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# Central Otago District Council

Review of the Base Costs & Overheads in Relation to the Fulton Hogan Roading Physical Works Contract - CON 05-2009-01"

November 2020

# Introduction


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# 1. Executive Summary

## 1.1. Introduction

The Central Otago District Council ("CODC" or the Council) requested Deloitte to undertake a review of the establishment of base costs and overheads relating to the Fulton Hogan Roading Physicals Works ("Roading Contract"), Contract No: 05-2016-05.

Our observations relate to the fieldwork completed in August 2020, in accordance with our Engagement Letter dated 14 August 2020.

## 1.2. Background

To enable CODC to perform its roading maintenance function, it has entered into a Roading Contract with Fulton Hogan. The Roading Contract describes how payments will be made on a cost reimbursement basis. This consists of:

- Base cost;
- Overhead margin; and
- Profit margin.

Overhead and profit margin rates (agreed and set out in the Roading Contract at 14% and 9.1% respectively) are applied to relevant base costs claims submitted to the Council on a monthly basis. For the period January 2020 to July 2020, claims with a value of over $1.9 million were submitted to CODC.

Fulton Hogan maintains a list of preferred suppliers that form part of its network of suppliers from whom they receive discounted or preferential rates on purchases. Alternatively, materials may also be sourced directly from Fulton Hogan's subsidiaries and / or departments (related parties).

In 2016, a similar review was performed for the Council. However, in this review, an additional component relating to purchases from Fulton Hogan related parties was included. The purpose of this review is to confirm that processes followed by Fulton Hogan when submitting claims to CODC aligns to the Roading Contract terms and conditions.

## 1.3. Conclusion

Overhead and profit margins applied to base costs align to the requirements of the Roading Contract. There were no material differences noted since the last review (The minor differences are noted in Section 3).

**I. How base costs are established**

Our review identified two main sources of base costs.

**a) Invoiced costs**

When Fulton Hogan uses an external party or a related party for materials and / or services, the invoiced amount (excluding GST) is included as the base cost for the claim. Overhead and profit margins are then applied to these base costs and the claim is submitted to CODC for payment.

**b) Fulton Hogan costs**

Direct costs such as plant, labour and materials are recorded against relevant projects. Where these projects relate to the Roading Contract, such costs are charged to CODC.

Direct plant and labour costs are charged on a standard hourly rate. These standard hourly rates are based on historic average costs.

The table below details which base costs have overhead/profit margins applied as identified in the Roading Contract and confirmed through our review.

| Base Cost | Overhead/Profit Margin Applied |
|---|---|
| **Indirect and direct management costs** | Indirect – Yes<br>Direct - No |
| **Base plant costs, including ownership, operating and maintenance costs** | Yes |
| **Optimisation of plant** | Yes |
| **Depreciation and replacement of plant** | Yes |
| **Internal and external plant hire** | Yes |
| **Use of internal subcontractors** | Yes |
| **Use of external subcontractors** | Yes |
| **Base staff costs including reimbursement, training and leave costs** | Yes |
| **How material suppliers will be selected to ensure the most cost effective / value outcome** | Yes |
| **Materials on-costs** | Yes |
| **Reimbursement for provision of hardware and software for Road Assessment and Maintenance Management (RAMM).** | No |

**II. How overheads are established**

Our review did not identify any overheads that were directly charged to CODC.

The overhead margin has been agreed in the Roading Contract at 14%. Walkthrough of invoices performed, confirmed that this margin was consistently applied.

The overhead margin includes:

- Overhead make up;
- Corporate overheads; and
- On and off-site overheads.

**III. Materials from related parties**

Walkthrough of invoices performed showed that goods purchased from Fulton Hogan related parties were claimed at cost price plus overhead and profit margin from CODC. Costs are compared for best value and product availability prior to purchases. This provides CODC with the best value for materials from suppliers that Fulton Hogan selects.

Costs claimed for materials used in maintenance projects are based on:

- comparing rates from preferred suppliers and / or Fulton Hogan departments or subsidiaries;
- the lowest rate based on product availability;
- leveraging discounted rates from long-term supplier relationships and;

- providing the Fulton Hogan internal rate for supplies from Fulton Hogan departments where this rate is lower than other preferred suppliers or the only available source of materials.

