mott MacDonald, the same team responsible for the redevelopment of the Adelaide Oval stadium.

Any capital improvements made to the Adelaide Oval stadium, including the hotel, will revert to SA Government ownership at the end of the 80-year sublease.

3.2 Loan provided to AOSMA to fund the hotel development

On 22 October 2018 the SA Government approved the Treasurer providing a loan to AOSMA to assist with construction of the hotel.

The loan agreement between the Treasurer and AOSMA was executed on 7 August 2019 and provided AOSMA with a loan facility of up to \$42 million to fund the hotel development.

Money was appropriated from the Consolidated Account to the Treasury and Finance Administered Items account in the State Budget³ to meet the loan drawdowns by AOSMA.

3.3 Status of the hotel development at 31 December 2020

On 31 August 2020, AOSMA and Built Environs entered into a Deed of Settlement and Amendment to settle various claims relating to the construction contract and avoid the costs, inconvenience and uncertainty of further disputes. The original date for practical completion under the construction contract was 31 August 2020, but through the deed six extension of time days were granted to the builder, bringing the revised date for practical completion to 7 September 2020.

The hotel reached conditional practical completion on 7 September 2020, which triggers the start of a 12-month defects liability period⁴ during which Built Environs is liable to rectify any defective work that becomes apparent.

The hotel opened to the public on 25 September 2020. AOSMA advised us that this was well received and that occupancy rates through to 31 December 2020 were pleasing despite the tough economic climate.

Figure 3.2 shows the completed five-storey hotel wrapped around the eastern façade of the stadium. It comprises two elevated wings on either side of the east gate that house the 138 rooms, linked by a central reception pod above the east gate.

³ 2019-20 State Budget Paper 4 *Agency Statements*, Volume 4, page 187 and 2020-21 State Budget Paper 4 *Agency Statements*, Volume 4, page 198.

⁴ The defects liability period expires on 6 September 2021 unless otherwise extended.

Figure 3.2: Adelaide Oval Hotel development



Source: AOSMA.

Section 3.4 provides more detail about the practical completion milestone and defect management arrangements.

3.4 Construction arrangements

3.4.1 Key parties involved with the hotel build

Figure 3.3 summarises the key parties involved with the design and construction of the hotel and their roles.

Figure 3.3: Roles of key parties

Entity	Role
Built Environs	Builder
Mott MacDonald	Superintendent/Project manager
Cox Architecture	Architect
Mott MacDonald	Engineering
Rider Levett Bucknall	Cost manager
BuildSurv	Building certifier
MasterPlan	Development planner

Contracts for architecture and engineering services were novated from AOHT to Built Environs.

3.4.2 Interface between the hotel and stadium infrastructure

The 138-room hotel wraps around the exterior of the Adelaide Oval stadium and is integrated into the eastern façade. Figure 3.4 is an aerial view of the hotel and stadium.

Figure 3.4: Adelaide Oval Hotel integration with stadium



Source: AOSMA.

Mott MacDonald advised us that some demolition works to the existing stadium were required to facilitate the project. These included:

- partially removing the Eastern Grandstand façade cladding
- partially demolishing the Eastern Grandstand popouts
- penetrations in existing lift cores.

The hotel building is a lean-to structure which relies on the stability of the existing stadium. The hotel structure is cantilevered off the stadium building and designed using a lightweight construction system to minimise the need for additional strengthening of the existing stadium. Figure 3.5 shows the hotel elevated over the eastern pedestrian plaza and the supporting structure incorporated into the existing plaza slab.

Figure 3.5: Elevated hotel over eastern pedestrian plaza



3.4.3 Achievement of practical completion

Full practical completion⁵ was not achieved as some requirements necessary to achieve practical completion were incomplete. Instead, as allowed for under the construction contract, conditional practical completion was granted by the project's superintendent.⁶ The superintendent noted in the conditional certificate of practical completion that the incomplete requirements did not prevent the works from being reasonably capable of being used for their stated purpose.

