



Australian Government
Department of Home Affairs

Submission

For information
PDMS Ref. Number MS19-003075

Minister for Home Affairs

Subject Internal Audit Report - Review of the Tendering, Procurement and Contract Management Processes Associated with Paladin Holdings PTE Ltd

Timing At your convenience

Recommendations

That you:

1. note the internal audit report *Review of the Tendering, Procurement and Contract Management Processes Associated with Paladin Holdings PTE Ltd.*

noted please discuss

Minister for Home Affairs

Signature 

Date: 17/10/2019

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Minister for Home Affairs

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Minister's Comments				
Rejected Yes/No	Timely Yes/No	Relevance <input type="checkbox"/> Highly relevant <input type="checkbox"/> Significantly relevant <input type="checkbox"/> Not relevant	Length <input type="checkbox"/> Too long <input type="checkbox"/> Right length <input type="checkbox"/> Too brief	Quality Poor 1.....2.....3.....4.....5 Excellent Comments:

Key Issues

1. The Department of Home Affairs recently undertook an internal audit *Review of the Tendering, Procurement and Contract Management Processes Associated with Paladin Holdings PTE Ltd.*
2. The internal audit report was endorsed by the Department's Audit Committee on 13 September 2019.
3. The internal audit assessed the tendering, procurement and contract processes the Department undertook to engage Paladin Holdings for the garrison services contract. This included compliance with the Commonwealth Procurement Rules (CPRs), compliance with the Department's contract management policies, procedures and framework, and whether the Department appropriately documented and addressed key risks.
4. In relation to this scope, internal audit found the Department complied with the CPRs, and maintained sufficient and appropriate evidence to demonstrate compliance with its contract management policies, procedures and framework. Internal Audit also found the Department produced a Risk Management Strategy and Plan for the procurement process and conducted a risk assessment over the contract.
5. A number of areas were also noted where the Department's processes could have been improved. These include, but are not limited to, record keeping with regard to accountable and transparent decision making, assessing financial strength, and consideration of context as part of risk management.
6. Internal Audit made one recommendation:
 - The Department should gain a comprehensive understanding of the financial arrangements/sub-contracting arrangements between Paladin and other organisations such as Peren, Peheu and Hupat. This should include understanding the financial value of such arrangements and whether the Department should have been asked by Paladin to approve these arrangements.

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7. The Department is actively addressing this recommendation.
8. On 28 March 2019, the Auditor-General commenced an audit into the Procurement of Garrison Support and Welfare Services as part of the Australian National Audit Office's (ANAO) annual audit work program. Fieldwork commenced in April, and the ANAO is accepting contributions to this audit until 1 January 2020. The ANAO advised the Department that the estimated tabling date is February 2020 (noting ANAO website has not been updated following an extension for public contributions and states due to table January 2020).

Background

9. In February 2019 the Department engaged Ernst and Young (EY) to undertake an internal audit into the tendering and procurement processes associated with Paladin Holdings PTE Ltd. The objective of the audit was to assess the tendering and procurement process that the Department undertook to engage Paladin Holdings for the garrison services contract including:
 - compliance with the Commonwealth Procurement Rules (CPRs);
 - compliance with the Department's contract management policies, procedures and framework; and
 - whether the Department appropriately documented and addressed the key risks relating to the tendering and procurement process.
10. There has been significant interest in the conduct of this audit, and the content of draft reports. This included a number of FOI requests and a Notice of Motion Order (21) for Production of Documents – Department of Home Affairs – Paladin Contracts (Order for Production), which was moved by Senators Keneally and Griff on 4 July 2019.
11. On 23 August 2019, a draft version of the report (with minor redactions) was tabled in the Senate in response to the Order for Production. Tabling of the draft report generated significant media interest across a range of issues.
12. On 12 September 2019 a special meeting of the Department's Audit Committee considered a revised draft of the audit report, which following some further amendments, was endorsed by the Audit Committee on 13 September 2019.
13. Internal audit found the Department complied with the CPRs, and maintained sufficient and appropriate evidence to demonstrate compliance with its contract management policies, procedures and framework. Internal Audit also found the Department produced a Risk Management Strategy and Plan for the procurement process and conducted a risk assessment over the contract.
14. A number of areas were also noted where the Department's processes could have been improved. These include, but are not limited to, record keeping with regard to accountable and transparent decision making, assessing financial strength, and consideration of context as part of risk management.

15. Internal Audit made one recommendation:

- The Department should gain a comprehensive understanding of the financial arrangements/sub-contracting arrangements between Paladin and other organisations such as Peren, Peheu and Hupat. This should include understanding the financial value of such arrangements and whether the Department should have been asked by Paladin to approve these arrangements.

16. The Department is actively addressing this recommendation.

17. The ANAO previously conducted an audit into the *Offshore Processing Centres in Nauru and PNG – Contract Management of Garrison Support and Welfare Services* in 2016-17 and published the report on 17 January 2017. The report made 3 recommendations which have been implemented and closed by the Department.

18. On 28 March 2019 the Auditor-General advised the Secretary of his decision to commence an audit from the ANAO's 2018-19 annual audit work program into the Procurement of Garrison Support and Welfare Services.

19. The objective of the audit is to assess whether the Department appropriately managed the procurement of garrison support and welfare services for immigration processing centres.

20. This audit will incorporate the procurement of Paladin Holdings PTE Ltd to provide garrison services in Papua New Guinea.

21. Fieldwork commenced in April, and the ANAO is accepting contributions to this audit until 1 January 2020. The ANAO advised the Department that the estimated tabling date is February 2020 (noting ANAO website has not been updated following an extension for public contributions and states due to table January 2020).

Consultation – internal/external

22. Nil.

Consultation – Secretary

23. The Secretary has not been consulted on the content of this submission.

Client service implications

24. Nil.

Sensitivities

25. Nil.

Financial/systems/legislation/deregulation/media implications

26. It is anticipated that the endorsed final report will soon be released by the Department. When that occurs there will be media interest in the content of the report, notwithstanding that there has already been significant media coverage of the previous draft report.

Attachments

Attachment A Review of the Tendering, Procurement and Contract Management Processes
Associated with Paladin Holdings PTE Ltd

Authorising Officer
 Cleared by: s. 47F(1) Chief Audit Executive Integrity, Security and Assurance Division Date: 26 September 2019 Ph: s. 22(1)(a)(ii)

Contact Officer s. 22(1)(a)(ii), Assistant Secretary Audit and Assurance, Ph: s. 22(1)(a)(ii).

Through

- CC** Secretary
 Chief Operating Officer
 Deputy Secretary Policy
 Commander JATF OSB

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Australian Government
Department of Home Affairs

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Review of the Tendering, Procurement and Contract Management Processes Associated with Paladin Holdings PTE Ltd

Internal Audit Report – 2018/19

Endorsed by Audit Committee on 13 September 2019

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1. Executive Summary

1.1. Background

In 2012, the Department of Home Affairs (the Department) established Regional Processing Centres on both the Republic of Nauru (Nauru) and Papua New Guinea (PNG) and entered into contracts with service providers for the delivery of garrison support and security services which have been delivered at each of these locations since then.

The Department's contract with Broadspectrum (Australia) Pty Ltd (BRS) for the provision of garrison support and welfare services in PNG finished on 31 October 2017.

For the continued provision of services, the Department executed four Letters of Intent (LOIs) with Paladin Solutions PNG Ltd (Paladin Solutions) between 21 September 2017 and 31 January 2018 for service establishment, transition and standard service costs. Following this, the Department entered into a contract with Paladin Holdings PTE Ltd (Paladin Holdings) for the provision of garrison and welfare support services on 28 February 2018.

The context in which the procurement was undertaken is outlined below¹:

- The PNG Supreme Court ruled in April 2016 that the detention of individuals at the Manus Regional Processing Centre (MRPC) on Manus Island was unconstitutional. In response, the Department began preparations for the decommissioning of MRPC, scheduled for 31 October 2017.
- The Department's contract with Broadspectrum (Australia) Pty Ltd (BRS) for the provision of garrison support and welfare services was also scheduled to end at 31 October 2017, and BRS formally advised the Department that they were unwilling to enter into any further contract extensions. As a result, the decommissioning of MRPC required the transitioning out of BRS.
- As part of the decommissioning of MRPC, the Department had been assisting PNG ICA (PNG Immigration and Citizenship Authority) with the procurement process associated with the provision of garrison support and welfare services.
- PNG ICA had initially requested to manage all necessary contracts for services to the residual cohort post-31 October 2017, however on 5 July 2017, the Department was informed that PNG officials had been directed not to enter into new contracts until after the formation of a new PNG Government. A service provider needed to be in place at least 90 days before 31 October 2017 to undertake appropriate transition in services. The Department had 29 days in which to secure a provider of the relevant services prior to BRS beginning their transition out.
- Given the limited timeframe, the Department's view was that it was unlikely that PNG ICA would be in a position to procure, transition and manage contracts after 31 October 2017. The Department was therefore required to procure an appropriate service provider to ensure the continued delivery of services post 31 October 2017. This included discussions with Paladin Solutions to deliver services at MRPC.
- Given PNG ICA's late decision to not procure their own providers, limited options were available to ensure continuity of critical services to transferees, in a very short period of time.
- On 10 August 2017 the Secretary, as the accountable authority for the Department, applied paragraph 2.6 of the Commonwealth Procurement Rules (CPRs) to approve an exemption from certain requirements of the CPRs, in undertaking procurements relating to Regional Processing for the protection of essential security interests and human health in PNG.

¹ The context of this document is provided by the Department.

- Following this approval, the Department began a direct-source procurement process with Paladin Solutions. The Department executed four Letters of Intent (LOIs) with Paladin Solutions between 21 September 2017 and 31 January 2018 worth \$81,130,743 (GST exclusive) for service establishment, transition and standard service costs.
- The Department ultimately entered into a contract with Paladin Holdings PTE Ltd (the Singapore based company) (Paladin Holdings) for the provision of garrison and welfare support services on 28 February 2018.

This review was formally added to the Department's 2018-19 Internal Audit Plan in February 2019 and conducted as part of that Internal Audit Plan.

1.2. Summary of Findings

Internal audit assessed the tendering, procurement and contract processes that the Department undertook to engage with Paladin Holdings for the Garrison Services Contract, including:

1. Compliance with the CPRs, including: value for money; encouraging competition; efficient, effective, economical and ethical procurement; accountability and transparency; procurement method and procurement risk².
2. Compliance with the Department's contract management policies, procedures and framework.
3. Whether the Department appropriately documented and addressed the key risks relating to the tendering, procurement and contract management processes.

In relation to each of the above scope points we note a summary assessment below:

1. Internal Audit assessed that the Department complied with the CPRs, including those sections that relate to value for money; encouraging competition; efficient, effective, economical and ethical procurement; procurement method and procurement risk. Internal Audit identified areas for improvement in the Department's documentation relating to 4.4 c facilitate accountable and transparent decision making³.
2. The Department maintained sufficient and appropriate evidence to demonstrate compliance with its contract management policies, procedures and framework.
3. Internal Audit found that the Department's procurement team produced a *Risk Management Strategy and Plan* for its procurement process with Paladin Holdings and conducted a risk assessment over its contract with Paladin Holdings.