## 1.4. Use of Report

We have prepared this report solely for the use of the CODC. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written consent. We accept and assume no duty, responsibility or liability to any other party in connection with the report or this engagement, including without limitation, liability for negligence in relation to the findings expressed or implied in this report.

## 1.5. Acknowledgement

We take this opportunity to thank the Fulton Hogan and CODC team for their assistance during the course of this review.

# 2. Approach and Work Performed

## 2.1. Scope

The objective of this review was to assess whether the terms of the Roading Contract are being adhered to.

Our work focused on:

- Assessing whether the processes in place at Fulton Hogan relating to base costs, overheads and profit, first reviewed in 2016 were still relevant; and
- Providing management with an understanding of whether best value is received for materials purchased and claimed against projects each month.

## 2.2. Out of scope

- Reasonableness of the overhead margin and profit margin charges.

## 2.3. Approach

Our review was performed by completing the following:

- Interviewing relevant Fulton Hogan staff to:
    - ascertain how base costs and overheads were established and what were included within each category; and
    - ascertain how materials purchased from related parties provide CODC with the best value proposition.
- Performing walkthroughs of:
    - one direct cost invoice;
    - one labour invoice via timesheets; and
    - two related party invoices (one for purchases from a Fulton Hogan subsidiary and one for purchases from a Fulton Hogan department).

# 3. Detailed Findings

The Fulton Hogan processes that supports the terms of the Roading Contract is represented diagrammatically below. These processes all lead to the composition of the costs that are claimed on a monthly basis from CODC.

**Fulton Hogan Costs**


**Invoice Costs**


Our observations are set out in the following two sections:

3.1 How base costs and overheads are established; and
3.2 How purchased materials provide the best value for CODC.

## 3.1. How base costs are established

The table below details the base costs as defined by the Roading Contract. Our review documents how base costs are established, what is included in each category and changes since the last review.

We have confirmed our understanding of the approach by performing walkthroughs on selected base costs. Refer to Appendix 1 for the walkthrough details of invoiced costs and Appendix 2 for the walkthrough details of Fulton Hogan costs.

| | Base Cost[1] | How base costs are established | Changes since 2016 review |
|---|---|---|---|
| **3.1.1** | **Indirect and direct management costs and how each of these will be charged.**<br>*Indirect management costs are covered under corporate overheads.*<br>*Direct managements costs remain the status quo which is 100% allocation of the Contractors Representative's salary and 50% of the Contract Managers Salary to Network and Asset Management.*<br>*There will be no margin on this cost.* | **Indirect Management Costs** are included within the overhead margin of 14% and described in section 3.2 below.<br>Through our walkthrough, we confirmed that these costs are not directly charged to CODC.<br>**Direct Management Costs** includes the Contractor Engineer salary (100% allocation), Contract Administrator salary (100% allocation) and Contract Manager salary (50% allocation).<br>(No margins were applied to these costs. Refer to ***Appendix 1*** for details of the walkthrough performed). | The allocation for the Contract Manager's salary has been reduced from 60% to 50%. A Contract Administrator has since replaced the Graduate Engineer previously included in 2016. The allocation percentage remained unchanged when the Graduate Engineer was replaced. |
| **3.1.2** | **Base plant costs, including ownership, operating and maintenance costs.**<br>*Fulton Hogan has full ownership of all its plant and resources. The operating and maintenance costs are established by historic data and costs to run plant. This data is monitored on a monthly basis in the Fulton Hogan PAM (Plant Asset Management) system. Every month all plant is job costed at either hourly or kilometre rates for* | Fulton Hogan applies a standard hourly rate to each major asset class.<br>The charge out rates are derived by dividing the costs to run the asset by the number of hours the asset is used for. Rates are averaged and take into account the age of assets used, and the overhead and profit margin percentages are applied to the base cost (i.e. new assets are charged out at a higher rate). | No change. |

[1] The definitions in italics has been taken directly from the Roading Contract.

