

Joint Committee of Public Accounts and Audit
Inquiry into ANAO Report No.9 (2017-18) – Management of the Preconstruction
Phase of the Inland Rail Programme

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Appendix A

Questions on Notice (1 of 2)

Committee Question:

Proof Hansard Page: 9 (16 February 2018)

Question:

Committee Chair asked:

1. Why were references to the Commonwealth Procurement Rules removed from the Inland Rail procurement management documentation?
2. What were they replaced with?
3. What consideration did the ARTC give to the principles of the Commonwealth Procurement Rules?

Answer:

1. ARTC removed the reference to the Commonwealth Procurement Rules (CPR's) from the Inland Rail procurement management documentation hierarchy in recognition that the CPRs do not apply to the ARTC.
2. The references were not replaced.
3. The company has undertaken a further recent comprehensive review of the CPRs and given detailed consideration to their application in the conduct of procurement and contract management activities for the Inland Rail programme to ensure appropriate application of the CPR principles. The new procurement manual has been designed to align with the CPRs. The CPR's are specifically referenced in the manual and the relevant aspects are being reinforced during training sessions.

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Questions on Notice (2 of 2)

Committee Question:

Proof Hansard Page: 13 (16 February 2018)

Extract for Context:

Committee Member Mr Hill asked:

With those contingencies, if that average overrun in the order of 30 per cent were to occur, are you comfortable that you'd still make the commercial returns and maintain taxpayers' equity?

ARTC's (Mr Fullerton) Response: We've had these sensitivities done around the project. I mentioned earlier that there has been conservatism built into the volumes that the project can generate in terms of market share, pricing and the market size itself.

Question:

Committee Member Mr Hill asked:

1. If you've done that work, could you provide more information, particularly on that kind of scenario?

Answer:

1. Section 9.8 of the 2015 Inland Rail Programme Business Case (Business Case) provides the cost benefit analysis sensitivities for the project (pages 180 -187). Section 7.9 specifically provides the demand sensitivity analysis (pages 137 - 149).

Extensive financial sensitivity analysis can also be found at Section 10.6 of the Business Case (pages 204 - 215).

An electronic copy of the Business Case can be found at:

<https://inlandrail.artc.com.au/documents>

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Appendix B

Additional Question on Notice (1 of 7)

Committee Question:

Proof Hansard Page: N/A Question issued by Committee Secretary on 27 Feb 2018
(Referenced as Question 5)

Question:

1. What approach will be taken to the infrastructure / asset valuation going forward? What methodology will be used and why?
2. What valuation approach / methodologies are available for use in relation to this project?
3. What policies, standards or reporting requirements apply and need to be considered / complied with in relation to the infrastructure / asset valuation?

Answer:

1. ARTC values its infrastructure assets on a fair value basis using the income method approach in accordance with accounting standards as published by the Australian Accounting Standards Board (AASB).

Please refer to Note 7(c) of the ARTC 2017 audited financial statements. An electronic copy of the audited statements can be found at:

<https://www.artc.com.au/about/reports/annual-reports/>

The specific application of the accounting standards to the Inland Rail project is under review with specialist advisors and will be subject to audit by the Australian National Audit Office as ARTC's auditors.

For infrastructure assets, ARTC is likely to continue to use fair value and the specific methodology (cost or income method approach) will be based on which is the most appropriate and reliable method for the asset base e.g. the certainty of cash flows relating to the asset.

2. For infrastructure assets, two valuation approaches are available, cost less impairment or fair value. ARTC currently applies fair value and this is likely to be the approach for the project. The methodology for the project will be either a cost approach or income method. All non-infrastructure assets for the project will be valued at cost less impairment basis.
3. ARTC's accounting policies apply as set out in Note 7(c) of the ARTC financial statements.