As at 31 December 2020, most of the incomplete requirements had been completed. AOSMA advised us that the main outstanding matters related to completing work associated with the façade and rectifying minor interior defects.

Full practical completion will be granted by the superintendent once all incomplete requirements are rectified to their satisfaction. The superintendent advised us that this is expected to occur at the end of the defects liability period.

3.4.4 Defects management

The project is currently in a 12-month defects liability period, which is due to expire on 6 September 2021 unless it is extended.

Substantial progress has been made by the builder to close out defects throughout the project. The most recent project management report on defects indicated that as at 10 February 2021 there were 17 open items, 401 items ready for inspection and/or work undertaken and 88 items under review. The superintendent advised us that this number of defects was not considered abnormal for the size, scale and type of development, and that most were minor.

AOSMA also advised us that most of the unresolved defects are non-structural and minor in nature.

AOHT has retained a bank guarantee that will only be released once defects and any other outstanding works are completed to the superintendent's satisfaction.

3.5 Loan arrangements

3.5.1 Key features of the arrangements

The Treasurer has provided a \$42 million loan to AOSMA at a fixed interest rate of 4.5% per annum to fund the hotel development. The loan funds may only be used for specific purposes defined in the loan agreement.

⁵ Practical completion is the stage reached when a project is essentially completed and fit for its intended purpose, except for minor omissions and defects that do not prevent its use, and with tests required under the contract having been carried out. It is marked by the superintendent issuing a certificate of practical completion to the builder.

⁶ The superintendent's role is to administer the construction contract and includes certifying tasks under the construction contract independent of AOHT and the builder.

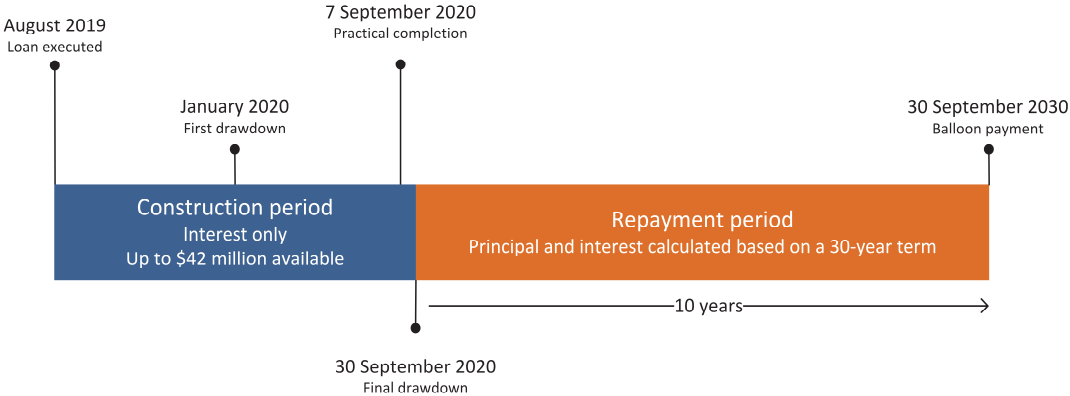
The loan agreement provides for the loan to be drawn down in instalments on the achievement of 11 agreed construction performance milestones. AOSMA is required to provide evidence to the Treasurer’s satisfaction that the performance milestones have been achieved prior to each advance.

Interest only repayments were required during the construction period. Due to the financial impact of the COVID-19 pandemic on AOSMA’s operations, the Treasurer approved that interest on the loan that would otherwise be payable during the construction period be deferred and capitalised for the six-months to 30 September 2020.⁷

Quarterly principal and interest repayments commenced from 30 September 2020. The loan is repayable in full 10 years from this date, with a balloon payment at the end of the 10-year term.⁸

Figure 3.6 summarises these arrangements.