| | Base Cost[1] | How base costs are established | Changes since 2016 review |
|---|---|---|---|
| | *every activity that is carried out in the work. These costs are then compared against the real costs for the month and applied to each item of fuel and oil, repairs and maintenance, tyres, licenses and depreciation.* | The rates are reviewed annually.<br><br>Costs categories includes repairs and maintenance, wearparts, fuel and oil, license and tax, tyres, insurance and depreciation. | |
| **3.1.3** | **Optimisation of plant**<br><br>*The Fulton Hogan PAM system shows the units of usage and shows quickly whether plant is being fully utilised or not. Fulton Hogan operates a regional pool hire which is used to provide specialist plant, and plant can also be pulled in from other areas when required.* | The regional office holds the core plant to fulfil the requirements of the Roading Contract.<br><br>When plant is not available, Fulton Hogan has access to a regional hire pool from which the resource can be sourced.<br><br>Fulton Hogan receives an invoice for the plant and passes the cost onto CODC. Overhead and profit margins are added to the cost. | No change. |
| **3.1.4** | **Depreciation and replacement of plant**<br><br>*Plant is depreciated at normal rates as identified in the New Zealand Tax Guide and every division of Fulton Hogan has a full five year forward capital replacement programme.* | Depreciation expense is included in the asset costs described in 3.1.2. | No change. |
| **3.1.5** | **Internal and external plant hire**<br><br>*In most cases, regional Fulton Hogan resources will be used to service this contract. External plant hire will be used for specific specialist needs.* | Where plant is hired internally, the cost of the hire is charged back to the region at a standard rate. The costing method used is consistent across regions.<br><br>Where plant is hired externally, Fulton Hogan receives an invoice for the hire and the cost is passed onto CODC. | No change. |

| | Base Cost[1] | How base costs are established | Changes since 2016 review |
|---|---|---|---|
| | | Overhead and profit margins are applied to the cost for plant hired internally and externally. | |
| 3.1.6 | **Use of internal subcontractors**<br>*Internal subcontractors will provide services to the contract at the agreed contract cost and margin. This work will have estimates based on job set up on our JDE financial system to measures estimate versus actual costs and to provide transparency on all our internal work.*<br>*There will be no further margin applied by the maintenance department when claims come through internal subcontractors.* | A code is set-up to track all internal contractors' costs such as plant, materials and labour.<br>The overhead and profit margins are applied to the cost. | No change. |
| 3.1.7 | **Use of external sub-contractors**<br>*External subcontractors will be used for specific specialist needs. The same contract margin will apply.* | Fulton Hogan receives an invoice for all external contractor cost. This cost is passed onto CODC and includes the overhead and profit margins percentages. | No change. |
| 3.1.8 | **Base staff costs including reimbursement, training and leave costs:**<br>*Base staff costs are built up from the time on the job. Each staff member has a rate for their level of expertise/experience and their time is coded to the job number and accumulated. A copy of the collective rates and agreement is available on request to Council for confidential reference.*<br>*Other staff costs are as follows:*<br>• *Accommodation;* | Fulton Hogan staff code their time to job codes. This is reviewed by their supervisor.<br>Reports are prepared which detail employees' time against individual job codes. The report is reviewed and approved by their Manager.<br>The time per job code is then multiplied by a weighted average labour cost (excluding sick leave). The labour cost is obtained by dividing the departments' total salary costs by total number of hours worked. | No change. |

| | Base Cost[1] | How base costs are established | Changes since 2016 review |
|---|---|---|---|
| | • *Travel; and*<br>• *Annual leave;*<br>*Sick leave and training costs are included within the overhead margin.* | The use of a standard hourly labour rate is contrary to what is specified in the Roading Contract. We understand that Fulton Hogan and CODC have agreed to the methodology for ease of application of the contract. However, we have not sighted any signed variation confirming the change.<br>The overhead margin and profit margin are then applied to the cost. Refer to ***Appendix 2*** for walkthrough performed. | |
| **3.1.9** | **How materials suppliers will be selected to ensure the most cost effective/value outcome**<br>*Fulton Hogan's Preferred Supplier Agreements with organisations throughout NZ will be used. On a national level, many organisation tenders to Fulton Hogan to be a preferred supplier. This entails giving Fulton Hogan exclusive discount rates. CODC will receive these discounted rates, and these will be shown in the invoice and costs submitted for claim in the course of the contract.* | Fulton Hogan maintains a list of preferred suppliers. Use of a supplier is dependent on price and availability.<br>Discounts (if any) are often not separately disclosed on invoices received from Fulton Hogan.<br>Refer to ***Appendix 3*** for walkthrough performed. | No change. |
| **3.1.10** | **Materials on-costs**<br>*All materials will be subject to the agreed margin over and above base costs.* | Invoices for materials costs are passed onto CODC. Overhead and profit margins are applied to the cost. | No change. |
| **3.1.11** | *Reimbursement for provision of hardware and software for RAMM* | RAMM Licenses fees are included within the corporate overhead described in section 3.2.<br>Pocket license fees are covered by Fulton Hogan and are included in the corporate overhead rate. This | Since 2016, all costs related to RAMM hardware and Software are covered as part of corporate overhead charges. Previously, Pocket RAMM was covered directly by CODC. |

