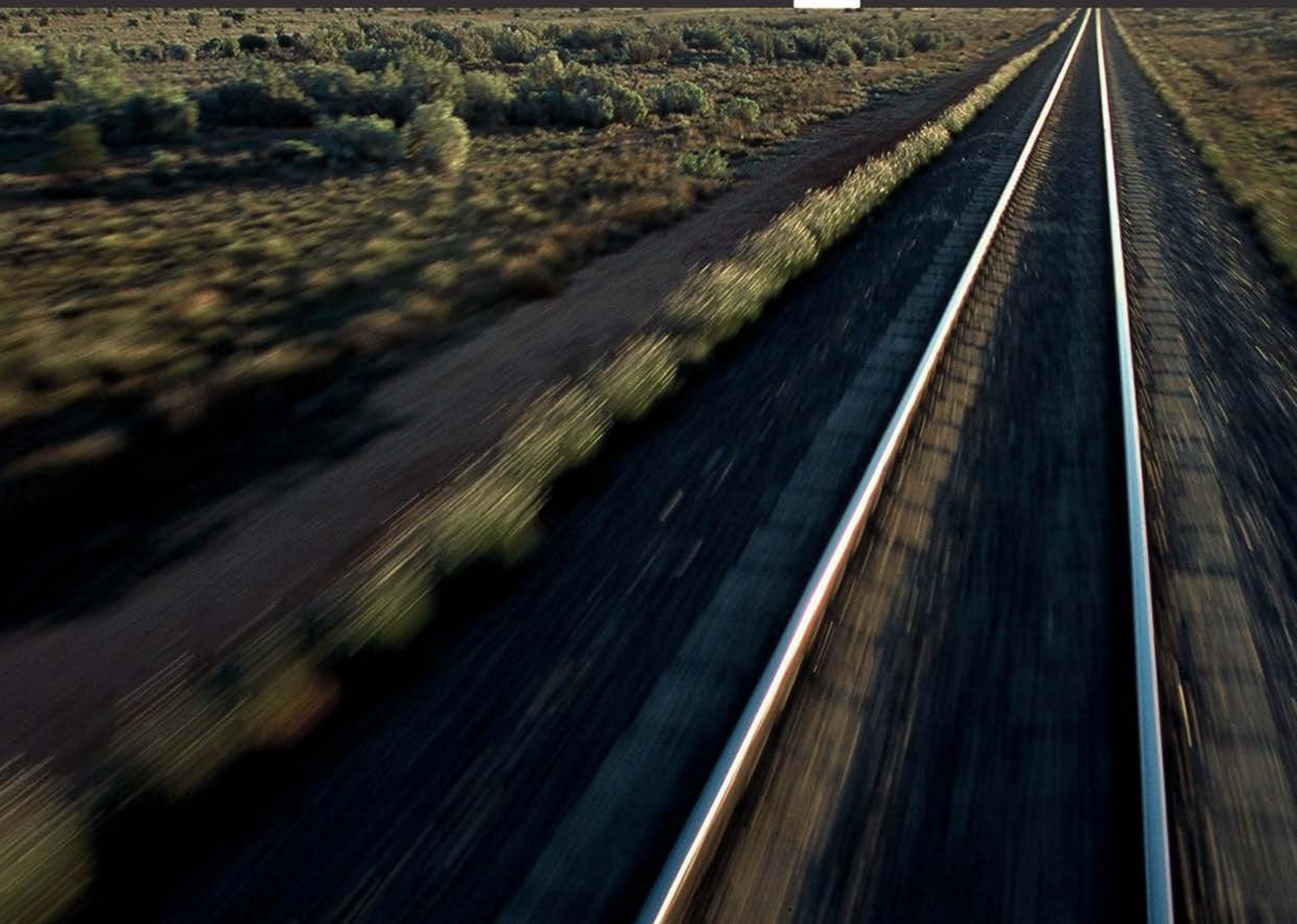


**Submission to Joint Committee of  
Public Accounts and Audit on:**

Inquiry into Commonwealth Procurement -  
ANAO Audit Report No.9 (2017-18)  
Management of the Pre-construction  
Phase of the Inland Rail Programme

24 January 2018

**ARTC**



## BACKGROUND

On 27 September 2017, the Australian National Audit Office's (ANAO) tabled Audit Report No. 9 (2017-18) (the Report) to the Australian Parliament, assessing whether value for money was being delivered by the Australian Rail Track Corporation's (ARTC) management of the pre-construction phase of the Inland Rail Programme.