In making the assessment above Internal Audit also noted a number of areas where the Department's processes could have been improved. We detail below (and provide further detail on each within the report) those areas where improvements could have occurred and a series of 'lessons learned' for future procurements of this nature.

Recommendation

The following recommendation has been made as part of this Internal Audit:

- The Department should gain a comprehensive understanding of the financial arrangements/sub-contracting arrangements between Paladin and other organisations such as Peren, Peheu and Hupat. This should include understanding the financial value of such arrangements and whether the Department should have been asked by Paladin to approve these arrangements.

² The Fairtrade Policy (CPR) Clause 3.6 (Minimum) - Highest Element 4 of the CPRs: Encouraging competition and creating value (CPRs: additional rules for procurement) at 001604 and below (procurement threshold) - A002017/003115

³ Refer to 4.2 Procurement Finding Two: CPRs Observations in the Procurement Process for further detail

Areas where the Department's processes could have been improved are detailed below, with potential lessons learned outlined in the report.

Improvements to the Procurement Process

- Unified procurement records outlining policy and procurement processes should be kept in a single and easy to access location. Explicit documentation that more clearly explains compliance obligations with regards to the accountability and transparency sections of the CPRs would have been beneficial.
- The reasons for selecting Paladin (or not selecting another provider to participate in the procurement process) were not specifically documented in key departmental decision-making procurement records, thereby increasing the risk that the Department's decision is not fully documented. Internal Audit considers that this would have been better practice.
- The nature of the procurement and operating environment in PNG⁴ heightens the potential for fraud and corruption procurement risks. Internal Audit notes that these risks should have been identified and documented with appropriate management actions also considered and documented.
- The *Financial Strength Assessment of Paladin Solutions PNG Ltd* did not include Paladin Holdings and was otherwise not updated following the move to contract with Paladin Holdings (Singapore-based company) instead of Paladin Solutions (PNG company), nor was it ever finalised. Therefore, the Draft Financial Strength Assessment report obtained by the Department is not relevant to the financial strength of its contracted service provider (Paladin Holdings).
- The Department's procurement team produced a *Risk Management Strategy and Plan* for its procurement process with Paladin Holdings. However, Internal Audit identified the following:
 - The Department's *Risk Management Strategy and Plan* refers to the importance of establishing context, however despite this, a defined context is absent from the document.
 - Risks that are relevant to high value procurements in the offshore environment, such as collusion, bribery, and deliberate misinformation by the tenderer, have not been specifically identified and there are no documented strategies established to manage such risks.
- Additional improvements that could have been made to the procurement process include but are not limited to:
 - ensuring consistency of assessment criteria used by panel members
 - documenting the Department's assessment of KPMG PNG's declared business relationship with Paladin Solutions, and
 - developing pre-determined criteria or other descriptions against which to make its value for money assessment, including the level of risk which the Department would be willing to accept – this is considered better practice.

While there is no evidence to suggest these observations would have resulted in a different outcome to the procurement process, they highlight a range of improvements that could have been included in the records held by the Department.

Improvements in relation to Contract Management

- The Department developed and implemented a Performance Management Framework for its contract with Paladin Holdings. However, opportunities exist to improve the efficiency, effectiveness

⁴ The Corruption Perceptions Index (CPI) is an independent annual report by Transparency International since 1995 which ranks countries by their perceived levels of public sector corruption, as determined by a global assessment and opinion survey. In 2016 PNG was ranked 116 out of 180 countries and a comparison Australian was ranked 13 out of 100.

and cohesiveness of overall performance monitoring activity. The opportunities have been detailed within the body of this report.

- The Department instituted a detailed long-term User Acceptance Testing (UAT) regime to ensure Paladin Holdings could deliver the services required and mitigate potential risks to the Department as identified within the procurement process. The Department conducted a thorough UAT protocol, testing all appropriate clauses within its contract (and schedules) with Paladin Holdings. However, Internal Audit identified:
 - there was a significant delay in initiating UAT, and
 - there was no specified timeframe for UAT completion.
- The Department conducted a risk assessment over its contract with Paladin Holdings. However, Internal Audit identified that the risk assessment could have been improved by the following:
 - including risks in relation to fraud and corruption in the risk assessment
 - as at 1 July 2019 (the completion of fieldwork), there were a small number (2) of risk treatments that were still being implemented, and
 - a number of potential risks which could have been included to ensure the entirety of the risks faced when dealing with a contract of this nature were documented.

Internal Audit also noted a significant number of positive observations in relation to the procurement process and the management of the contract. Refer to ?

Appendix A: Positive Observations.

A detailed timeline of events of the Department's engagement with Paladin Solutions and Paladin Holdings is at **Appendix B: Timeline of Events**.

Details of the recommendations and lessons learned are noted in the Report.

Overall Management Comment

Property and Major Contracts Division (PMCD) notes the Executive Summary and the audit findings.

PMCD notes the positive observations made and the confirmation that the Paladin procurement methodology and contract management approach was and continues to be, consistent with the *Public Accountability and Governance Act* (PGPA), Commonwealth Procurement Rules (CPRs) and the Department's Contract Management Framework (CMF).

PMCD welcomes the suggestions for improvement and lessons learned, and will take these into account in the development of all current and future procurement processes, in Contract Management processes, and in any review of the CMF.

2. Detailed Background Information

Context

In April 2016, the PNG Supreme Court ruled that the detention of individuals at the MRPC on Manus Island was unconstitutional. In response, the Department began preparations for the decommissioning of MRPC, scheduled for 31 October 2017. The decommissioning of MRPC included transitioning out the contracted service provider of garrison support and welfare services – BRS. The BRS contract was also scheduled to end at 31 October 2017.

As part of the decommissioning of MRPC, the Department had been assisting the PNG ICA with the procurement process, associated with the provision of garrison support and welfare services.

The Department stated that PNG ICA requested the full management of all necessary contracts for services to the residual cohort post-31 October 2017. However, on 5 July 2017, the Department was informed that PNG officials had been directed not to enter into new contracts until after the formation of a new PNG Government. As stated, the Department considered it unlikely that PNG ICA would be in a position to procure, transition and manage contracts after 31 October 2017. Accordingly, the Department assumed the continuing responsibility for services to residents post 31 October 2017.

The Department was therefore required to procure an appropriate service provider to ensure the continued delivery of services post 31 October 2017.

At around this time, the Department worked to determine an appropriate solution to ensure the continued delivery of services post 31 October 2017. This included discussions with Paladin Solutions to deliver services at MRPC.

Application of an exemption to the *Commonwealth Procurement Rules*

On 10 August 2017 the Secretary, as the accountable authority for the Department, applied paragraph 2.6 of the CPRs to approve an exemption from the following requirements of the CPRs, in undertaking procurements relating to Regional Processing for the protection of essential security interests and human health in PNG:

- Part Five of Division One: Encouraging competition, and
- Division Two: Additional rules for procurements at or above the relevant procurement threshold⁵.

Paragraph 2.6 of the CPRs states:

"Nothing in any part of these CPRs prevents an official from applying measures determined by their Accountable Authority to be necessary for the maintenance or restoration of international peace and security, to protect human health, for the protection of essential security interests, or to protect national treasures of artistic, historic or archaeological value."

The Department of Finance provides guidance to Commonwealth entities on applying paragraph 2.6 of the CPRs. The guidance highlights the need to document the measures which require departure from the CPRs and the reasons for these measures. As such, the Department identified the justification for the 2.6 special measures was for the protection of essential security interests and the protection of human health.

⁵ Under paragraph 2.6 of the CPRs, special measures to protect national treasures of artistic, historic or archaeological value, or to protect human health, for the protection of essential security interests, or to protect international peace and security, are exempt from the requirements of the CPRs. (CPRs - 1A002017/0000000)

Procurement of Paladin Solutions PNG Ltd

Following this approval, the Department began a direct-source procurement process with Paladin Solutions. The Department executed four LOIs with Paladin Solutions between 21 September 2017 and 31 January 2018 worth \$81,130,743 (GST exclusive) for service establishment, transition and standard service costs.

Prior to finalising the procurement of Paladin Solutions, Paladin was advised by Gemini Insurance brokers that entering into a contract with the PNG entity would result in a higher cost for insurance, foreign exchange and pricing of risk. The following advice was provided by Gemini Insurance brokers:

"We have reviewed two options for insurance based on the contract being with either Paladin Solutions PNG Ltd or its parent entity Paladin Holdings PTE Ltd.

If the contract is held with the PNG entity then accordingly to PNG law, all insurances must first be placed within the domestic market and reinsured into the international market thereafter if required. If capacity does not exist then it can be placed offshore but only with the express permission of the Insurance Commissioner of PNG... such requirements would likely result in further delays in the procurement of each individual insurance policy and most likely add up to 17.5% in costs when local fronting fees, taxes and levies are added.

If the contract is held with Paladin Holdings PTE Ltd, then the placement of insurances and provision of direct underwriting is more straightforward. Any subsidiary entities of Parent, and the Government of Australia for the respective rights and interests, would be listed and the cover extended based on the reviews already undertaken in the last 2 months. This structure would allow Paladin to seek all policies required under the contract via reputable Singapore based underwriter.

Based on our experience and due diligence conducted over the last 2 months, the contracting of Paladin Holdings PTE Ltd provides the best structure to ensure the provision of quality policies, underwriting and parent guarantees in order to meet the requirements of the contract and obligations to DIBP⁶."

On 28 February 2018, the Department entered into a contract for the provision of garrison and security services with Paladin Holdings (the Singapore-based company).

This internal audit reviewed the tendering, procurement and contract management processes associated with provision of the garrison and security services: Paladin Holdings. This internal audit took into consideration the Internal Audit completed in 2018 *Review of Offshore Contracts Procurement – Manus Island* which assessed the Department's compliance with documentary evidence to support that procurement.

3. Objective and Scope

The objective of this internal audit was to assess the tendering and procurement process that the Department undertook to engage with Paladin Solutions for the garrison services contract, including:

1. Compliance with the CPRs, including: value for money; encouraging competition; efficient, effective, economical and ethical procurement; accountability and transparency; procurement method and procurement risk⁷.
2. Compliance with the Department's contract management policies, procedures and framework.
3. Whether the Department appropriately documented and addressed the key risks relating to the tendering, procurement and contract management processes.

The scope of this internal audit included:

- An assessment of the tendering and procurement process that the Department undertook in selecting Paladin Solutions. This included:
 - Assessing the reasons the Department chose to access paragraph 2.6 of the CPRs.
 - Reviewing the evidence of the Department's decision to enact the two key measures for the application of paragraph 2.6 to depart from the requirements of Part Five of Division One and Division Two of the CPRs.
 - Identifying the stakeholders engaged by the Department, both internally and externally, to determine the consultation process involved in the decision to apply paragraph 2.6 of the CPRs.
 - Assessing the process undertaken by the Department to select Paladin Solutions to provide a response and participate in the tender process for this contract.
 - Assessing the effectiveness of the governance arrangements in place in relation to the Department's procurement process, including but not limited to the compliance of the procurement against Division One (excluding Part Five) of the CPRs. This includes an assessment of: value for money; efficient, effective, economical and ethical procurement; accountability and transparency in procurement; procurement risk; and procurement method.
 - Assessing the KPMG Report *Financial Strength Assessment of Paladin Solutions PNG Ltd* relating to the provision of garrison services at the East Lorengau Refugee Transit Centre (RFQ 1750034) to identify the risks highlighted by the Assessment, the measures implemented by the Department to address those risks, and to determine the extent to which the measures have been effective in addressing those risks.
- Reviewing the compliance of the management of the contract with the Department's contract management policies, procedures and framework, in relation to its contract with Paladin Solutions for the period following the signing of the initial letter of intent through to 28 February 2019.