ARTC is required to have regard to all published Australian Accounting Standards, Government Business Enterprise reporting requirements and the *Public Governance, Performance and Accountability Act 2013* and Rules. The following Australian Accounting Standards and reporting requirements are considered to be of primary specific relevance in relation to the Inland Rail project infrastructure/asset valuation:

- AASB 13 Fair Value Measurement
- AASB 116 Property, Plant and Equipment

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- AASB 136 Impairment
- AASB 1059 Service Concession Arrangements Grantors (may apply to the PPP components of the project)
- AASB 120 Accounting for Government Grants and Disclosure of Government Assistance

Other AASB of more general relevance include:

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations
- AASB 10 Consolidated Financial Statements
- AASB 15 Revenue from Contracts with Customers
- AASB 16 Leases (New Standard to apply from 1/1/19)
- AASB 101 Presentation of Financial Statements
- AASB 102 Inventories
- AASB 107 Statement of Cash Flows
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
- AASB 110 Events after the Reporting Period
- AASB 112 Income Taxes
- AASB 117 Leases (to be superseded 1/1/19)
- AASB 119 Employee Benefits
- AASB 1057 Application of Australian Accounting Standards
- AASB Interpretation 1030 Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related methods

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Additional Question on Notice (2 of 7)

Committee Question:

Proof Hansard Page: N/A Question issued by Committee Secretary on 27 Feb 2018
(Referenced as Question 6)

Question:

1. If the financial asset gets impaired, how will it flow back into the fiscal balance and other Budget aggregates?

Answer:

Federal Budget matters are a responsibility for the Commonwealth. As such, this question should be directed to the Department of Finance.

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Additional Question on Notice (3 of 7)

Committee Question:

Proof Hansard Page: N/A Question issued by Committee Secretary on 27 Feb 2018
(Referenced as Question 7)

Question:

1. Has any impairment or potential impairment of the asset been built into the modelling?

Answer:

1. Possible fair value adjustment including possible impairment were not built into modelling analysis as part of the 2015 Business Case as the funding structure and delivery entity for the project were yet to be determined and this is a valuation matter for accounting purposes that has no impact for cash flow purposes.

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Additional Question on Notice (4 of 7)

Committee Question:

Proof Hansard Page: N/A Question issued by Committee Secretary on 27 Feb 2018
(Referenced as Question 8)

Question:

1. Was internal or external legal advice sought, received or considered by ARTC officers or the Board that discussed the desirability of or need to seek or require a government guarantee, letter of comfort or other agreement, arrangement or support with the Commonwealth to allow ARTC to procure the project without breaching the Corporations Act?

Answer:

1. King & Wood Mallesons was engaged by ARTC to provide advice to the ARTC Board on the Inland Rail governance documents which is subject to legal professional privilege.

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Additional Question on Notice (5 of 7)

Committee Question:

Proof Hansard Page: N/A Question issued by Committee Secretary on 27 Feb 2018
(Referenced as Question 9)

Question:

1. The audit found that there was no documented evidence that ARTC took action to address governance issues identified by the Minister or the Inland Rail Implementation Group. Were these issues addressed, and what is ARTC doing to ensure this does not happen again?

Answer:

1. To drive good governance, ARTC has maintained an Inland Rail programme management office since early 2015.

In December 2015, ARTC appointed an Inland Rail Programme Director to drive the early planning for Inland Rail and provide independent rail advice to ARTC's internal Inland Rail Steering Committee and the ARTC Board.

In November 2016, an Inland Rail Transitional Leadership team was announced to lead work across four areas of critical importance, Operations and Engineering Integration, Service Offering & Terminals, Programme Delivery, Customer and Stakeholder Engagement.

Following the Australian Government's May 2017 Budget announcement the ARTC Board established a new Inland Rail business unit, with a Chief Executive reporting to the Managing Director and CEO of ARTC to lead the delivery of the programme and continue to provide rail expertise to the company and as appropriate to the Commonwealth.

In addition to its regular oversight at Board level, the ARTC Board has established an Inland Rail Board Committee which consists of five Board members that meet separately with Inland Rail management to specifically monitor and coordinate Inland Rail governance and related project matters.

Also, as indicated in ARTC's submission to the Committee, governance arrangements are in place for the delivery of Inland Rail. 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. The terms of the 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 also been agreed.

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Additional Question on Notice (6 of 7)**

Committee Question:

Proof Hansard Page: N/A Question issued by Committee Secretary on 27 Feb 2018
(Referenced as Question 10)

Question:

1. At the time of the ANAO audit, ARTC was finalising fieldwork on an internal audit into the Inland Rail Project Governance Framework. Has this internal audit been finalised, and if so, what were the findings and recommendations?

Answer:

1. The internal Inland Rail risk audit by ARTC has been finalised. The table below provides the six risk findings, recommended actions as well as the current status.