The Report covered the initial period of the pre-construction phase of Inland Rail from 2014 until the Australian Government announced ARTC as the delivery agent for the entire project in May 2017. The Report contained three recommendations for ARTC improvements which relate to risk management, records management and procurement practices.

The report included ARTC's response to the ANAO's recommendations. ARTC agreed with the ANAO recommendations and work is currently underway by ARTC to address all three recommendations.

In December 2017, the ARTC was informed the Joint Committee of Public Accounts and Audit (the Committee) would consider the Report as part of the Commonwealth Procurement inquiry. ARTC was invited to appear at the public hearing and make a submission by 25 January 2018.

## CURRENT STATUS

ARTC appreciates the Committee's request for ARTC to provide a submission to the inquiry and to provide an update on the actions the organisation has taken to address the recommendations of the ANAO. In line with the request by the Committee's Secretary, this submission seeks to provide the Committee with the following:

- an implementation status update on each of the actions underway regarding the ANAO audit recommendations,
- an outline of future plans and milestones for actions that are still to be completed, and
- other related matters such as changes made due to audit findings (but not specifically recommended in the audit) or other relevant activity.

As outlined in the Report, ARTC accepts and agrees with the recommendations put forward by the ANAO. ARTC has made solid progress against the three recommendations and will continue to undertake work on each of these as a matter of priority.

As a result of the uncertainties around funding, timing and delivery, a number of short-term procurement options were introduced, and it was necessary for ARTC to set Inland Rail up in way to allow it to be easily separated from existing operations if an alternate delivery agency was selected.

Key improvement actions relevant to the recommendations have included ARTC's work to implement new risk management and records management systems, further strengthening the contract and procurement processes and documentation, education and promotion of procurement requirements including achieving documented value for money outcomes, monitoring and oversight at a senior level.

In addition, ARTC is actively pursuing opportunities for broader and enhanced use of functionality available within its business systems in relation to procurement management and associated monitoring.

A number of improvements beyond those identified in response to these recommendations have also been introduced by ARTC or are planned to ensure the company has the systems and processes in place to effectively deliver the Inland Rail programme, while continuing to manage and operate the existing rail network business.

The status of implementation against each recommendation is set out below:

## **Recommendation 1 - Risk Management**

*To improve the management of risk, the Australian Rail Track Corporation is accelerating the implementation of a fit-for-purpose risk management system for the Inland Rail programme.*

Following the Australian Government's funding commitment in May 2017 to the Inland Rail programme's delivery by ARTC, a review of business needs for the ongoing management of Inland Rail was completed. This included identifying delivery risks and reviewing options for the implementation of a suitable risk management system. Internal engagement throughout the business and with shareholder departments was completed at this stage to ensure a risk management system, capable of accommodating future needs at both a project and corporate level, would be implemented.

ARTC is proceeding with a tender process to implement a new risk management system to appropriately manage risks associated with all corporate and project management functions. In the interim, ARTC manages project risks (including Inland Rail) utilising a series of individual project risk registers with adherence to established ARTC corporate risk management procedures. These include regular risk review points for the project stages at which current and future risks are discussed and progress toward mitigation is reported to the ARTC Board Inland Rail Committee and as part of the Inland Rail governance framework that has been established in collaboration with the Commonwealth. In addition to individual project risk registers ARTC continues to utilise its existing corporate register as part of ARTC's overall risk management framework overseen by the ARTC Board.