Appendix C: Approach and Limitations outlines our detailed approach to the scope items detailed above and the limitations to this report.

⁷The Exemplar under CPR clause 2.6 includes: 'The 3 elements of the CPRs (Encouraging competition and Efficiency of the CPRs, additional rules for procurement at or above the relevant procurement threshold' – AMN/117/2017/7.

4. Procurement

4.1. Procurement Finding One: Value for Money Assessment

4.1.1. Context

Part 4 of Division 1 of the CPRs requires Commonwealth entities to consider whether a procurement will deliver the best value for money. The term 'value for money' is not limited to the monetary cost of the good or service being procured. The scope of its definition is broad and includes consideration of:

- risks, whether that be reputational, financial or otherwise
- decisions and evidence which facilitate accountable and transparent decision making
- benefits and other costs over the life of the goods or services being procured, such as contingency costs (i.e. early termination fees and even remediation costs associated with the supplier failing to execute their responsibilities under the contract), and
- environmental, economic or social factors that may be relevant to the nature of the goods or services being procured.

Value for money assessments vary depending on both the nature and value of the goods or services being procured. However, Internal Audit's view is the most efficient and transparent means of determining value for money is assessing procurement submissions against a predetermined benchmark or set of criteria. This would include developing evaluation criteria against which to assess tender responses. Value for money criteria that could be considered relevant to the Department's garrison support and security services procurement include:

- supplier experience and performance history – this can include conducting referee checks and determining whether the supplier has delivered goods or services of a similar nature before to the standard that is required by the purchaser
- capacity of supplier – for example, financial viability, technical and managerial competency, whether the supplier and their staff hold appropriate security clearances, citizenship and/or visas, and even whether the supplier has pending legal action being brought against them
- price – including up-front costs and life of contract costs.

Critical to the demonstration of the above requirements is the development and maintenance of appropriate and relevant records.

4.1.2. Finding

Internal Audit assessed that the Department complied with the CPRs, including those sections that relate to value for money; encouraging competition; efficient, effective, economical and ethical procurement; procurement method and procurement risk.

- Internal Audit identified some further areas for improvement in the Department's documentation relating to *4.4 c facilitate accountable and transparent decision making* (details of the area for improvement is noted within this finding).

The Department undertook a detailed value for money assessment which was approved by the relevant officials and considered as part of the Department's High Risk/High Value (HRHV) Procurement process. Internal Audit notes that this process was undertaken in a very short timeframe with significant time pressures.

Internal Audit notes that it would be better practice to develop predetermined criteria or other descriptions against which to make a value for money assessment, including the level of risk which the Department would be willing to accept.

The Department's Evaluation Plan states *"the Value for Money assessment will take into account any relevant matters, including the following:*

- a) The technical assessment;*
- b) Cost represented by the assessment of price;*
- c) Results of financial strength checks;*
- d) The results of any financial sustainability risk assessments; and*
- e) The assessment of risks"*

4.1.3. Lessons Learned

Internal Audit would consider it to be better practice to develop predetermined criteria or other descriptions against which to assess the above matters. For example:

- how the Department would judge the results of the value for money assessment and what kind of assessment outcome would result in not progressing with the proposed tenderer
- how the Department would assess the results of the proposed tenderer's financial sustainability risks, and what level of risk it is willing to accept and subsequently manage/mitigate or alternatively, not accept at all, and
- the levels at which the Department would accept and not accept proposed risks, and how these would align with discharging the identified risks and ensure the efficient, effective, economical and ethical use of public monies.

Management Comment

PMCD notes the findings and lessons learned and will take steps to implement these lessons into all future assessment processes.

4.2. Procurement Finding Two: Other Observations in the Procurement Process

4.2.1. Context

The CPRs describe that value for money considerations require entities to maintain documentation to support procurement that is commensurate with the scale, scope and risk of the goods or services being procured.

Internal Audit analysed the following procurement documents:

- *Risk Management Strategy and Plan* – Outlines how risks associated with the procurement will be identified, analysed and managed. This document included a risk assessment that was conducted over the procurement cycle.
- *Strategic Procurement Plan and Spending Proposal* – Defines the planned procurement strategy and provides PGPA s23(3) delegate approval for funding and to continue with the procurement process.
- *Probity Plan* – Outlines the probity principles and obligations that all procurement personnel are bound by. The Probity Plan also names Maddocks as probity adviser for the procurement.
- *Evaluation Plan* – Defines the methodology and criteria for the evaluation of the tender submission.

- *Pricing Evaluation Report* – The pricing assessment team's assessment of the pricing from Paladin Solutions' tender response. The criteria used in this report is directly related to the content of the Evaluation Plan.
- *Technical Evaluation Report* – The assessment of Paladin Solutions' technical ability to deliver garrison and security Services at the ELRTC. This was assessed against the technical criteria.
- *Financial Strength Assessment Report* – Assesses the level of financial risk associated with the selection of Paladin Solutions as garrison and security services provider.
- *Evaluation Report* – Summarises and collates the technical, non-technical and risk reports produced by the procurement and evaluation teams. Additionally, the report provides an overall Value for Money assessment of Paladin Solutions' tender response.
- *Negotiation Strategy* – Outlines the objectives, governance structures and issues to be resolved, including the concerns raised in the Evaluation Report and the individual reports.
- *Negotiation Directive* – Authorisation to enter into the negotiation process with Paladin Solutions.
- *Negotiation Log* – Is reflective of the Negotiation Strategy and tracks progress against the specified issues.
- *Negotiations Outcomes Report* – Outlines the outcomes of the negotiation process in response to the Negotiation Strategy and Directive.
- *Evaluation Report – Addenda 1* – Seeks delegate approval for the updated Value for Money proposition represented by Paladin Holdings following the negotiation process.

Internal Audit acknowledges that the Department was under significant time and resources pressures at the time of collating and preparing these documents.

4.2.2. Finding

As noted above Internal Audit has assessed that the Department complied with the CPRs, including those sections that relate to value for money; encouraging competition; efficient, effective, economical and ethical procurement; procurement method and procurement risk in relation to this procurement process.

The following observations on the procurement have been noted along with a number of 'lessons learned' for future procurements of this nature.

Selection of Paladin Solutions to participate in the procurement process:

- Correspondence among departmental officers on 4 July 2017 and 5 July 2017 shows that certain officers identified Paladin as the appropriate "provider" for garrison and security services at Manus. Subsequently, the Department's *Strategic Procurement Plan and Spending Proposal for the Provision of Garrison Services* outlined that:

"Paladin were approached due to their existing knowledge of the facility derived from their experience delivering services under their current subcontract with Wilson Security (under the existing contract between the Department and BRS) to provide asset security at ELRTC".

While the Department highlights Paladin Solutions' experience with the physical infrastructure and in providing security services at the location (ELRTC), there is limited information documented on how or why the Department considered Paladin Solutions as a suitable provider for the broader set of garrison services, particularly to support the transparency of this decision. In this regard, the contract's suite of services includes (but is not limited to): residence engagement; reception, induction and departures; accommodation management; resident property management; cleaning; maintenance of assets; environmental

management; business services; and optional services of catering, laundry and communication management.

Internal Audit notes that discussions and review of emails provided by the Department indicate that the following reasons contributed to the decision to approach Paladin:

- The context of current providers (BRS) and previously-tendered providers informing the Department that they were no longer interested in working in the Offshore Processing environment.
- In particular, numerous service providers also informed the Department that they had received pressure from interest groups and other companies (such as banks) to not work in an Offshore Processing context.
- The time constraints at this period (three month timeframe between July 2017 and October 2017) – the Department being informed in July 2017 that the PNG Government would no longer procure, and contract manage service providers at the Manus facilities.
- The finalisation of BRS contract in October 2017, noting that BRS refused any further proposed extensions due to pressure from its parent company meant that in effect the Department required a solution by 31 October 2017. A service provider needed to be in place at least 90 days before 31 October 2017 to undertake appropriate transition in services.
- The need to use a provider which was supported by the PNG Government (particularly because the facilities are controlled by the PNG Government). In this regard, departmental documentation suggests that the PNG Government had identified “Paladin, Loader and TSI” [sic] as its preferred providers for security services as well as “Spic-n-Span” to support garrison services. Internal Audit notes that during interviews, departmental stakeholders identified performance issues with the other providers, Loda and TSI, under previous arrangements, hence they were not determined to have sufficient capability. Spic-n-Span operated solely as a dry cleaners and laundry service provider.

These reasons go to a further explanation for the selection of Paladin to participate in the procurement process. Internal Audit has assessed that the Department complied with the CPRs, including those sections that relate to value for money; efficient, effective, economical and ethical procurement; procurement method and procurement risk. The Department was exempt from encouraging competition under the paragraph 2.6 approval by the Secretary.

However, Internal Audit notes that the reasons for selecting Paladin (or not selecting another provider to participate in the process) were not specifically documented in key departmental decision-making procurement records, thereby increasing the risk that the transparency of the Department's decision is not fully documented. Internal Audit considers that this would have been better practice.

Consideration of other providers

Internal Audit sought further information from the Department on the process leading to the selection of Paladin Solutions to participate in the procurement process. Other than the previously mentioned consideration of Loda, TSI and Spic-n-Span, Internal Audit has not been made aware of any other documented consideration of other potential service providers (such as Decmil or Canstruct who had been identified in previous market testings) subsequent to 5 July 2017 or whether other providers were considered.

Internal Audit notes that under the application of paragraph 2.6 of the CPRs the Department was not required to assess any other provider.