As at 16 March 2018, three actions remain open and three have been finalised and closed. All actions are expected to be closed by December 2018.

Finding	Details of Risk Finding and Action
1	<p>Finding</p> <p>Existing ARTC Delegations of Authority thresholds and clarity over financial and non-financial delegations may not be appropriate for the future scale and activity of the Inland Rail Programme.</p> <p>Action</p> <p>Inland Rail will conduct a review of delegated authorities across all areas of the Programme, both financial and non-financial, to identify instances where the ARTC corporate delegated authorities may not be appropriate for the Inland Rail Programme. Through consultation with the Executive Committee and the Board, any significant areas of concern will be documented and formally agreed with the ARTC Executive Management Committee and, where relevant, the ARTC Board.</p> <p>Status of Action</p> <p>The existing Delegations of Authority are adequate to manage the project at this stage however a comprehensive review is underway to accommodate the increasing scale of the project and appointment of additional staff.</p> <p>Action open with target date of 30 June 2018.</p>
2	<p>Finding</p> <p>There is no detailed workforce plan specific for the Inland Rail Programme that identifies higher risk skill shortage areas and associated actions to address such shortages as the Programme progresses.</p> <p>Action</p> <p>A formal workforce plan highlighting areas of skill shortage and proposed actions to address these shortages will be developed.</p> <p>Status of Action</p> <p>Action closed and validated 25 January 2018.</p>
3	<p>Finding</p> <p>There is currently no formal cost allocation methodology in place to allocate expenditure incurred within the Inland Rail Programme to the appropriate Cost Breakdown Structure codes.</p> <p>Action</p> <p>An Inland Rail internal cost allocation methodology which reflects the requirements of the Equity Financing Agreement will be developed and implemented from FY18/19.</p> <p>Status of Action</p> <p>A cost allocation model has been developed using a set of key allocation parameters (e.g. KM length, metropolitan KM, rural KM, Headcount, etc.) and is currently being tested on a range of activities, consistent with Australian Accounting Standards (AASB). Once approved by Inland Rail Finance and Corporate Accounting, the model will be implemented within the CI Financials accounting model.</p> <p>Action open with a target date of 30 June 2018.</p>

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4	<p>Finding</p> <p>No formal review of the Inland Rail Programme's IT requirements has been developed and a formal IT strategy has not yet been prepared.</p> <p>Action</p> <p>Inland Rail has created a Systems Working Group and engaged a Systems Lead who is working with functional managers and the existing ARTC policies and procedures and the Inland Rail Management Plans to develop an understanding of the Programme's systems requirements. A report will be developed to identify the functional business requirements and a systems gap analysis to identify the detailed functional business requirements that will inform the Inland Rail IT Strategy.</p> <p>Status of Action</p> <p>Action open with target date of 30 June 2018.</p>
5	<p>Finding</p> <p>There are a number of ARTC policies and procedures that the Programme has sought to adopt, but found that these are not easily applicable for the Programme. These specifically relate to Programme management, land acquisition, biodiversity and risk management.</p> <p>Action</p> <p>Where existing ARTC procedures are not adequate to meet the needs of the Programme, an Inland Rail specific procedure will be developed and approved in accordance with the approval requirements of the existing procedure.</p> <p>Status of Action</p> <p>Action closed and validated 27 November 2017.</p>
6	<p>Finding</p> <p>A number of non-compliances with ARTC and Inland Rail procurement policies and procedures were identified as part of the procurement sample testing performed.</p> <p>Action</p> <p>All procurement personnel will be reminded of the need to comply with ARTC's procurement procedures.</p> <p>Status of Action</p> <p>Action closed and validated on 25 January 2018.</p>

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Additional Questions on Notice (7 of 7)

Committee Question:

Proof Hansard Page: N/A Question issued by Committee Secretary on 27 Feb 2018
(Referenced as Question 11)

Question:

1. Why did it take ARTC and the Department of Infrastructure three years to sign a Deed of Agreement? Would you comment on the Auditor-General's observations that the agreement did not provide details of project milestones and reporting arrangements as per the Minister's request?

Answer:

Committee has agreed joint response between ARTC and the Department of Infrastructure, Regional Development and Cities. The joint response has been provided by the Department of Infrastructure, Regional Development and Cities.