

27 November 2018

Raveen Jaduram
Chief Executive Officer
Watercare Services Limited
Private Bag 92521
Wellesley Street
AUCKLAND 1141

Dear Raveen,

INTERIM BOARD REPORT: CENTRAL INTERCEPTOR PROJECT - INDEPENDENT PROBITY REPORT (10 MAY 2018 – 27 NOVEMBER 2018)

Introduction

This report summaries the results of our probity involvement with Watercare Services Limited ("Watercare") between 10 May 2018 and 27 November 2018 for the procurement of the main works contractor for the Central Interceptor Project ("CIP"). The CIP main works includes the construction of a 13km wastewater conveyance tunnel, two link sewers, a number of deep shafts, a pump station and two air treatment facilities.

This report covers our probity work on Watercare's procurement processes from the issuance of the Request for Proposal documents (10 May 2018), up to the presentation to the Board (27 November 2018). Our work has been performed in accordance with our Engagement Letter, dated 25 September 2017, and the Statement of Responsibility, set out below.

Observations

We found practices, processes and controls exercised by Watercare for the period examined to be consistent with the Evaluation Plan, Probity Plan and good practice. Suggestions for improvements and matters raised during our work were satisfactorily addressed by Watercare. Watercare has identified through its own processes, potential probity risks and proactively sought to address them (with our input where required).

In summary, there are no probity issues to bring to your attention in this report from the work we have undertaken to date. The process has been robust, transparent and fair, and Watercare documentation supports the results.

This report is to be read in conjunction with our previous probity reports (dated 15 February 2018 and 10 May 2018), where we did not identify any probity issues from the work previously undertaken.

We set out below the review objectives, scope and key activities performed for this report.

The next phase of our work (from 28 November 2018 onwards) will focus on:

- Finalisation of evaluation processes, including:
 - Communication of the results to successful and unsuccessful Respondents.
 - Debriefs with successful and unsuccessful Respondents.

- Documentation / evidence to underpin analysis and decision-making.
- Preferred respondent(s) interactions and due diligence.
- Involvement of legal and appropriate approvals for final decision.

The above activities align with the approved Procurement Plan and Probity Plan developed by Watercare.

Objectives

The objective of our probity services is to assist Watercare meet the following objectives:

- Watercare's approach to the tender and selection process is aligned to the requirements of the Government Rules of Sourcing (where practicable).
- Governance and management of the tender process is aligned to good practice.
- The process is undertaken in a fair and transparent manner.
- Conflicts of interest have been appropriately identified and managed.
- Confidentiality of information (physical and electronic) is maintained through-out the tender process.
- Documentation is of sufficient quality to support decision making and withstand challenge.

Scope

This report covers our probity work in relation to Phase Five (of Six Phases), in particular, from the issuance of the RFP documentation to the market to the final evaluation report prepared by the Project team for review and approval by the Board.

Out of scope - our work did not cover:

- Decision-making (noting we observed key decision making processes, but we did not make management or procurement decisions on behalf of Watercare or the Tender Team).
- Governance arrangements associated with the Project.
- Recommendations in respect to vendor selection.
- Legal advice.
- Performing or assessing the due diligence undertaken on Suppliers.
- Management of the procurement process.
- Review of the arithmetical accuracy and assumptions within the pricing schedules, moderation summary and SQM spreadsheet.

Key Activities

Key activities we performed included the following:

Ongoing Review and Monitoring:

- Maintained on-going communication with the Central Interceptor Project Team, including formal fortnightly conference calls.
- Reviewed the Probity Plan revisions and associated risk management framework, risk plan and mitigating activities for identified risks. Regularly assessed and monitored the risks identified for relevance.
- Reviewed Conflict of Interest declarations submitted by all key parties during the RFP stage.

Guidance over the Close of the RFP and Opening of Submissions:

- Developed a probity checklist that was completed by Watercare and Deloitte to ensure submissions were securely transferred from Tenderlink to an approved and secure location. We observed the opening of the Tender box at the close of the RFP submission deadline, as well as the distribution of pricing and non-pricing information to the appropriate parties and secure locations.

- Reviewed non-price respondent documentation (prior to release to the Tender Evaluation Team) to ensure any price related information was redacted from the non-price submissions.
- Observed the meeting where final supplier quality premiums were calculated and the opening of the pricing envelope for each Respondent, and undertook an initial review of the pricing schedule.

Attendance at key Evaluation Meetings, Moderation Meetings and Respondent Presentations:

- Provided probity input / guidance on the presentations from the four shortlisted respondents, evaluation meetings held by the Tender Evaluation Team and Tender Review Panel discussions. Reviewed the Evaluation Report and ensured results and decisions were consistent with the evaluation plan and key outcomes from Tender Evaluation Team and Technical Review Panel meetings.
- Observed the technical discussions and concrete pours by two suppliers at which respondents and Watercare staff were present.

Assessment of Security and Confidentiality:

- Assessed and provided feedback on the electronic and physical security controls for Watercare – in both Watercare’s premises (Newmarket and Eden Park). Including a detailed review of the electronic and physical security for the CIP Evaluation Room located in Mt Eden.
- Undertook a review of the security processes and controls for Rider Levett Bucknall, the third party organisation responsible for assessing price information supplied by Respondents.

Discussions with Respondents:

- We discussed directly with each respondent (prior to finalisation of preferred respondents and evaluation plans) any probity issues or risks they perceived. We also solicited feedback on the procurement and probity processes and shared these with Watercare. No probity issues were raised by any respondents.

Statement of Responsibility

The procedures that we performed did not constitute an assurance engagement in accordance with New Zealand Standards for Assurance engagements, nor did it represent any form of audit under New Zealand Standards on Auditing, and consequently, no assurance conclusion or audit opinion is provided. The work was performed subject to the following limitations:

- Our assessments are based on observations from our review and sample testing undertaken in the time allocated. Assessments made by our team are matched against our expectations and best practice guidelines. This includes comparison with other similar processes we have assessed. This report offers recommendations for improvements and has taken into account the views of management, with whom these matters have been discussed.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout the period and the tests performed are on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in the deliverable are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management’s responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Accordingly, management should not rely on our deliverable to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.

We have prepared this report solely for the use of Watercare. Our work includes providing constructive suggestions to improve some practices which we identified in the course of our procedures. These procedures are designed to identify control weaknesses but cannot be relied upon to identify all weaknesses. We would be pleased to discuss any items mentioned in this report and to review the corrective action implemented by management.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Aloysius Teh', with a stylized flourish at the end.

Aloysius Teh
Partner
for Deloitte Limited
as trustee for the Deloitte Trading Trust