Figure 3.6: Loan timeline



SACA and the SANFL are guarantors, limited to 50% of the loan amount capped at \$21 million each. However, as noted in SAFA’s assessment of the loan proposal in 2018, the guarantors and AOSMA have no real property to offer as security. The main security is therefore the hotel business cash flows.

The loan agreement appoints certain SAFA officers as Treasurer’s representatives to exercise certain powers and functions of the Treasurer under the Treasurer’s facility documents. Contract management staff from SAFA are responsible for ensuring that both the State and AOSMA comply with their obligations under the facility agreement.

3.5.2 Status of the loan

To 31 December 2020, the Treasurer had advanced \$42 million to AOSMA for 11 performance milestones that are linked to construction progress. The final drawdown, linked to the date of practical completion, occurred on 30 September 2020. On the same day, deferred interest of

⁷ The loan agreement provides the Treasurer with authority to capitalise interest on the loan. Approval was provided by the Treasurer on 31 March 2020. The Treasurer has not approved any other variations to the loan arrangements.
⁸ The loan is a principal and interest loan with repayments calculated based on the loan amortising to \$0 over 30 years. A large payment, referred to as a balloon payment, is required at the end of year 10 to repay the loan in full.

\$646 000 was capitalised into the loan balance, bringing the total loan to \$42.6 million.

As described in section 3.4.3, conditional practical completion was issued as some works and actions necessary to achieve full practical completion were incomplete. Notwithstanding this, SAFA considered that the intent of the final performance milestone had been satisfactorily met and therefore that it was appropriate to make the final advance.

Figure 3.7 shows the date and amount of each advance made.

Figure 3.7: Money advanced to AOSMA for the Adelaide Oval Hotel to 31 December 2020

Performance milestone	Date of advance	Amount advanced \$million
Performance milestone 1	24 January 2020	7.4
Performance milestone 2	10 March 2020	3.8
Performance milestone 3	27 March 2020	4.1
Performance milestone 4	30 April 2020	4.9
Performance milestone 5	28 May 2020	4.0
Performance milestone 6	26 June 2020	4.6
Performance milestone 7	30 July 2020	5.7
Performance milestones 8 and 9	28 August 2020	4.4
Performance milestones 10 and 11	30 September 2020	3.1
Total advances to 31 December 2020		42.0

The closing balance of the loan at 31 December 2020 was \$42.5 million reflecting amounts advanced, accrued interest and repayments received from AOSMA. Figure 3.8 shows the loan status at 31 December 2020 and activity during the designated period.

Figure 3.8: Loan status at 31 December 2020

	\$000
Opening balance as at 1 July 2020	28 801
Money advanced to 31 December 2020	13 199
Interest on money advanced to 31 December 2020	*1 126
Fees and charges on money advanced to 31 December 2020	-
<i>Less payments received to 31 December 2020:</i>	
Principal	170
Interest	480
Fees and charges	-
Total payments received to 31 December 2020	650
Closing balance as at 31 December 2020	42 476
Amounts overdue as at 31 December 2020	-

* Includes \$646 000 interest capitalised on 30 September 2020.

3.5.3 Repayment schedule

Figure 3.9 shows the profile of the loan balance from the first advance in January 2020 to the final balloon repayment that is expected to occur on 30 September 2030.