Observations in relation to the procurement process:

- The Evaluation Report Addenda 1 includes a table (page 6) which outlines the pricings proposed by the tenderer from the "Original Bid" to the final Pricing (22 November 2017). Specifically, this table outlines 14 price changes made during the negotiations period (during which the Department had requested changes due to "addition of anticipated and unanticipated sites"). Internal Audit notes that while documentation was maintained relating to some of these pricing changes, the Department was unable to provide a full set of information and correspondence relating to the nature of each change, the formal correspondence to the tenderer requesting the change and what the Department's expectations/criteria were in relation to each of the tenderer's responses.
- In assessing the proposed tenderer's response, the 'Capability' evaluation within the *Technical Evaluation Report* was scored against four criteria, but this included one criterion that was not part of the *Evaluation Plan* nor in the RFQ documentation (i.e. one additional criterion was introduced following the *Evaluation Plan* but is not described in any procurement planning documentation). This additional criterion, 'Additional Drafting', received the highest score of the four criteria which resulted in a higher score for 'Capability'.
- The *Evaluation Report* received endorsement from the final evaluation committee member on 19 September 2017. However, the *Technical Evaluation Report*, which is Attachment D of the *Evaluation Report*, only received final endorsement on 20 September 2017. Therefore, the documentation appears to show that the overall tender evaluation was endorsed prior to the components being formally endorsed.
- A score of 17 was initially given against the 'Capacity' criteria in the *Technical Evaluation Report* but references within the final *Evaluation Report* show the score to be 19 instead, thereby increasing the tenderer's overall score in the final evaluation. The Department was unable to provide further supporting evidence to inform the reasoning behind the change in Paladin Solutions' capacity score.
- Tables in the *Technical Evaluation Report* for the scoring breakdown for the criteria making up the 'Capability', 'Capacity' and 'Experience' criteria shows a column with incorrectly calculated weighted scores.
- KPMG Australia (which conducted the Financial Strength Assessment) declared that KPMG PNG had a business relationship with Paladin Solutions (as business advisors). KPMG Australia informed the Department that its Australian business has no association with the PNG advisory services. However, there were no specific records of the Department assessing and agreeing to this conflict declaration. Internal Audit notes that it would be better practice to see Conflict Declarations from KPMG, and other advisors, which cover all related entities to the procurement.
- The Department's external Commercial Advisors, KPMG Australia, only provided a draft of the report titled: *Financial Strength Assessment of Paladin Solutions PNG Ltd*. The financial strength assessment was conducted as part of the Risk Assessment phase of the evaluation.
- The *Financial Strength Assessment of Paladin Solutions PNG Ltd* states that: "Paladin has recorded fluctuations in revenue, recorded a loss in 2015, the cash sufficiency ratio (which measures liquidity) was below one and its Financial Statements were unaudited."
- The *Financial Strength Assessment of Paladin Solutions PNG Ltd* report by the Commercial Advisors was based on information extracted from unaudited financial statements (without a Statement of Cash Flows). This significantly limits the reliability of any conclusions drawn from the documentation. While the report clearly documents this limitation at several points, given the timeframes for the procurement the assessment was not able to obtain third party documentation such as bank statements from the tenderer's bank (with tenderer permission).
- The *Financial Strength Assessment of Paladin Solutions PNG Ltd* did not include Paladin Holdings, and was otherwise not updated following the move to contract with Paladin

Holdings (Singapore-based company) instead of Paladin Solutions (PNG company). Therefore, the Financial Strength Assessment report obtained by the Department is not relevant to the financial strength of its contracted service provider (Paladin Holdings). The Department noted that Paladin Holdings did not have financial statements.

- The change from Paladin Solutions to Paladin Holdings appeared to have been based on the advice provided by Gemini Insurance Broker. However, there is no documentation outlining the Department's considerations and deliberations over this proposed change, particularly as almost all of its procurement documentation, conflicts declarations and the tenderer's response was received from Paladin Solutions. Clearly documented decisions regarding this move, its impact and what other information the Department should seek from the Singaporean company, would better support the transparency and accountability of the Department's decisions and documentation. Internal Audit's attention was drawn to item C14 of the Negotiation Log which identified different pricing for Paladin Holdings and Paladin Solutions. However, the information documented is not conclusive in going with the Singaporean entity.
- The Department was unable to supply Internal Audit with a copy of the *Evaluation Report – Addenda 1* signed by the Evaluation Committee Members or Delegate to confirm their endorsement of the updated Value for Money assessment following the contract negotiation period. A draft copy was provided.

Internal Audit made various observations and suggestions for improvement following a review of the Department's procurement documents. While there is no evidence to suggest these observations would have resulted in a different outcome to the procurement process, they highlight a range of improvements that could have been included in the records held by the Department.

4.2.3. Lessons Learned

Between 1 February 2017 and 4 July 2017, the Department undertook a series of activities to determine the best options for the continuous delivery of the services post-31 October 2017.

- Internal Audit notes that under the application of paragraph 2.6 of the CPRs, the Department was not required to assess any other provider, however, Internal Audit found that the decision-making trail and information which led to the identification of Paladin Solutions to participate in the procurement process was not clearly documented and was difficult to determine.
- Internal Audit notes that while the Department complied with the CPRs, a lesson for the future is to document the decisions leading up to the application of paragraph 2.6 to provide a clear and transparent audit trail, in accordance with appropriate governance and record keeping requirements.
- For future procurements, especially those which are high risk and high value, the Department should ensure that external parties engaged to complete work on behalf of the Department declare all relationships with all related entities. If any declarations are made by the third party entity, the Department should thoroughly document their assessment and acceptance/rejection of the risks associated with any declared conflicts of interest.
- For future procurements of this nature, the Department should ensure that it is aware of the service provider's external auditor, in order to ensure that the financial strength assessment is more robust and that there is limited potential for conflicts of interests.

Management Comment

PMCD notes the comments and suggestions for improvement against Procurement Finding Two: Other Observations in the Procurement Process.

PMCD acknowledges that the decision-making trail and documentation is found in different records as the overarching Executive responsibility was shared across a number of business areas including Support, Operations, Program, Policy and Procurement.

Taking these lessons learned, PMCD has now implemented a process where the decision-making trail is collated and documented in a single TRIM location for easy review and access for all current and future procurements.

4.3. Procurement Finding Three: Procurement Risk Management

4.3.1. Context

The purpose of risk management practices is to reduce the level of uncertainty about realising outcomes. Consequently, a robust understanding of the objective, scale and scope of a procurement is essential for effective risk management. The establishment of the context significantly affects the assessment of the risk and the controls that are in place. The CPRs, specifically section 8, require the establishment of appropriate risk management processes to identify, analyse, allocate and treat risk effectively.

In addition to section 8 of the CPRs there are a number of documents that influence risk management within the procurement environment. These documents include, but are not limited to, the Department's Risk Management Framework and the Commonwealth Fraud Control Framework.

As noted above, Internal Audit found that the Department's procurement team produced a *Risk Management Strategy and Plan* for its procurement process with Paladin Holdings and conducted a risk assessment over its contract with Paladin Holdings.

In making the assessment above Internal Audit noted a number of areas where the Department's processes could have been improved. We detail below these areas where improvements could have occurred in relation to the risk assessment and 'lessons learned' for future procurements of this nature.

4.3.2. Finding

Consistent with the Department's policy for Strategic Procurements, the procurement team produced a *Risk Management Strategy and Plan*. Internal Audit has made the following observations within this document:

- Establishing context - Section 3.2 of *Risk Management Strategy and Plan* refers to the importance of establishing context. This section defines the context as "... a concise statement of the programme objectives and specific criteria for success, the objectives and scope for risk management, and a set of key elements for structuring the risk identification activity in the next stage". Despite this, a defined context is absent from the document. The context statement should reflect the internal and external risk environment which consequently influences the judgements made throughout the risk assessment process.
- Identification of fraud and corruption risks - Outlined in the Commonwealth Fraud Control Framework, the Fraud Rule is a binding practice for government entities. The Fraud Rule

requires relevant entities to have appropriate mechanisms for fraud and corruption prevention while planning and conducting activities.

The *Risk Management Strategy and Plan* for the procurement does not identify whether or not fraud and corruption risks are considered to be relevant to the procurement.

While Internal Audit notes that the Department had appointed a probity advisor, Maddocks, and that conflict of interest declarations were sought from relevant officers to the procurement and external service providers, such as: KPMG Australia (Commercial Advisor) and the Australian Government Solicitor (as ways of managing some components of fraud risks), other risks relating to such a high value procurement, such as collusion, bribery, deliberate misinformation by the tenderer, have not been specifically identified nor strategies defined to manage such risks.

4.3.3. Lessons Learned

- For future procurements of this nature, there may be value in appointing a risk and assurance officer with specific skills and experience in procurement risks, including fraud and corruption risks, to assess and advise on the procurement risk documentation.

Management Comment

PMCD notes the comments and lessons learned against Procurement Finding Three: Procurement Risk Management.

During the procurement process, no issues were identified in relation to fraud, corruption and/or collusion. PMCD followed all procurement processes including conducting a risk assessment in relation to the procurement in compliance with the CPRs. Should issues have been identified, the procurement process would have explicitly addressed these concerns, and mitigations would have been put into place before any arrangement was entered into.

Further, as part of the RFQ response, tenderers are required to submit a Respondent and Key Subcontractor Declaration. This document includes the following statements:

"The information contained in the Offer is true and correct to the best of my knowledge after making careful and thorough enquiries..."

The Respondent and any proposed key subcontractor warrants and undertakes that:

- a) it does not have any judicial decisions against it in relation to any employee entitlements (not including decisions which are under appeal) that have not been paid;*
- b) the Respondent and the proposed key subcontractor:*
 - i. through its officers, employees or agents, has not attempted and will not attempt, to influence improperly any officer or employee of the Department in connection with the assessment of the Offer;*
 - ii. has not engaged in any collusive tendering, anti-competitive conduct, or any other unlawful or unethical conduct with any other Respondent, or any other person in connection with the preparation of this Offer (or any other procurement process);"*

Since the creation of the role, PMCD now consults with the Chief Risk Officer in all high-risk high-value procurements.

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under the Freedom of Information Act 1982

4.4. Procurement Finding Four: Management of sub-contractors

4.4.1. Context

The contract between the Department and Paladin Holdings lists the following entities as major sub-contractors:

- Paladin Solutions
- Paladin Australia Pty Ltd
- Peren Investment Ltd
- Pomwan Paladin Security Ltd
- Pokapin Contracting Services Ltd, and
- Kingfisher Security Services Ltd – which was approved and included as a major subcontractor following the contract extension on 31 December 2018.

A separate MOU between Paladin Solutions and Peren Investments Ltd was established and signed on 18 January 2018.

4.4.2. Finding

Internal Audit identified information about financial arrangements between Paladin and other organisations (Peheu and Hupat), where the value of such arrangements is unclear. It was also unclear where the Department reviewed or approved (where relevant) the information and arrangements that had been put in place.

Oversight of Peren Investments MOU

The Department was formally informed of an MOU between Paladin Solutions and Peren Investments Ltd, who are the customary land owners of the site for ELRTC, and are also known as the Peren Clan of Manus Province, on 29 January 2018.

The MOU was signed by the Director of Pomwan Paladin, a separate entity of Paladin Holdings, and a major-subcontractor listed on the contract. Correspondence connected with the MOU outlines that the MOU is 'conditional' upon the following agreed terms:

- *"Paladin engage Peren Case Workers under its Activities and Programs section;*
- *Paladin mentors and capacity builds Peren's Case Workers over the next 12 months under its Build, Operate Transfer model;*
- *Peren be considered by both PNG ICSA and ABF for contract opportunities in the future; and*
- *Full suite of Visas are issued to paladin in order to support the mentoring, training and participation of Peren and other landowners."*

The MOU commits Paladin to providing a range of items including office infrastructure, office technology and other services that are described as 'corporate social responsibility'. The range of clauses includes:

- Overhead costs for *"Accommodation [is at a] (flat rate of K4000 per head)"*. This is the only clause which appear to have costings, however, it is not apparent what period of time the K4000 covers, and how such costs (which equates to approximately AUD \$1700) is valued to justify such costs.
- *"Mobile phones and other resources are provided under strict Australian Government rules and limits of the amount and type of use should be fully understood"*. There is no information on the issue and use of such phones, nor what such "rules" mean.