| Base Cost[1] | How base costs are established | Changes since 2016 review |
|---|---|---|
| *Fulton Hogan's internal RAMM and RAMM Contractor costs are covered by the corporate overhead charges and are included in the overhead margin.*<br><br>*Pocket RAMM license costs are currently covered by CODC. If Fulton Hogan can receive a reduced rate through corporate licensing of Pocket RAMM in the future, then this can be reviewed.*<br><br>*Hardware, such as PDAs, are paid for by Fulton Hogan within the overhead charges.*<br><br>*RAMM forward work programme has had one year's subscription but will be updated and paid for by Fulton Hogan.* | does not align to the conditions of the Roading Contract. The Roading contract states that "Pocket RAMM license costs are covered by CODC".<br><br>Hardware, such as PDA and iPads, are included within the overhead charges. | |

## 3.2. How overheads are established

Our review included identifying whether overheads, stated within the Roading Contract, are being charged directly to CODC as part of the monthly claims. These overheads include but are not limited to, Audit Fees, Bad Debt, Insurance, Licences and Subscriptions and General Overhead Costs. Fulton Hogan overheads consist of two components namely Corporate Overheads and Regional Overheads. These overheads are set by Fulton Hogan's Head Office.

Corporate charges are allocated to the Central Region by Fulton Hogan's head office annually. The Roading Contract defines how corporate overheads will be allocated. These charges are allocated across the different regions within the South Island and form one part of the total overheads.

Overhead costs are allocated to the operating departments across the regions according to a weighted average based on the next year's budgeted forecast. We have included a description of the allocation process below as an illustration of the process followed.

**Allocation Process**

Overheads are allocated to departments, for example, for Central (the region providing CODC maintenance), by taking the forecasted overhead for the new financial year and dividing these into four components. The fourth component, 'transaction counts', consists of two parts, creditors and debtors.

It is important to note that overheads are allocated by Fulton Hogan at 14%. The allocation method described below is for internal management accounting purposes only.

| | Allocation | Component | Summary of Allocation | Changes since 2016 review |
|---|---|---|---|---|
| **3.2.1** | **30%** | Staff Numbers | The number of staff per department is divided by the total staff in the region to formulate the staff ratio. | Allocation has increased from 25% to 30%. |
| **3.2.2** | **40%** | Budgeted Turnover | Budgeted turnover of the department is divided by the regions budgeted turnover. | Allocation has increased from 30% to 40%. |
| **3.2.3** | **15%** | Asset Items | Department assets value is divided by the region's asset value. | New component added since 2016. |
| Transaction Counts | | | | |
| **3.2.4** | **7.5%** | Creditors | Creditors - Department vendor transactions divided by region's vendor transactions (vendor summary data). | The Creditors allocation is new since 2016. The Debtors allocation was previously 15% but has now been reduced to include creditors. |
| | **7.5%** | Debtors | Debtors - Department credit notes divided by region's credit notes (credit note analysis). | |

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## 3.3. How purchased materials provide the best value

The following provides an overview of how costs for materials from related parties are established. The overhead and profit margins are added to the below costs prior to being claimed.

**Selection of Suppliers**

Fulton Hogan maintains a network of preferred suppliers across New Zealand for all national Fulton Hogan projects. Suppliers are selected through an internal tender process for all suppliers wishing to have their products and services sold.

A number of factors are used to determine the best selection criteria. However, the factors most relevant to CODC and their maintenance contract includes:

- Costs being at or below the market rate; and
- Product availability.

Furthermore, materials can also be sourced from other Fulton Hogan subsidiaries or departments, where this cost is lower than sourcing the same product from a preferred supplier. Fulton Hogan subsidiaries or departments may also be used if their product is the only product available within the region being serviced. For example, asphalt needs to be delivered hot and transportation time is a major factor when purchasing this product. Therefore, if there is only one supplier in the region that can meet this requirement, the asphalt will be purchased from them. (Refer appendix 4 – walkthrough invoice 2).