Figure 3.9: Loan balance

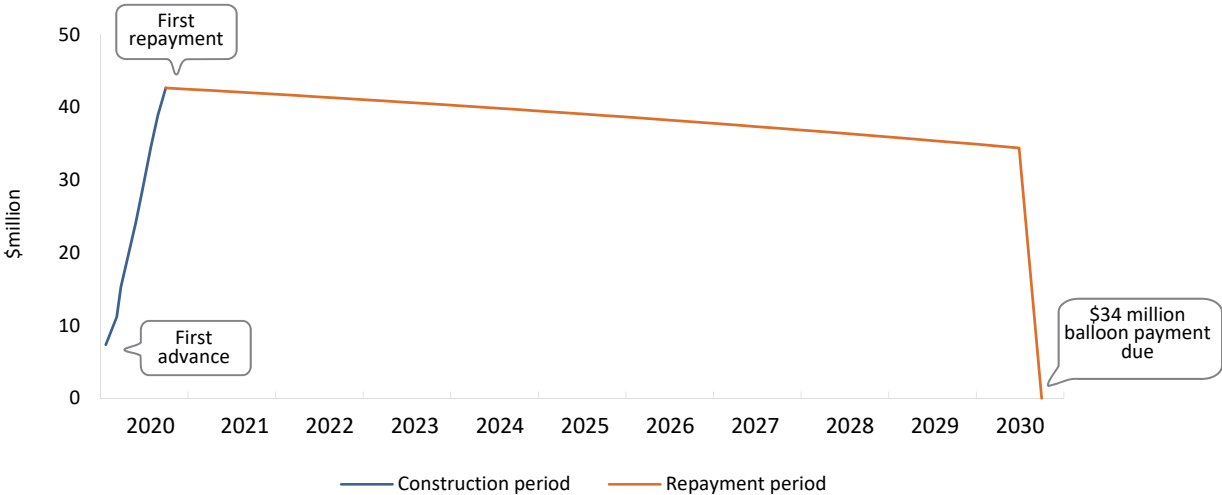


Figure 3.9 shows that relatively modest principal repayments are due before the \$34 million balloon repayment at the end of the loan term. This large lump sum will need to be funded through the hotel’s operating cash flows, by refinancing, or entering into alternative arrangements.

4 Term of reference two

4.1 Background

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

the state of the public accounts that are relevant to the redevelopment of Adelaide Oval envisaged by this Act.

The Act defines public accounts in the same terms as the PFAA:

public accounts means the Consolidated Account, special deposit accounts, deposit accounts, accounts of money deposited by the Treasurer with SAFA, imprest accounts and all other accounts shown in the general ledger.

In this context the general ledger is the Treasurer's ledger, which comprises accounts that summarise the financial transactions of the Treasurer.

I have understood the term 'state' to mean both the financial position and condition, circumstances or attributes of the public accounts. Specific matters considered in evaluating the state of the public accounts include whether the public accounts have been operated lawfully in line with the requirements of the PFAA and associated Treasurer's Instructions. I also considered whether the public accounts have been operated in a way that supports my reporting on the extent that money made available to any entity for the purposes of, or in connection with, the redevelopment of Adelaide Oval envisaged by this Act has been properly and efficiently managed and used.

4.2 Approach to evaluating the state of public accounts relevant to the Adelaide Oval redevelopment

We enquired with relevant agency staff to identify the accounts through which public money has been made available.

Having identified the public accounts relevant to redeveloping Adelaide Oval, we identified the financial systems, records and controls used by the agencies to process and control money made available for the redevelopment (ie the design and construction of the Adelaide Oval Hotel). In evaluating the state of the public accounts we have considered whether the:

- purpose of the accounts, established under the PFAA, was consistent with their use to record and control money made available for the redevelopment
- detailed records supported both the agencies' effective management and control of the activity and public accountability required by the Act.

We also considered matters that were identified by the ongoing audit of the agencies' financial systems and records and the impact of these matters on the assessment of the state of the public accounts required by the Act.

4.3 Findings for term of reference two

The financial activity associated with the Adelaide Oval redevelopment from 1 July 2020 to 31 December 2020 involved advancing funds to AOSMA in line with the loan provided by the Treasurer to construct the hotel.

We confirmed that the public accounts relevant to the designated review period 1 July 2020 to 31 December 2020 were:

- the Consolidated Account
- special deposit account: Treasury and Finance Administered Items Account
- Treasurer's ledger account: Adelaide Oval SMA Treasurer's loans
- Treasurer's ledger account: Adelaide Oval SMA interest recoveries.