In providing this MOU to the Department, Paladin represented to the Department that:

4.4.3. Lessons Learned

- In future procurements and contracts that are high risk and high value, the financial arrangements and sub-contracting arrangements should be risk-assessed by the Department. Controls should be designed and implemented to evidence the Department's consideration of:
 - the evolving risk environment and changing risk profile
 - scrutiny over the continuing effectiveness, efficiency, economical and ethical use of relevant money and the value for money of any financial arrangements
 - the capability and capacity of major sub-contractors particularly where their capability and capacity were not assessed at procurement / tender evaluation, and
 - the risks associated with subcontractors.
- In future procurements and contracts that are high risk and high value, Internal Audit recommends that, due to the nature of the operating environment, the Department has an increased level of oversight in relation to all parties involved in the supply chain.

4.4.4. Recommendation

- Internal Audit recommends that the Department gain a comprehensive understanding of the financial arrangements/subcontracting arrangements between Paladin and other organisations such as Peren, Peheu and Hupat. This should include understanding the value of such arrangements and whether the Department should have been asked by Paladin to approve these arrangements.

Management Comment – Recommendation

PMCD notes the comments and Lessons Learned in relation to Finding Four: Management Sub-contractors and the recommendation.

For best practice, and while the contract is still active until 30 December 2019, the Offshore Contracts team will immediately:

- commence contract management scrutiny of the relationship between Paladin and Peren
- gain a comprehensive understanding of the financial arrangements / subcontracting arrangements between Paladin and other organisations such as Peren, Peheu and Hupat. This will include understanding the value of such arrangements and whether the Department should have been asked by Paladin to approve these arrangements.

PMCD notes that on 30 August 2019 the Department issued Paladin Holdings with a notice to terminate for convenience (within the terms of the Contract) for regional processing services in Papua New Guinea as the services are no longer required in Manus. Paladin are now in transition out.

In relation to this finding, and lessons learned, current contract management practice maintains that contracted service providers are responsible for the delivery of services under the contract. The contracted service provider remains responsible for ensuring that any work performed by their subcontractor meets the requirements of the primary contract with the Department.

Arrangements between the contracted service provider and their Major Subcontractors are a commercial matter for the service provider, and not a responsibility of the Department.

Should the Offshore Contracts Team become aware of an issue with a subcontractor, they would address this matter with the contracted provider and take appropriate action including abatements, removal of key personnel under the contract mechanisms in place, and /or exercising Step In Rights, including termination of the Contract.

Due Date: 31 October 2019

Officers Responsible: Major General s. 47F(1) | AS Offshore Contracts s. 47F(1)

5. Contract Management

In relation to the scope of the Internal Audit, as noted in the Executive Summary, the Department maintained sufficient and appropriate evidence to demonstrate compliance with its contract management policies, procedures and framework.

In making the assessment above Internal Audit also noted a number of areas where the Department's processes could have been improved. Detailed are those areas where improvements could have occurred and a series of 'lessons learned' for future contracts of this nature.

5.1. Non-Service Fee Payments made to Paladin Holdings PTE Ltd

5.1.1. Context

Prior to entering into a contract with Paladin Holdings on 28 February 2018, the Department executed four separate LOIs with Paladin Solutions (August 2017 to January 2018). Payments made under each LOI are in Table 1 below.

Table 1: Letters of Intent

Letter of Intent	Nature of the costs incurred	Date Executed	Amount Paid (GST Exclusive)	Details
1	Transition In Costs outlined within LOI 1 and 2	21 September 2017	\$4,937,687.00	This payment related to Paladin's transition costs.
2	(\$18,923,678.00 GST Exclusive).	9 November 2017	\$5,000,000.00	These payments were referred to as a 'Mobilisation Fee' that contributed to the remaining balance payable for Paladin's Transition Services.
			\$5,000,000.00	
			\$3,985,991.00	
	Service Fees outlined and agreed upon in LOI 3 and 4, prior to the finalisation of the contract (\$62,207,065.00 GST Exclusive).		\$2,207,065.00	This was a service fee payment for the month of October 2017
			\$15,000,000.00	This was a service fee payment for the month of November 2017.
3		5 December 2017	\$15,000,000.00	This was a service fee payment for the month of December 2017.
			\$15,000,000.00	This was a service fee payment for the month of January 2018.
4		31 January 2018	\$15,000,000.00	This was a service fee payment for the month of February 2018.

Refer to **Appendix D: Payments Made To Paladin Holdings PTE Ltd** for a list of payments made by the Department.

While these LOIs were between the Department and Paladin Solutions, all funds under the LOIs were transferred to a bank account held in the name of Paladin Holdings. The total value of the four letters was \$81,130,743 (GST exclusive).

The establishment and transition support costs in LOIs 1 and 2 (totalling \$18,923,678.00) were intended to fund the acquisition of transition goods (as proposed by Paladin) such as software and IT equipment, motor vehicles, fridges and freezers, security cameras, uniforms, security dogs, insurance and costs associated with performing medical and police checks.

As per the conditions contained in LOI 2, Paladin was required to:

- submit a request to the Department for approval of the use of these funds for transitions expenses, prior to withdrawing the money from the bank account
- provide details of the nature of the expense and the amount being requested
- withdraw from the bank account only the amounts that were approved by the Department, and
- provide the Department with documentation supporting the transition expense within 30 days of withdrawing the funds.

LOI 2 required unspent funds to be returned to the Department or offset against future service fee invoices issued by Paladin¹⁰.

5.1.2. Positive Observation

Internal Audit analysed the payments made under each of the LOIs and identified that:

- After the signing of the LOIs, there was appropriate evidence of the Department's scrutiny of these transition goods between Paladin Solutions' requested approval for incurring these costs, including:

Table 2: Payments made under the Letters of Intent

Line Item Ref.	Description of Items in the Letters of Intent	Amount (AUD\$)	Department's Response
19	Provision of dogs	\$39,600.00	This expense was not considered an appropriate security response in the management of refugees, as it was not consistent with the non-use of force as stated in the contract.
24	Uniform costs initial issue	\$534,600.00	The original amount of \$534,600 was based on an allowance of up to 3 sets of uniforms per employee. However, the Department only approved the cost associated with one set of uniforms per person, as any additional uniforms should be paid using the monthly service fee.
20, 21, 22 and 25	Vehicles (various)	\$1,141,800.00	As there were potentially vehicles available for use by Paladin Holdings (following BRS's exit from these services) and the fact that these costs were capital in nature, the Department did not approve the purchase of further vehicles.
27,28 and 29	Kitchen (various items)	\$317,396.00	Costs associated with the kitchen were deemed to be capital in nature. The funds the Department transferred to Paladin did not consist of capital funding, therefore these costs were not approved.

¹⁰ As of 9 of May 2019, Internal Audit has yet to receive a response in relation to their request regarding the reconciliation process and the outcome of the money paid out under LOI 1 and LOI 2 (transition in costs totalling \$18,923,678).

Internal Audit noted one minor issue in that Paladin Solutions did not always comply with the conditions set out in LOI 2, as it did not always seek prior approval for the purchase of transition goods, including:

Table 3: Transition in Goods and Services acquired without prior approval

Line Item Ref.	Description	Amount (AUD\$)	Details
4	Community payment for ELRTC	\$140,000.00	Invoice date was 1 November 2017; however, the Departmental approval was provided on 10 January 2018.

For the uniform, vehicle and kitchen costs included in Table 2 on the previous page, Paladin Solutions also did not seek prior approval.

Management Comment
PMCD notes the positive observations and comments made against the Non-Service Fee Payments made to Paladin Solutions PTE Ltd.
PMCD expects all prior approval of costs be requested by the Service provider. An instance of non-compliance would be addressed on its merits and may include non-payment of the invoice as allowed for under the Contract.

5.2. Contract Finding One: Performance Management Framework

5.2.1. Context

The Department's Offshore Contract Section (OCS) is responsible for monitoring the delivery of the contract performance framework, for contract documentation (other than on financial matters) and the maintenance of registers including the risk register.

Schedule 2 of the Department's contract with Paladin Holdings articulates the service delivery requirements applicable under the contract. The schedule states that the service provider will be responsible for the following twelve services at the ELRTC:

- | | |
|--|---|
| 1. Resident Engagement | 8. Catering (optional service, which is currently undertaken by NKW Holdings Ltd) |
| 2. Security Services | 9. Cleaning |
| 3. Incident Management | 10. Management and Maintenance of Assets and the ELRTC |
| 4. Management of Emergencies | 11. Environmental Management, and |
| 5. Transport and Escort | 12. Business Services. |
| 6. Reception, Induction and Departures | |
| 7. Accommodation Management | |

The contract sets the expectation that the service provider must meet or exceed performance measures and any other standards expressed in the contract. Performance is reported by Paladin Holdings monthly through the Monthly Performance Report.

Performance Management Framework: In December 2012, the Department introduced a Performance Management Framework (PMF) for service providers operating at the Regional Processing Centres (RPC) of The Republic of Nauru and Manus Island, PNG. The PMF outlines the performance assessment process, as well as the individual performance measures, against which the performance of the service provider will be assessed. The PMF is used as a mechanism for monitoring and evaluating the service provider's performance against its contractual requirements and the Department's expected outcomes.

The PMF (Schedule 4 Clause 5) for assessing Paladin Holdings' performance has three elements, namely:

1. Performance Monitoring: Regular Performance Reporting (Paladin-Provided Reports) – requires the service provider to self-monitor and self-report on its performance against the agreed performance measures and submit a monthly performance report in accordance with the Reporting Template and Performance Measures.
2. Performance Assessment: Audit and Review – assess the quality of goods and services received through a review of the findings of each self-report. This is undertaken by the OCS in Canberra.
3. Feedback: User and Stakeholder Feedback – assesses the expectations and/or satisfaction of the users of the contractual services, through surveys, questionnaires and daily/weekly management meeting minutes and actions.

5.2.2. Finding

The Department currently undertakes the following contract management activities in relation to Paladin Holdings:

1. Self-reports from the service provider which are provided on a monthly basis along with the supporting documentation and/or evidence identified within the POM Service Delivery Team – Work Instruction¹¹.
2. The Department conducts reviews and audits of the service provider's performance through the following methods:
 - The POM Service Delivery Team, located on island at Port Moresby, is responsible for the management of some of the support service delivery functions, including: contract advice, obligations, governance and maintenance. The POM Service Delivery Team completes a review of the monthly self-assessment provided by the Service Provider, in order to verify whether the information and outcomes are accurate, as well as request additional evidence as required, in order for the POM to complete their audit in accordance with the POM Service Delivery Team – Work Instruction.
 - The POM and Offshore Contract Teams created a schedule to conduct site visits on a monthly basis, commencing from December 2018. During the site visits the POM Team are provided with a checklist¹² by the Department and are charged with reviewing and reporting on a range of issues outlined within the contract that may or may not be included as part of the PMF.
 - Internal Audit notes that as of 12 September 2019, the Department's service delivery team based in Port Moresby (POM Team) had completed four of the ten scheduled monthly site visits. Internal Audit was informed that site visits might not be conducted on a monthly basis for a range of reasons including the current operating environment, operational issues and resourcing. As such, there is reliance placed on self-reporting.
 - Internal Audit notes that the Department advised that at least eleven site visits were undertaken by the Department for a variety of reasons, not just an assessment of performance, which occurred between October 2017 and April 2019.