*Note, for the purpose of further explanation, we will refer to Fulton Hogan departments and Fulton Hogan subsidiaries as Fulton Hogan below.*

**CODC Cost-Benefit**

Products sourced from Fulton Hogan are claimed either at the internal rate (i.e. the price charged to other Fulton Hogan departments) or at cost price. Apart from the overhead and profit margin, no additional charges are added to this price.

Products sourced from preferred suppliers are charged at the invoice cost. This price will include any discounts received by Fulton Hogan based on their supplier relationship. Apart from the overhead and profit margin, no additional charges are added to the price. We note that discounts received are not disclosed on claims submitted to CODC, however we verified through one sample inspection that such discounts are directly passed onto CODC.

For all purchases made from either a Fulton Hogan preferred supplier or a Fulton Hogan related party, a price comparison is performed to select the supplier with the cheapest product and/or service that is readily available within the location required. All purchased materials from suppliers, regardless of their relationship to Fulton Hogan are purchased with a project code reflected on the invoice, specific to the CODC project that the materials and/or services have been purchased for. Project codes allows:

- All purchases to be linked to the exact project the costs will be claimed against; and
- Allows for transparency and traceability of invoices and costs claimed from CODC.

We performed a walkthrough of two different materials selected from all materials purchased between January – July 2020. Refer to ***Appendix 4*** for further details.

# 4. 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 CODC. The report contains constructive suggestions to improve some practices which we identified in the course of our review 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.

# Appendix 1 – Direct Management Cost

There are two Contractor Representatives charged at 100% allocation and a Contract Manager charged at 50% allocation.

Salaries per annum are:

- Contract Administrator: $83,640.00
- Contract Engineer: $60,912.72
- Contract Manager: $125,970.00

<u>Contract Administrator + Contract Engineer:</u>

= ($83,640 + $60,912.72) ÷ 12 = $12,046.06 per month

<u>Contract Manager:</u>

= ($125,970 x 50%) ÷ 12 = $5,248.75 per month

<u>Total Direct Management Costs:</u>

=$12,046.06 + $5,248.75

***=$17,294.81 (Network and Asset Management***)

We reviewed the total per the July monthly charges included in the "Network and Asset Management". The cost was **$17,295** (total per claim value was rounded up to the nearest dollar).

The monthly expectation of salaries of $17,294.81 compared against the actual amount claimed of $17,295 were consistent.

No overhead and profit margin have been applied to direct management costs for July 2020 (51P151G – Network and Asset Management).

# Appendix 2 – Walkthrough of Labour Costing

Deloitte performed a walkthrough of the labour and job costing for the July 2020 claim.

**1. Labour Rate**

Fulton Hogan applies a standardised rate (average rate) of labour for all work performed. This rate is used to determine the total labour cost for all jobs claimed from CODC.

The rate is calculated by dividing the total labour bill for the previous financial year over the total labour hours recorded for the same period.

For example: for the period June 2019 – June 2020, the total labour bill was $ 1,109,003.00 and total hours was 27,543.

Therefore, the labour rate = $ 1,109,003.00 ÷ 27,543 = $40.2644 (excluding overhead + profit margin).

**Rate charged:**

$ 40.2644 x 1.231% (14% overhead + 9.1% profit) = **$49.57** per hour

**2. Walkthrough of Labour Rate in July Claim**

We selected the July Claim, job **51P111G** (Structures Maintenance) with a claim value of $ 59,710.53. We selected one invoice from this claim for review, Rippovale Road for a High Shoulder Repair (Dispatch ID: 11279, total value $15,988.90, labour cost $ 6,270.61) to determine if the labour rate applied aligns to the rate calculated above.

Labour was only a component of the full claim with the remaining cost relating to materials and equipment. Our inspection confirmed that, the rate of $49.57 was applied to all labour hours claimed on the job from RAMM.

**3. Timesheet inspection**

We selected and reviewed one timesheet for job code 51P111A for week ending 26 July 2020.

- Total hours charged = 7.5
- Total labour cost = $ 371.78.

Recalculation of labour rate = $371.78 ÷ 7.5 hours = $49.57 per hour. This rate aligns to the standardised rate for the period.