The public authorities responsible for operating these accounts are DTF and SAFA.

For term of reference two, on the basis of information obtained and reviewed to date, we found that the state of the public accounts that are relevant to the Adelaide Oval Hotel development was satisfactory.

4.3.1 Maintaining the Treasurer's ledger and SAFA's loans administration system

DTF's Financial Management, Reporting and Policy branch is responsible for administering Consolidated Account activities including operating and maintaining the Treasurer's ledger. These activities are performed by SAFA on behalf of the Financial Management, Reporting and Policy branch.

SAFA is responsible for administering Adelaide Oval Hotel loan transactions through its loans administration system, which records all financial information associated with the loan including payments made to AOSMA, repayments received and interest charges. Information from the loans administration system is transferred to the Treasurer's ledger. As such SAFA is responsible for maintaining adequate records to support loan transactions.

Our enquiry and testing for the current designated reporting period confirmed that DTF and SAFA procedures ensured the loan provided to AOSMA was correctly established and recorded in the Treasurer's ledger.

5 Term of reference three

5.1 Background

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

the extent to which it appears that public money made available to any entity, including an entity that is not a public authority, for the purposes of, or in connection with, the redevelopment of Adelaide Oval envisaged by this Act has been properly and efficiently managed and used during the designated period.

5.1.1 Public money made available

Within the South Australian jurisdiction, public money may only be made available through an appropriation process, which provides Parliamentary authorisation for the application of money from the Consolidated Account. Money was appropriated from the Consolidated Account in the 2019-20 and 2020-21 State Budgets to meet the loan facility drawdowns by AOSMA. This money was managed through the Treasury and Finance Administered Items Account special deposit account.

5.1.2 Proper and efficient management and use of public money

This term of reference requires the Auditor-General to express an opinion on whether the management and use of public money by an entity for the purposes of, or in connection with, the Adelaide Oval redevelopment was proper and efficient.

In responding to this term of reference the term ‘managed’ is understood to mean the way money is handled, directed, governed or controlled and the term ‘used’ is understood to mean the way money is consumed or expended.

Whether money has been ‘properly’ managed and used in the context of the Act and loan for hotel construction requires an assessment of whether:

- loan funds have been used for purposes allowed for under the loan agreement
- construction activity, including the management of project risks impacting State-owned Adelaide Oval infrastructure, is in line with contractual documentation and generally accepted standards of practice and behaviour.
- loan administration arrangements reflect generally accepted standards of financial management practice and behaviour.

Whether money has been ‘efficiently’ managed and used requires an assessment of whether money was used to progress the Adelaide Oval Hotel development, including whether loan funds were:

- necessary to complete the project
- managed to enable the project to progress in line with required time frames and milestones.

5.2 Approach to evaluating whether the management and use of money for the Adelaide Oval redevelopment was proper and efficient

The Adelaide Oval Hotel development involves providing public money to AOSMA through a loan and the expenditure of the money on the construction activity. The money loaned to AOSMA is required to be repaid to the Treasurer in line with the loan agreement, as explained in section 3.

The parties and their responsibilities for the management and use of the public money are summarised in figure 5.1.

Figure 5.1: Key parties and responsibilities

Entity	Responsibility
DTF	Manage Consolidated Account activities.
SAFA	Manage loan.
Department for Infrastructure and Transport (DIT)	Owner of State asset – Adelaide Oval. Manage sublease to AOSMA for use of the Adelaide Oval core area.
AOSMA	Manage, operate and maintain Adelaide Oval in line with the sublease. Provide resources to Adelaide Oval Hotel Pty Ltd as required to develop and operate the hotel.
Adelaide Oval Hotel Pty Ltd	Trustee for the Adelaide Oval Hotel Trust. Develop and operate the Adelaide Oval Hotel under sub-sublease and agreement with AOSMA.