The project to procure an Enterprise Risk Management System (ERMS) for both corporate and project risk (inclusive of Inland Rail) has progressed past the Concept Assessment Phase and is now in a Feasibility Phase. Additional project resources have been engaged and a Project Steering Committee has been established. The procurement of an ERMS is subject to monthly oversight by the ARTC Executive Committee. It is expected expressions of interest will be published on Tenderlink in late January 2018 with contracts expected to be awarded in June 2018.

## **Recommendation 2 – Records Management**

*To improve records management, ARTC is:*

- (a) revisiting the scope and timeline of the Electronic Content Management review to incorporate the Inland Rail Programme; and*
- (b) reviewing and updating its records management policies and procedures.*

Consistent with the ANAO Report recommendation, ARTC has reviewed the scope and timing of its approach to records management and is undertaking a prioritised program for upgrading its records management to ensure effective organisation, storage and retrieval of information to meet operational, legal and compliance needs.

At the time of the Report's release (fourth quarter of 2017), ARTC had invested in a new cloud-based secure project management system to primarily meet Inland Rail's need to have a management system to record and share information, like maps and drawings, with external parties. The system provides a project-wide solution for the management of workflow, including secure document storage, interface and document distribution management. The platform is being used on the world's largest construction projects and will help ARTC meet best practice.

ARTC is also implementing across the business an Enterprise Content Management solution (ECM). This is being piloted within ARTC's Corporate unit ahead of a broader roll-out. The product will enable ARTC to internally better collaborate and manage information lifecycle, classification and provide the ability to comprehensively manage auditing and reporting, as well as physical records. The ECM is scheduled to

commence implementation by end of March 2018 and will be supported by change management and training services. The implementation will be staged across ARTC. The Inland Rail Business unit will use the ECM to further enhance record management for Inland Rail.

### **Recommendation 3 – Procurement Practices**

*To support transparency and value for money in contracting arrangements for the construction of Inland Rail, ARTC:*

- (a) develops and implements policies and procedures that have suitable regard to Commonwealth procurement and contract management standards, recognising that the company is not bound by the Commonwealth Procurement Rules;*
- (b) implements full functionality and controls available in procurement and contract management system modules; and*
- (c) monitors performance in procurement and contract management through increased internal audit activity and / or the implementation of a quality assurance process.*

While the Report notes ARTC's procurement processes showed an improvement over time, ARTC has further strengthened policies and procedures for procurement and contract management and this remains a matter of significant focus at Executive Management and Board level. Key items include the strengthening of probity advice and audit capability with a combination of additional internal and external contractor resources and enhanced controls and delegations for approval of single source procurement.

A two-stage Procurement Transformation Project is also currently underway to improve the organisation's procurement maturity, guided by a cross-functional senior management Procurement Transformation Steering Committee, chaired by the Chief Financial Officer, supported by independent external resources.

The initial delivery from the first stage will update the procurement framework which is expected to be implemented in late February 2018. Key items include:

- introduction of a procurement thresholds matrix to identify the appropriate procurement process and requirements relative to the quantum and risk profile of each procurement,
- distribution of a contract manual update and guidelines that is supported by detailed process maps and decision tree style procurement tools;
  - The manual will provide further guidance internally on escalating review and documentation threshold requirements, management of standing offers and panel contracts, electronic approval / process flows and bid evaluation.
- introduction of an updated procurement template document suite focused on achieving a substantiated value for money outcome at project assessment and contract review stages, and
- reinforcement of controls regarding timing of contract execution and commencement of work.

The roll out of the updated procurement framework will include training in the updated processes to all relevant ARTC staff. Furthermore, this training will form part of ARTC staff induction modules going forward.

This update to the procurement framework includes a specific assessment to consider alignment with relevant Commonwealth guidance documents, including principles of the Commonwealth Procurement Rules, as applicable to ARTC, Resource Management Guideline 123, and Accountability Authority Instructions. As part of this development, ARTC has restructured and is expanding its procurement and contracts teams to better support tender processes and the establishment of longer-term panel contracts to ensure value for money and procurement transparency.