# Appendix 3 – Overhead and Profit Margin Invoice Walkthrough

The July 2020 claim invoice with a total value of $554,928.95 was made up of 16 jobs. There are multiple invoices within each job that make up the claim value for each month. We performed an inspection of one materials invoice included in the July 2020 claim under the job code 51P114G (Structures Maintenance) to confirm the overhead and profit margin aligns to the contract terms. The total “Structures Maintenance” invoice was made up of four separate invoices with a total value of $3,240.89.

Our inspection of one invoice that was included in the “Structure Maintenance” claim, confirmed that the mark-up of 23.1% was included and aligned with the terms of the contract.

| Walkthrough | Details |
|---|---|
| Supplier | Great Southern Group |
| Date | 30/06/2020 |
| Purchase Order # | 51P114G |
| Amount (excluding GST) | $772.20 |
| Overhead margin applied (14%) | $108.11 |
| Profit margin applied (9.1%) | $ 70.27 |
| Amount charged to CODC | $950.58 |

# Appendix 4 – Walkthrough of purchases made from Fulton Hogan subsidiaries and departments

### Walkthrough 1 – Purchase from a related party (Fulton Hogan subsidiary)

Fulton Hogan uses a National Procurement Model that requires purchases to be made at the market rate or better. A listing of preferred suppliers is maintained that provides a pool of suppliers based on best rates.

For purchases of materials, vendor prices are compared and the vendor with the best price is selected. To verify CODC is receiving the best value from Fulton Hogan, we performed an inspection of one invoice for purchases made from a Fulton Hogan subsidiary, “Signs and Graphics Roading” (“Signs”).

We selected one invoice for inspection to determine if a price comparison was performed by Fulton Hogan between Signs and RTL, an alternative third-party supplier based in Invercargill. However, RTL was unable to provide the required material specifications and therefore a price comparison could not be performed. Price comparisons can only be performed if suppliers are able to meet the product specifications required.

A calculation performed identified the unit cost of the product should be $8.89 per unit (including overhead and profit margin) = ($7.22 x 1.231 *[overhead + profit margin]*).

However, based on the invoice, the unit cost was charged at $7.76, a difference of $1.13 below the expected rate. This was due to Fulton Hogan maintaining a long-term standing relationship with Signs, an extra discount on the rate was received.

Product total cost claimed, $1,552.00 for 200 units was included in the June claim for “Traffic Services Renewals” (51P222F). The cost claimed aligns to contract terms, “*CODC receiving a cost benefit from Fulton Hogan’s related parties”.*

| Walkthrough | Details |
|---|---|
| Material | Edge Marker Post Delineated 4mm White |
| Supplier | Signs and Graphics Roading |
| Relationship | Fulton Hogan Subsidiary |
| Date | 29/05/2020 |
| Material Quantity | 200 |
| Material Cost per Unit | $7.76 |

| Walkthrough | Details |
|---|---|
| Material Total Cost | $1,552.00 |
| Total Invoice Cost (excl. GST) | $1,931.66 |
| Competitor Price | $6.00 (This was for 3mm product), 4mm was not available |

### Walkthrough 2 – Purchase from a related party (Fulton Hogan department)

The invoice selected was for a product purchased from a Fulton Hogan department, Central Asphalt Plant (“CAP”).

Asphalt needs to be delivered hot to be able to be used as intended. Therefore, transportation time is a major factor of consideration when a supplier is sourced. As CAP is the only supplier in the region able to guarantee their capability to supply the product, meeting the requirements, they were selected as the preferred supplier. We noted that there was one other potential supplier, Downer. However, supply could not be guaranteed as it is Downer’s policy to first supply their own large projects.

We reviewed the asphalt pricing report for May 2020 (period during which the purchase was made) and confirmed the lowest rate at $214.18 per tonne was paid when compared against other suppliers. This report provides a list of Fulton Hogan suppliers that are able to supply the product required and includes the unit price of the product.

This invoice formed part of the total May claim invoice “Footpath Renewals” (Job: 51P402F with a total value of $74,423.06).

| Walkthrough | Details |
|---|---|
| Material | Mix10 Asphalt |
| Supplier | Central Asphalt Plant |
| Relationship | Fulton Hogan Department |
| Date | 08/05/2020 |
| Material Quantity | 10.75 Tonne |
| Material Cost per Tonne | $214.18 (discounted rate) |
| Total Invoice Cost (excl. GST) | $2,302.44 |
| Total Claim | $2,834.30 |

| Walkthrough | Details |
|---|---|
| Competitor Price | No other suppliers in region |