For this term of reference, the entities identified and considered by us for review are AOSMA, SAFA and DTF. We looked at the controls these entities used to address whether public money made available for the redevelopment of Adelaide Oval is being used properly and efficiently.

For the designated reporting period that ended on 31 December 2020, our review of the proper and efficient use of money focussed on:

- whether loan funds were used for purposes allowed for under the loan agreement
- arrangements put in place by AOSMA to manage hotel construction activity
- the processes SAFA established to manage the loan arrangement and ensure the obligations of AOSMA and the State are met.

5.3 Findings for term of reference three

For term of reference three, on the basis of information obtained and reviewed to date, we have not identified anything for the current designated period that indicates the public money made available for the purpose of and in connection with providing loan funds for the Adelaide Oval Hotel development was not managed and used properly and efficiently.

We found that AOSMA had established arrangements to manage the risks arising from hotel construction activity including:

- assessments to identify impacts to the integrity of stadium infrastructure
- verification processes to assess whether the hotel is fit for purpose and the construction meets the building code
- verification processes to assess whether practical completion was achieved in line with contractual requirements
- defect management processes
- governance arrangements to oversee project delivery and manage construction risks.

We also found that SAFA had established practices to manage the loan including:

- a procedure manual
- a purpose built contract management system to manage loan obligations
- checklists and review processes to assess compliance with drawdown requirements
- a file management system to store records and easily access them.

Further, our testing found that the \$42 million advanced to AOSMA was materially spent on the construction of the hotel in line with the loan agreement. SAFA provided commentary on this matter in their response in section 5.3.6.

In reviewing these arrangements we also noted areas for improvement.

5.3.1 Opportunity to improve project management reporting during the defects liability period

The AOHT Board is responsible for overseeing project delivery and managing construction risks.

Our audit focussed on project reporting to the AOHT Board on hotel construction for the defects liability period that commenced on 7 September 2020.

We found that the extent and nature of reporting during this period varied. A facility report was provided to the AOHT Board in December 2020 that contained relevant information on the nature and status of the top five defects for the hotel construction. We consider this reporting could be improved by including metrics on defects (ie number of defects open, in dispute and closed) and detail about any emerging risks and issues.

Further, we found that information provided to the AOHT Board on the hotel construction in the months prior to December 2020 focussed on operational matters associated with the hotel opening and contained limited information on defect metrics or detail about the nature of significant defects, risks and issues.

Regular reporting to the Board on the quantum, status and nature of these defects and any other relevant matters will help them monitor the satisfactory resolution of these defects and matters.

AOSMA advised us that the facility report is now a standing agenda item at AOHT Board meetings.

We recommend that AOSMA consider providing regular summarised project reporting on the hotel construction to the AOHT Board during the defects liability period including metrics on the status of defects (eg number of defects open, in dispute, closed etc) and the nature/status of significant defects, as well as details of any other relevant risks and issues.

AOSMA response

AOSMA notes the recommendation and confirms that project reporting will remain a standing agenda item at AOHT Board meetings throughout the defects liability period.

AOSMA will consider reviewing the content and detail in project reporting provided to the AOHT Board.

5.3.2 Documentation of incomplete conditional practical completion requirements could be clearer

As explained in section 3.4.3, full practical completion was not achieved as some requirements necessary to achieve practical completion were incomplete. Instead, as allowed for under the construction contract, conditional practical completion was granted by the superintendent.

Our review of the completion checklist accompanying the conditional certificate of practical completion found that the incomplete requirements were not clearly documented on the attached checklist. Specifically, we found that while some items were clearly recorded as 'complete', the status of other items was not clearly stated. The superintendent and AOSMA advised us that these items were partially incomplete and knowledge of the documents referred to in the checklist was needed to understand the status and nature of them.

AOSMA referred this matter to the superintendent who advised us that:

The document and documentation provided at Conditional Practical Completion addressed the issues required by it, in order to document the incomplete and defective work. The degree to which the document was legible was appropriate for the intended readership.