The second stage is expected to commence by June 2018. It will undertake a maturity assessment of ARTC's procurement from a strategic perspective and look into additional enhancement approaches. The business case for this phase of the project has been developed and is currently under review by the

Procurement Transformation Steering Committee. It will include further enhancements to ARTC's broader use of its core finance system (CI Financials) to support procurement approval, tracking and reporting. This will be implemented through a staged process, recognising there are significantly different requirements between the major scale construction associated with Inland Rail and ARTC's existing operational business. Further work will also be undertaken to enhance controls over contract extensions or contract variations.

In addition, ARTC Senior Management has focused on efforts to drive cultural change across the organisation. This is aimed at ensuring a heightened and ongoing emphasis is placed on using and documenting competitive procurement processes and due diligence when engaging suppliers, especially by delegated authorities. This is being supported by internal awareness communications from Executive and refresher training on these matters. In December 2017, ARTC also appointed a new position, the Group Executive - Corporate Services & Safety with a mandate to lead accelerating improvements in technology and systems, procurement and business assurance across ARTC's operations.

To support monitoring performance in procurement, ARTC's internal audit program has been updated to incorporate additional scope relating to Inland Rail and will be subject to ongoing assessment after all revised procurement/contract processes are implemented.

Expanded Inland Rail reporting is occurring in collaboration with shareholder representatives as an adjunct to the broader project governance framework, project development and financing agreements.

## **Other Matters**

### *Governance Arrangements*

The Report concluded the existing joint governance arrangements for the pre-construction phase of Inland Rail were appropriate. ARTC has been working closely with the shareholder departments and reporting on the ANAO recommendations, in addition to ARTC's quarterly shareholder reporting obligations.

The governance arrangements in place for the delivery of the Inland Rail Program were developed in accordance with the ANAO *Public Sector Governance: Better Practice Guide* (June 2014) to provide the Australian Government with adequate oversight and assurance. This includes the establishment of a Project Governance Framework and a senior level Sponsors Group. To support this further, a Statement of Expectations and Equity Financing Agreement have been developed with shareholder Ministers to set out the requirements between ARTC and the Australian Government.

A Project Development Agreement outlining the roles, responsibilities and accountabilities of all parties in the delivery of Inland Rail, including the agreed procurement and operational outcomes of the programme has been substantively agreed and is expected to be executed by Ministers and the ARTC Board during February 2018.

### *Property Strategy*

The ANAO stated ARTC should develop a broader corporate property plan or strategy to ensure value for money in its office accommodation. ARTC's strategic approach to property focuses on achieving value for money by securing cost effective facilities that are fit for purpose to meet business and/or project needs and this has been applied for Inland Rail. Where practical this includes co-locating staff within existing ARTC accommodation as well as selective leasing to ensure cost effective, flexible occupancy. In regional centres, the Inland Rail programme seeks to establish centres at appropriate locations to ensure a local presence. This will assist with interaction and engagement with the community, businesses and stakeholders.

ARTC has recently restructured executive responsibility for Property Strategy at a corporate level and is preparing a framework and guiding principles for the alignment of ARTC's property portfolio with its service objectives, which is expected to be finalised in the first quarter of 2018-19.

### *Staff Arrangements*

The Report also makes an observation regarding the need to have appropriate procurement processes in place to ensure transparency and value for money in securing contracted staff.

As the project delivery approach and funding have been clarified, ARTC has been progressively undertaking a transition away from contracted staff to direct employment in order to provide improved staff continuity, cost effectiveness and engagement. Going forward ARTC will continue to assess the balance of needs of the programme with recruitment arrangements to provide flexibility to meet changing project timetables and work activity levels. ARTC is using its internal human resources supported by a series of specialist providers engaged at competitive market rates to implement this transition.