¹¹Performance Management Framework: Reporting – Paladin POM Service Delivery Team – Work Instruction
4DD2018/294/110

¹²s. 22(1)(a) Access – 4DD2017/11/12 to 10/12/17 – 4DD2019/510053
1)

The Department also conducts the following meetings in relation to the Manus Island contracts and service providers¹³:

- i. Monthly Paladin Garrison Contract Meeting
- ii. Quarterly Joint Offshore Service Provider Forum (JSPF)
- iii. Monthly Joint Stakeholder Collaboration Forum
- iv. Monthly Performance Management Meeting and Weekly Service Delivery Meeting (Internal Audit requested meeting minutes for some of these forums –these were yet to be provided at the time of reporting).
- v. Weekly Service Delivery Meetings. These meetings are conducted face-to-face and documented by Paladin Holdings (which are later provided to the Department).

In addition to the above, PMCD noted the following:

- The multilayered approach to performance management only required dedicated contract management staff to visit Manus on an intermittent basis, noting other staff also visited on other occasions. Safety of our staff during these site visits is a priority, as is the ongoing safety and security of the refugees and asylum seekers.
- The active management of the Performance Management Framework, and the identification and rectification of service failures demonstrates sound contract and fiscal management and ensures services are maintained at required levels.
- Paladin has demonstrated continuous improvement in meeting service standards during the course of the contract. Performance failures identified through the performance management review process do not represent significant service delivery failures.

The Performance Management Framework does not include assessment of all contract requirements

The PMF does not cover the following elements of the contract:

1. management of emergencies
2. reception, induction and departures
3. accommodation management
4. environmental management
5. information technology requirements, and
6. personnel accommodation.

Internal Audit recognises that within existing resources and the operating environment, the Department monitors those contract performance aspects it considers most critical. Additional assurance mechanisms, such as formal declarations of compliance with sign-off by the service provider leaders (which requires minimal departmental resources), may assist to discharge the suite of contract requirements for low risk contract items and add further evidence where on-site visits are not practical.

Contract Records

- Internal Audit notes that through this audit and an impending ANAO audit, information about the procurement and contract management documentation was gathered within TRIM, however, there is an opportunity for records to be structured and maintained in a manner which supports retrieval without needing additional resources to create further TRIM folders or to create an index of

As of the 31 of May 2019, the Internal Audit team could not see to be provided with the information requested SQMS and PDMS records. Therefore Internal Audit was unable to process the audit findings within those meetings. The correspondence with the service providers and/or the effectiveness of the service provider management activity.

contents. For HRHV procurements, Internal Audit recommends that a well-defined TRIM file structure is established to record all key decisions and documents that relate to the procurement.

5.2.3. Lessons Learned

- The Department should consider adopting different forms of assurance over contract requirements, particularly for high risk and high value contracts. For lower risk requirements, responses such as formal declarations of compliance with sign-off by the service provider leaders may assist to discharge the suite of contract requirements for low risk contract items.
- Appropriate site visits are required to ensure that the Department meets the management program intent. The Department should ensure that it maintains a balanced approach to attaining its own evidence of contractor performance for contracts of this scale (as well as activities to ensure the self-reporting is reasonable). In addition, where site visits are unable to be completed, the Department should document the reasons for this and the risk mitigations that it has in place.
- The Department's own assurance activities in the self-reporting should include assessing the accuracy of Paladin's data input to its performance reports to the Department.
- There is an opportunity for records to be structured and maintained in a manner which supports retrieval without additional resources needed to further create TRIM folders or to create an index of contents.

Management Comment

PMCD notes Contract Management – Finding One: Performance Management Framework.

PMCD notes the suggestions for continued improvement and best practice and will ensure that these issues are addressed in any review of the Contract Management Framework and associated record keeping policies.

5.3. Contract Finding Two: User Acceptance Testing

5.3.1. Context

The Australian Commonwealth Government's *Contract Management Guide* defines 'acceptance' as *"the term used to describe how the procuring entity determines whether the goods or services meet the contract requirements, and formally accepts them"*. In this case User Acceptance Testing (UAT) is an initial system of checks conducted in conjunction with the contractor to demonstrate compliance with requirements outlined in the contract. It is considered ideal for UAT to be conducted prior to the delivery of the first good or service under the contract to ensure accordance with key criteria.

During the period of the four LOIs (September 2017 to January 2018) no UAT was conducted over the requirements in the LOIs. UAT was undertaken for the contract the Department executed with Paladin Holdings (signed on 28 February 2018).

5.3.2. Finding

The Department asked Paladin to participate in a thorough UAT protocol, testing all appropriate clauses within the contract and schedules for the contract with Paladin Holdings. The level of detail requested is an atypical approach to UAT but, considering the risk profile of the contract, it is considered appropriate and better practice to apply the additional level of scrutiny that the Department did.

However, Internal Audit made the following observations:

- Delay in initiating UAT: As at 28 February 2018, the Department had initiated consultations with Paladin Holdings in relation to the UAT process, including the actions required to ensure that Paladin Holdings was set up and capable of undertaking the UAT. Paladin Holdings was emailed on 1 May 2018, some 62 days after signing the contract, to confirm the initiation of UAT process. While Internal Audit acknowledges that the Department was under significant time and resource pressures while transitioning between service providers and early in the contract, UAT should be initiated during contract transition and prior to receiving the initial services or soon after.
- There was no specified timeframe for UAT completion: Following the initiation of the UAT, it was a further nine months (December 2018) before the Department confirmed the finalisation of testing. This was beyond the initial term of the contract, as the Department exercised the first contract extension option which was approved on 17 September 2017, which took into account the PMF and the corresponding abatements. However, Internal Audit found that there was no evidence provided to demonstrate that the ongoing UAT was considered during the application for the contract extension.

"The Department hereby notifies Paladin that it exercises the first option period available under the Contract to extend the provision of services for two (2) months from 1 November 2017 to 31 December 2018, in accordance with clause 2.2 of the Contract."

5.3.3. Lessons Learned

- There is opportunity for the Department to improve the extent to which it documents its criteria for its user acceptance testing and the timeframes for completion.

Management Comment

PMCD notes Contract Management - Finding Two: User Acceptance Testing and accepts the findings and lessons learned.

PMCD notes the significant time and resource pressures experienced during the transition and contract transition period, resulting in the delay in finalising the UAT process.

Further, due to the links and interdependencies between the other contracted service providers, and PNG ICA, Paladin was required to conduct a further review of existing policies and procedures to ensure appropriate operational collaboration occurred between service providers. This work resulted in a more complex UAT assessment.

5.4. Contract Finding Three: Contract Risk Management

In relation to the scope of the Internal Audit, as noted in the Executive Summary, the Department maintained sufficient and appropriate evidence to demonstrate compliance with its contract management policies, procedures and framework.

5.4.1. Context

Risk Management

Effective risk management is a fundamental principle of contract management. Risk should be considered in relation to both the service provider and contract management, with risks identified and appropriate mitigating strategies determined. Risk management also requires the development and ongoing assessment of a risk plan and contingency plans for significant unexpected events, for example interruption to service delivery with or without default by the service provider.

Better practice identifies that risk management should be consistent with the entity's risk framework. In this respect, the Departmental risk management guidance material indicates that risk management

The initial risk assessment was undertaken by the Department in December 2017 through consultation and workshops with Executive Level staff located within the Offshore Contracts Management Section.

The Department has developed a Fraud and Corruption Control Plan which outlines its commitment to effectively manage the risks associated with fraud and corruption activities and encourages the regular monitoring of risks and allows the Department to readily implement new strategies in accordance with continuously changing circumstances.

In the initial risk assessment¹⁴ (November 2017) for the contracted services, Internal Audit found that the risk assessment did not sufficiently address fraud and corruption related risks for a contract of this nature. Internal Audit notes that the initial risk assessment contained a total of five potential risks, with only two of the five risks being fully assessed for potential consequences, as well as related risk treatments to be used as a mechanism to mitigate these risks.

A range of risks have not been addressed within the risk register, and could increase the Department's ability to manage service delivery risks (for example, but not limited to):

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- fraud and corruption activities which negatively impact the Department and result in tangible or intangible benefits for other parties involved (directly or indirectly) with the contract.
 - Internal Audit notes that the Department's Contract Management Manual (Published 13 June 2017 and reviewed 1 July 2018) states that DIBP contract managers must be alert to the possibility of fraud (including corruption) and must take all reasonable steps (including undertaking a fraud risk assessment) to safeguard the Department.

Inclusion of sub-contractors in the Risk Assessment

- Internal Audit recognises that as outlined in the contract: *"The Service Provider will be liable to the Department for the acts, omissions, defaults and neglect of any Subcontractor or any representative of the Subcontractor engaged in the performance of the Services as fully as if they were the acts, omissions, defaults or neglect of the Service Provider."*
- However, the risks associated with capability and capacity of service delivery continues to rest with the Department. As such, there are opportunities for the Department to increase their ability to manage service delivery risk by incorporating the potential risks posed by the engagement of subcontractors (in an operating environment of this nature) within the risk assessment, to ensure that the risks associated with critical service delivery are being appropriately managed.

Incomplete implementation of risk treatments

Internal Audit found through the review of documentation made available by the relevant stakeholders, that there were a number of risk treatments that have either not yet been implemented or are undergoing further development. The following risk treatments have yet to be implemented:

- introduction of the use of a SharePoint or other appropriate contract management or workflow system and/or application
- training of staff in productivity and time management skills
- establishment of a knowledge transfer processes for standardised exits, and
- establishment of Terms of Reference (ToR) for internal meetings.

Internal Audit also found that there are a number of risks that have not yet been addressed and do not have a corresponding risk treatment, specifically two medium level and one low level risk rating. The risks that have not been considered relate to:

- performance management – the service provider's underperformance not being rectified
- service delivery – failure to effectively maintain the contract (service delivery), and
- asset management – assets not being managed effectively.

5.4.3. Lessons Learned

- For future contracts of this size and scale, there is an opportunity for the Department to improve its risk management documentation, by ensuring that risks are comprehensively identified, documented, assessed and managed in a manner which aligns with the assessment; as well as implementing effective treatments so that risks are evidenced as being managed.
- Where risks are identified initially (such as at tendering stage or procurement planning and evaluation) these should be traceable across risk documents so that risks are either continuing to be managed or are formally documented as being closed off.

Management Comment

PMCD notes Contract Management - Finding Three: Contract Risk Management, and accepts the findings and lessons learned.

Further, PMCD notes that Risk Management practices are maintained by contract managers and include ongoing reviews and assessments of contract risks. These reviews are recorded in TRIM in accordance with Department's record management practices.

Appendix A: Positive Observations

In undertaking this Internal Audit, we noted the following positive observations:

1. Use of paragraph 2.6 of the Commonwealth Procurement Rules

The procurement of Paladin Solutions was conducted under the Special Measures procurement designated in accordance with paragraph 2.6 of the CPRs.

On 5 July 2017, at the Senior Officer's Meeting in Port Moresby, the Department was advised that the PNG Government would not procure, transition or manage contracts related to the management of the Manus Island residential cohort. Subsequently, the Department's Secretary determined special measures existed to deviate from the CPRs and consequently approved the application of paragraph 2.6 of the CPRs in procuring a provider for these services in a minute signed on 10 August 2017.