Further, AOSMA advised us that:

The conditional certificate of practical completion and accompanying completion checklist are highly technical documents that provide legal protection to the client and protect its interests moving forward. Adequate explanation and guidance has been provided to the client by the superintendent.

We recommend that for future projects, incomplete requirements are clearly documented to enable effective monitoring of progress made in rectifying outstanding matters in line with contractual requirements. Clear documentation will also help users of the information,

including management and agencies such as SAFA and DIT, to properly understand the nature and extent of outstanding requirements.

AOSMA response

AOSMA notes the recommendation and will discuss this with the superintendent for any future redevelopments that come under the Act.

5.3.3 Oversight of hotel development risks

Our prior report recommended that DTF work with relevant SA Government stakeholders, including DIT, to establish oversight and governance processes to manage asset ownership and management risks relating to the hotel development. We also recommended that a risk assessment be performed and risk management processes be established.

Our follow-up found that SAFA met with DIT officers to discuss how oversight of the Adelaide Oval assets including the hotel development could be managed going forward. SAFA advised us that arrangements had not been finalised to address the matters we raised and our recommendations.

Although the hotel construction is complete, risks impacting the SA Government as asset owner may exist during the defect liability period and need to be monitored and managed. It is therefore important that the SA Government ensures that responsibilities for the ongoing oversight of these risks are clear and that the risks are effectively managed.

We recommend that:

- the SA Government considers establishing an approach to managing risks associated with the hotel development during the defects liability period
- for future loans with cross-agency responsibilities, relevant SA Government agencies engage with each other early to establish oversight and risk management arrangements from the outset.

SAFA response

SAFA determined that receipt of the certificate of practical completion was sufficient to meet the requirements for the final drawdown under the loan facility. Management of the risks associated with any outstanding defects during the defect liability period is the responsibility of AOHT. Under the terms of the facility agreement, the Treasurer has the right to request information in relation to the hotel development. SAFA may therefore request AOSMA provide an update on the status of any outstanding defects prior to expiry of the defects liability period.

SAFA notes the recommendation to engage with other SA Government agencies early in the process to agree oversight and risk management arrangements for future loans that have cross-agency responsibility. Whilst each project will have unique circumstances, SAFA agrees that consideration should be given to this and a determination made where applicable.

5.3.4 Consider obtaining additional information on AOHT's financial performance and position

Although the loan agreement is between the Treasurer and AOSMA (the borrower), loan repayments are ultimately being serviced by AOHT through cash flows from its hotel operations. It is therefore important that the SA Government monitors AOHT's ability to service the debt, particularly given the hotel's lack of trading history and the ongoing impact of COVID-19 on the hotel/hospitality sector.

The loan agreement allows the Treasurer to request other reports and information in relation to the borrower, guarantors and the project as may be reasonably required by the Treasurer.

At present AOSMA only provides AOHT's annual financial statements to SAFA.

SAFA advised us that it has not requested additional information on AOHT's operations as AOSMA is meeting its loan repayments. It advised that additional information would be requested if a repayment was missed or if SAFA became aware of any potential issues with the performance of the hotel that warranted further review.

We recommend that the Treasurer considers exercising his rights under the loan agreement to request AOSMA to provide relevant financial information on AOHT's operations to improve monitoring of AOHT's ability to service the debt. This may include information about the hotel's planned operations, such as its annual operations budget and/or management reports throughout the year (ie periodic profit and loss statements and balance sheet reports). This would enable SAFA to initiate discussions with AOSMA about any financial concerns and enable AOSMA to put in place remedial actions before any event of default occurs.

SAFA response

SAFA notes the recommendation. As the Adelaide Oval Hotel opened on 25 September 2020, there is only one financial quarter of operating results available to review AOHT's financial performance and ability to service its debt. SAFA may deem it advisable to request interim financial results or budgets from AOHT for inclusion in SAFA's financial reviews of the loan facility. SAFA notes that AOSMA has always been responsive and cooperative in providing the financial information SAFA has requested under the terms of the facility agreement.