Internal Audit reviewed the signed minute approving the application of paragraph 2.6 and identified:

- Sufficient evidence of the Department seeking legal advice from the Australian Government Solicitor and external probity advice from Sparke Helmore Lawyers on the application of paragraph 2.6.
- A sufficient level of information was provided to the Accountable Authority to determine that special measures under 2.6 of the CPRs was necessary to be applied to the procurement. In particular relating to the protection of essential security interests and human health. Paragraph 17 of the signed minute states *"without flexible contracts that can implemented quickly there will be a significant risk to continuity of services, which will result in the environment becoming unstable, increasing the risks to the wellbeing, safety and security of staff, service providers and the residual cohort"*.

2. Value for Money Assessment

Noting the time constraints for the procurement of garrison and welfare services in PNG, post the closure of the MRPC, the Department was able to develop a suite of documents that substantially met the requirements contained within Division 1 Section 4 of the CPRs relating to value for money. However, Internal Audit identified some further areas for improvement in the Department's documentation relating to 4.4 *c facilitate accountable and transparent decision making* (refer to Section 5.1 *Value for Money Assessment* for further detail).

3. Contract Abatements

In its report *'Offshore Processing Centres in Nauru and Papua New Guinea – Contract Management of Garrison Support and Welfare Services'*, the Australian National Audit Office (ANAO) found that the Department's performance management framework did not appropriately implement an abatement regime in its performance management of its previous garrison support and welfare services contracts.

The PNG Garrison Services Contract stipulates that poor performance against the contract's performance measures will result in a financial abatement imposed which will be applied to monthly service fees. Abatement amounts are capped at 15% of the total monthly service fee (excluding pass through costs such as freight charges, fuel, import duties, office furniture, equipment and consumables).

At the date of this report, a total of \$5,422,148 has been abated by the Department in its contract with Paladin Holdings.

4. Contract Payments

The Department made payments to under four Letters of Intent and also a contract executed on 28 February 2018. Based on Internal Audit's review, all payments were made in accordance with the conditions of the Letters of Intent and contract.

Furthermore, Internal Audit found that the Department applied a sufficient level of scrutiny when it came to the approval or rejection of the transition in goods and services acquired by the service provider, during the period in which the Department was operating under the LOIs.

Based on Internal Audit's review, no instances of non-compliance were noted in relation to payments made to Paladin Holdings by the Department (i.e. payments have been made in accordance with the conditions of the LOIs and contract).

5. Contract Management

Based on Internal Audit's review, the Department appropriately managed a number of instances where they became aware of circumstances in which the service provider's employees were not operating in accordance with the contract. The Department actively managed the contract and removed these personnel from the management and delivery of the services outlined under the contract, in a timely manner.

The Department asked Paladin Holdings to participate in a thorough User Acceptance Testing protocol, testing all appropriate clauses within the contract and schedules for the contract with Paladin Holdings. The level of detail requested is an atypical approach to UAT but, considering the risk profile of the contract, Internal Audit considers this appropriate and was an example of better practice to apply the additional level of scrutiny that the Department did to ensure the services were being appropriately provided.

The Department maintained sufficient and appropriate evidence to demonstrate compliance with its contract management policies, procedures and framework.

Internal Audit found that the Department's procurement team produced a Risk Management Strategy and Plan for the procurement process with Paladin Holdings and conducted a risk assessment over its contract with Paladin Holdings.

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Appendix B: Timeline of Events

Figure 1 below provides a timeline of events for the Department's engagement with Paladin Solutions and Paladin Holdings.

Figure 1: Timeline of events

2015		
January	30	Release of RFQ 28/14 (TRIM Ref. ADD2019/1593988).
2016		
April	15	Amended RFQ 28/14 was released after the initial tender failed (TRIM Ref. ADD2019/1593988).
July	21	Serco withdrew from RFQ 28/14 due to risk allocations in the Department's draft services contract (TRIM Ref. ADD2016/1018372).
	29	RFQ 28/14 was cancelled after the preferred tenderers (BRS and SERCO) withdrew from the process (TRIM Ref. ADD2017/1274376). There were six respondents to this RFQ at the time.
2017		
February	1	PNG Government expressed their intention to take over responsibility for provision of services through appointing service providers via the PNG Government Procurement Processes.
July	5	The PNG Government informed the Department that they were no longer intending to enter into new contracts until after the formation of the new PNG Government (TRIM Ref. ADD2019/1834168).
July	10	Approval to engage a Commercial Partner – KPMG.
August	10	Signed minute, by Secretary Michael Pezzullo, approving the Department to apply paragraph 2.6 of the CPRs (TRIM Ref. ADD2017/2833812).
	14	Letter from Minister Dutton to Prime Minister Malcom Turnbull seeking authority/agreement to enter into formal negotiations with potential vendors to deliver goods and services to support residual caseload remaining in PNG after closure of the RPC1 on 31 October 2017 (TRIM Ref. ADD2019/969783).
	22	Letter from Prime Minister Malcolm Turnbull to Minister Dutton authorising the above request and providing authority to hold contracts (TRIM Ref. ADD2018/116631).
	28	s. 47F(1) (Deputy Commissioner, Support) provided approval of: <ul style="list-style-type: none"> - Strategic Procurement Plan and Spending Proposal – For the Provision of Garrison Services at the ELRTC (TRIM Ref. ADD2017/2555597 & ADD2017/2552267)

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		<ul style="list-style-type: none"> - Probity Plan – For the Provision of Garrison Services at the East Lorengau Refugee Transit Centre (TRIM Ref. ADD2017/2555394 & ADD2017/2552267) - Evaluation Plan – For the Provision of Garrison Services at the ELRTC (ADD2017/2555794 & ADD2017/2552267) - Risk Management Strategy and Plan – For the Provision of Garrison Services at the ELRTC (ADD2017/2556017 & ADD2017/2552267).
		Signed minute (by s. 47F(1)) approving the Department to release the RFQ 170034 to Paladin Solutions PNG Ltd (TRIM Ref. ADD2017/2552267)
		RFQ letter and documentation issued to Paladin Solutions PNG Ltd via email to s. 47F(1) (TRIM Ref. ADD2017/2954130, ADD2017/2954150 & ADD2017/2552267)
	29	s. 47F(1) (Paladin Solutions PNG Ltd) acknowledges receipt of the RFQ invite and confirms their position of submitting a response by 4 September 2017 (TRIM Ref. ADD2017/2954231).
September	1	Bilateral meeting between the Department and Paladin Solutions to afford an opportunity to discuss and clarify elements of the RFQ.
	4	Paladin submitted its response to RFQ 1750034 (TRIM Ref. ADD2019/2053824, ADD2019/2053850 & ADD2019/2053877).
	18	Pricing Evaluation Report – RFQ for the Provision of Garrison Services at the ELRTC was signed off (TRIM Ref. ADD2017/3139012, ADD2017/2834506 & ADD2017/2834500).
	20	Final sign off of the Technical Evaluation Report (TRIM Ref. ADD2018/994590).
	21	Previous history of misconduct of Paladin Solutions' s. 47F(1) was first brought to the Department's attention.
		Signed Minute s. 47F(1) approving Letter of Intent 1 (TRIM Ref. ADD2017/2795535).
		Letter of Intent 1 counter signed by s. 47F(1) and s. 47F(1) (Paladin Solutions) to enable the commencement of transition services (TRIM Ref. ADD2017/2795574).
		Sign off of the Evaluation Report Minute by s. 47F(1) Minute included the following attachments: Tender Evaluation Report, Commencement for Negotiations and Commencement of LOI Process (TRIM Ref. ADD2017/3107932, ADD2017/2834336 & ADD2017/2772177).
		Negotiations between the Department and Paladin Solutions in respect to the PNG Garrison Services Contract (TRIM Ref. ADD2018/892357 & ADD2017/3138688).
	28	Signed Minute s. 47F(1) through the General Counsel approving High-Risk High-Value Gateway 3 (TRIM Ref. ADD2017/3048877).

	29	The Department wrote to Paladin requesting s. 47F(1) be removed from work relating to the provision of Garrison Services (TRIM Ref. ADD2018/3183851).
October	5	Signed letter from Paladin Solutions to the Department in response to the Letter of Intent 1 dated 21/9/2017. The letter related to ongoing negotiation making certain parameters of the Letter of Intent 1 redundant (TRIM Ref. ADD2017/3105670 and ADD2017/3053052).
	12	Signed Minute (Ms Lee-anne Monterosso) approving the Department's response to Paladin Solutions letter dated 21/9/2017 (TRIM Ref. ADD2017/3107967).
		Letter from the Department to Paladin Solutions in response to Paladin Solutions' 'Response to Letter of Intent RFQ 170034' dated 21/9/2017
	13	Signed Minute (Ms Lee-anne Monterosso) approving Paladin Solutions Transition Services Costs under the Letter of Intent (TRIM Ref. ADD2017/3575972).
	16	Signed Minute (s. 47F(1)) approving the Department to engage in formal contract negotiations to commence with Paladin Solutions (TRIM Ref. ADD2017/3138688).
		Negotiation Strategy RFQ 1750034: Provision of Garrison Services at the East Lorengau Refugee Transit Centre (ELTRC) PNG approved by s. 47F(1) (TRIM Ref. ADD2017/3138688)
	17	Signed Minute (s. 47F(1)) approving Paladin Solutions Transition Services Costs under the Letter of Intent (TRIM Ref. ADD2017/3150099).
	18	Australian Government Solicitor advice provided to the Department in relation to negotiations with Paladin Solutions for the provision of Garrison Services (TRIM Ref. ADD2017/3268302).
	29	Letter from Paladin Solutions to the Department in response to RFQ 1750034, addressing their concerns in relation to the changing/expanding scope of work and the possibility that Paladin Solutions may not be able to meet acceptable service levels (TRIM Ref. ADD2017/3355450).
November	30	Signed Minute (s. 47F(1)) through General Counsel approving the Department to address as part of contract negotiations, amendments to the (then) current contract obligations on service providers in regard to the allocation of risk and liabilities under the contracts (TRIM Ref. ADD2017/3352922).
	31	Closure of Manus Regional Processing Centre
		BRS' last day of primary service provider of garrison services at the MRPC.
November	8	Signed Minute (s. 47F(1)) approving Paladin Solutions services costs under Letter of Intent 2 (TRIM Ref. ADD2017/3466612).