5.3.5 Audited financial statements of guarantors should be obtained where possible

The loan agreement requires AOSMA to provide the Treasurer with annual financial statements for each guarantor. We found that the agreement does not require these financial statements to be the audited versions.

SAFA uses the financial statements to assess the financial performance and position of guarantors, in particular:

- their balance sheet strength and solvency
- any change in debt levels
- AOHT's ability to service the debt.

It would be prudent and sound practice for SAFA to perform its assessment using audited information where possible, as unaudited information may contain errors or changes that impact its conclusions.

We recommend that SAFA obtains and uses audited versions of financial statements where guarantors are required to prepare audited financial statements in the ordinary course of their business.

SAFA response

SAFA notes the recommendation and agrees that SAFA will request and review the audited financial statements if they are prepared by the guarantors in the ordinary course of business. SAFA understands that AOHT's future annual statements provided under the loan facility agreement will be audited.

AOSMA response

The audited financial statements of the guarantors will be provided to SAFA in any event.

5.3.6 Implement additional processes to get assurance that loan funds are used for eligible expenses in line with the loan agreement

The loan agreement requires loan funds to only be used to pay or reimburse eligible expenses.

We found that SAFA did not have oversight of how loan funds were used by AOSMA at a transactional level to assess if they were used for eligible purposes. SAFA mainly relied on the quantity surveyor's reports and representations from AOSMA.

For future loans, we recommend that SAFA considers implementing processes to get assurance that loan funds were used for eligible expenses. This could involve examining a sample of transactions using a risk based approach. Alternatively, where an independent project certificate is provided, SAFA could request the preparer of the certificate to provide assurance that loan funds were used for eligible expenses.

SAFA response

SAFA relied on the financial reports prepared by the quantity surveyor which certified the total amount for each drawdown. The quantity surveyor reviewed the builder's progress claims and tax invoices, as well as the consultant costs provided by AOHT. The quantity surveyor certified construction costs that totalled 93% of the loan funds advanced. The total project budget was

\$45 million. AOSMA and AOHT contributed the funds for the furniture, fittings and equipment (the estimated cost in the project budget was \$3 million) plus additional costs relating to completion of the hotel. SAFA was therefore satisfied that in aggregate, eligible expenses incurred to complete the project were in excess of the loan amount advanced under the Treasurer's loan facility. The borrower's representations provided further assurance to SAFA.

SAFA notes the recommendations relating to processes for future loans. SAFA may request provision of invoices, other supporting documentation and/or further assurance to confirm the loan funds will be used for eligible expenses where appropriate.

5.3.7 Establish mechanisms to review the impact of variations on the Treasurer's position and rights before they are executed

The loan agreement requires AOSMA to obtain the Treasurer's written consent to vary the terms of a material document in a way that is reasonably likely to be material to the Treasurer's position or rights under the loan facility.

We noted that on 31 August 2020, AOHT and the builder (Built Environs) entered into a Deed of Settlement and Amendment in relation to the construction contract (which is defined as a material document in the loan agreement). AOSMA provided the Deed to SAFA after it was executed, meaning SAFA could not consider its impacts and provide constructive feedback before it was finalised.

In this instance SAFA concluded that the Deed did not have any material impacts to the Treasurer's position or rights under the loan facility. If the same process is followed for future variations there is a risk that variations adversely impacting the Treasurer's position or rights could be executed without consultation with SAFA and appropriate consent being given.

We recommend that SAFA engages with AOSMA to:

- clarify SAFA's expectation under the loan agreement that it be informed of any proposed variations to material documents
- implement a mechanism to enable SAFA to review the impact of variations before they are finalised in line with those expectations.

SAFA response

SAFA notes the recommendation and will discuss this with AOSMA.