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		Letter of Intent 2 from the Department to Paladin in relation to RFQ 1750034 (TRIM Ref. ADD2017/3466612 & ADD2017/3494294).
	9	Letter of Intent 2 signed by s. 47F(1) and s. 22(1)(a)(ii) (Paladin Solutions) (TRIM Ref. ADD2017/3494294).
	16	Signed Minute (s. 47F(1)) re-approving Paladin Solutions service costs under Letter of Intent 2 (TRIM Ref. ADD2017/3575972 & ADD2017/3972248).
	21	Signed Minute (s. 47F(1)) advising of the changes to additional governance arrangements for oversight of HRHV procurements (TRIM Ref. ADD2017/4051482).
December	4	Signed Minute (s. 47F(1)) approving Paladin Solutions service costs under Letter of Intent 3 (TRIM Ref. ADD2017/4022276 & ADD2017/3763983).
		Letter of Intent 3 signed by s. 47F(1) and s. 47F(1) (Paladin Solutions) (TRIM Ref. ADD2017/3810074).
2018		
January	16	Email from Paladin Solutions to the Department advising that s. 47F(1) and s. 47F(1) employment with the company had ceased and that they are being replaced with Project Director s. 47F(1) and Director Operations Support s. 47F(1) (TRIM Ref. ADD2019/1273815).
	31	Signed Minute (s. 47F(1)) approving Paladin Solutions services costs under Letter of Intent 4 (TRIM Ref. ADD2018/312696).
February	7	Letter of Intent 4 counter signed by s. 47F(1) and s. 47F(1) (Paladin Solutions) (TRIM Ref. ADD2018/1322601 & ADD2018/411246).
	23	Signed Minute (s. 47F(1)) through the General Counsel approving High-Risk High-Value Gateway 4 (TRIM Ref. ADD2018/541614 & ADD2018/859710 & ADD2018/551555).
		Signed Minute s. 47F(1) approving the negotiation outcomes for Paladin Holdings (TRIM Ref. ADD2018/541614 & ADD2018/858379).
	28	User Acceptance Testing commenced (and continued through to 30/11/2018).
		Signed Minute (s. 47F(1)) approving the expenditure for the provision of garrison services at ELTRC and enabling the Department to execute the contract (TRIM Ref. ADD2018/837844).
Signed PNG Services Contract between the Department and Paladin Solutions (TRIM Ref. ADD2018/926117).		
March	14	The Department wrote to Paladin Solutions requesting the removal of s. 47F(1) from the provision of garrison services in PNG due to unprofessional behaviour displayed during a collaboration meeting with the PNG Government (TRIM Ref. ADD2018/1054952).

May	1	Abatement 1 (\$753,900).
June	1	Abatement 2 (\$701,100).
July	1	Abatement 3 (\$2,606,748). Actual fail figure was \$8,097,300; however the contract applies a 15% cap on abatements for any given month on total monthly service fees.
	11	An Australian Federal Court law suit was launched by a former Paladin Solutions employee (s. 47F(1)) against Paladin Group for unfair dismissal.
	20	Signed Minute (s. 47F(1)) approving the release of letter to Paladin Solutions in relation to media allegations (TRIM Ref. ADD2018/3188946).
		The Department issued a letter to Paladin Solutions relating to Paladin Solutions not complying with the Department's initial request of removing (s. 47F(1)) from the delivery of garrison services on PNG (TRIM Ref. ADD2018/3188946).
	26	Letter from Paladin Solutions to the Department in response to the Department's letter above (TRIM Ref. ADD2018/3290976).
August	1	Abatement 4 (\$921,900).
	31	The Department issued a letter to Paladin Solutions (approved by s. 22(1)(a)(ii)) pertaining to the final outcome to Paladin Solutions' Performance Reporting for May 2018 and the payment of the abatement amount of \$753,900 (TRIM Ref. ADD2018/4050532)
September	1	Abatement 5 (\$246,000).
	5	The Department issued a letter (approved by s. 22(1)(a)(ii)) to Paladin Solutions pertaining to the outcome of Paladin Solutions' performance reporting for June 2018 and the payment of the abatement amount of \$701,100 (TRIM Ref. ADD2018/4131920).
	7	The Department issued a letter to Paladin Solutions (approved by s. 22(1)(a)(ii)) acknowledging receipt of Paladin Solutions' letter dated 26 July 2018 and directing Paladin Solutions to remove (s. 47F(1)) from duties in respect to services provided under the contract with the Department (TRIM Ref. ADD2018/4163312).
	14	Response received from Paladin Solutions confirming (s. 47F(1)) has been removed from duties in respect to services provided under their contract with the Department (TRIM Ref. ADD2018/4263646).
	17	The Department issued a letter (approved by s. 47F(1)) to Paladin Solutions issuing a Contract Extension Notice in relation to the PNG Services Contract for the period 1 November 2018 to 31 December 2018 for \$47,430,000 (TRIM Ref. ADD2018/4302828).
October	1	Abatement 6 (\$131,000).

	12	The Department was notified by Paladin of an ICT breach of their systems (TRIM Ref. ADD2019/1307107).
November	1	Abatement 7 (\$34,500)
	16	Receipt of letter from Paladin Solution confirming their receipt of the Department's letter dated 17 September 2018 (TRIM Ref. ADD2018/5684775).
December	1	Abatement 7 (\$27,000).
	3	The Department issued a letter (approved by s. 47F(1) to Paladin Solutions issuing a contract extension notice of PNG Services Contract to 30 June 2019 (TRIM Ref. ADD2018/5684775).
2019		
January	25	The Department became aware of the Paladin Solutions PNG Director being arrested in relation to charges of money laundering and misappropriation of funds.
	28	Radio New Zealand released a media article in relation to charges laid against the Director of Paladin Solutions
February	11	The Australian Financial Review started releasing media articles relating to the Department's procurement process in engaging Paladin Holdings.

Appendix C: Approach and Limitations

Approach

This approach was consistent with an End-to-End Control Process Audit and involved the following activities:

- Documenting a timeline of key events, risks and risk mitigation strategies that the Department identified and implemented in relation to the procurement process for garrison services on Manus Island.
- Identifying and consulting with key stakeholders from the Department to understand the process of events and outcomes of the procurement for the Garrison Services contract with Paladin Solutions;
- Gathering relevant internal and external reports and/or reviews conducted to understand the procurement process that occurred in contracting with Paladin Solutions;
- Reviewing relevant Departmental procurement documentation and other documentation supporting the procurement process.
- Reviewing the consultation undertaken by the Department to validate that the measures used to apply paragraph 2.6 were appropriate and in accordance with the CPRs. This includes both stakeholders within the Department, and external stakeholders such as the Australian Government Solicitor, the Department of Finance and other external legal and commercial advisors.
- Conduct key word searches of Departmental emails and perform a review for information relevant to the procurement process for the Garrison Services Contract with Paladin Solutions;
- Assessing the Department's approval of the MRPC procurements in accordance with the Department's delegations framework and the CPRs.
- Understanding and reviewing the prior Australian National Audit Office (ANAO) reports relevant to the Departments procurement and contract management arrangements.
- Analysing the root cause for any control weaknesses and providing opportunities for improvement;
- Holding discussions with key Departmental stakeholders to discuss results including findings and observations; and
- Preparing a draft report of results, findings, observations and recommendations.

Limitations

We draw your attention to the following limitations inherent in this report:

- We have not consulted with representatives of Paladin Solutions as part of this internal audit
- If additional or new information is brought to our attention subsequent to the date of this report which would affect the findings, we reserve the right to amend or qualify the findings accordingly.
- The findings in this report do not constitute legal advice.
- The scope of this internal audit was limited to analysis of documentation and information made available and specific enquiries undertaken to pursue our mandate.
- We have included information that we obtained verbally, in this report. Unless expressly indicated otherwise, we cannot verify that such information obtained is credible or truthful.

Appendix D: Payments Made To Paladin Holdings PTE Ltd

Table 4 contains the lists the payments made by the Department to Paladin Holdings PTE Ltd. This information was sourced from the Department's accounting system.

Table 4: Payments made to Paladin Holdings PTE Ltd

Document Date	Amount (\$AUD)
18/05/2018	\$17,402,293.54
31/05/2018	\$17,239,106.42
5/07/2018	\$17,060,235.36
12/07/2018	\$11,833.33
20/07/2018	\$94.67
26/07/2018	\$28,923.30
31/07/2018	\$17,323,467.58
28/08/2018	\$378.67
31/08/2018	\$17,838,968.73
11/09/2018	\$137,046.93
25/09/2018	\$5,835,553.80
4/10/2018	\$4,265,561.51
9/10/2018	\$6,612,114.01
1/11/2018	\$10,872,760.75
29/11/2018	\$866,366.77
4/12/2018	\$17,157,265.99
13/12/2018	\$10,760.25
19/12/2018	\$4,047.40
21/12/2018	\$3,592,435.45
7/01/2019	\$17,393,998.29
10/01/2019	\$222,960.88
15/01/2019	\$666,695.02
17/01/2019	\$13,615.54
29/01/2019	\$496,340.60
5/02/2019	\$13,082,469.17
13/02/2019	\$16,899,126.14
27/02/2019	\$1,254,060.65
15/03/2019	\$17,141,030.61
21/03/2019	\$386,016.91
Total	\$203,815,528.27

Appendix E: Personnel Consulted

Table 5 contains the list of the stakeholders consulted as part of this internal audit and their respective positions at the time.

Table 5: Personnel consulted

Name	Position
Alana Sullivan	Assistant Secretary, Regional Processing Taskforce
s. 47F(1)	Offshore Contracts Section
s. 22(1)(a)(ii)	Director, Portfolio Efficiencies
s. 47F(1)	Deputy Secretary and Chief Operating Officer
s. 47F(1)	First Assistant Secretary, Property and Major Contracts
s. 22(1)(a)(ii)	Director, Regional Processing & Program PNG
s. 22(1)(a)(ii)	Contract Transition
s. 22(1)(a)(ii)	Director, Offshore Contracts Section
Maree O'Neale	Shared Services Implementation
s. 47F(1)	First Assistant Secretary, Integrity, Security and Assurance
Penny McKay	Assistant Secretary, Audit and Assurance Branch
s. 22(1)(a)(ii)	Acting Assistant Secretary, Portfolio Efficiencies Branch
s. 22(1)(a)(ii)	Director, Contract Transition
s. 22(1)(a)(ii)	Director, Border Alignment Policy
s. 22(1)(a)(ii)	Director, Services Procurement Section
Claire Roennfeldt	Assistant Secretary, Services Management Branch
s. 22(1)(a)(ii)	Assistant Director, Offshore Contracts Section
s. 47F(1)	Services Procurement Section
s. 47F(1)	Deputy Commissioner, Deputy Commissioner Operations
s. 47F(1)	Assistant Commissioner, Strategic Border Command

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As the services covered by this project are not being performed under the requirements of the Corporations Act, the services do not constitute an external audit, or an engagement to perform agreed-upon procedures in accordance with the Australian Auditing Standards.

The services are being undertaken at the request of the Department of Home Affairs to examine the adequacy of internal controls outlined in the scope and approach sections of this document.

The Department of Home Affairs is fully and solely responsible for making implementation decisions, if any, and to determine further course of action with respect to any matters addressed in any advice, recommendations, services, reports or other work product or deliverables provided by us.

The Department of Home Affairs is responsible for maintaining an effective internal control structure. The purpose of our report will be to assist the Department of Home Affairs in discharging this obligation.

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to internal audit operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Our report will be prepared for the use of the Department of Home Affairs. We disclaim all liability to any other third party for all costs, loss, damage and liability that the other third party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other third party or the reliance upon our report by the other third party including your external auditor. We understand that whilst our work does not negate the primary obligations of your external auditor, the work we undertake may be accessed by the external auditor for their information only. Any reliance on our report will require separate consent by EY, The Department of Home Affairs and your external auditor.

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