

## Appendix 3: About the audit

### Audit objective

This audit assessed whether the process used to determine the NorthConnex funding model adequately considered value for money for taxpayers and road users.

### Audit criteria

The audit answered two questions, each with its own criteria.

1. How did the assessment of the NorthConnex funding model ensure value for money for NSW taxpayers?
  - a) The processes used to estimate the initial project scope and budget were robust
  - b) The use of traffic modelling, including as part of negotiating tolling concessions, was consistent with best practice and government requirements
  - c) The process used to determine the NSW Government's contribution to the project cost was reasonable.
2. Did the assessment adequately consider the overall impact of tolling arrangements to road users and the community?
  - a) The assessment considered the equity of tolling arrangements for road users
  - b) The assessment considered the impact of tolling arrangements across the metropolitan road network.

### Audit scope and focus

The audit scope focussed on a broad definition of the NorthConnex funding model, which included:

- Direct government contributions to the project
- Tolling concessions granted to the proponents
- Secondary transactions which had a direct impact on the NorthConnex project, such as:
  - Monetisation of the M7 rent payment
  - Changes to the M2 and Lane Cove Tunnel tolling arrangements.

The audit sought to assess value for money against the use of specific government policies that were applied during the assessment of the NorthConnex project. These included (but were not limited to):

- The NSW PPP Guidelines (which identify the Public Sector Comparator as the main qualitative benchmark for testing value for money)
- Australian Government National PPP Guidelines
- NSW Treasury Economic Appraisal Principles and Procedures Simplified which essentially align economic appraisal as the measure of value for money
- NSW Gateway Guides / Work Books
- NSW Procurement Board policies.

The audit considers value for money from two different perspectives:

- taxpayers, i.e. the cost of the project to government
- road users, which includes users of NorthConnex and the users of the broader metropolitan road network.

## Audit exclusions

The audit did not seek to:

- identify issues related to the current construction phase of the project
- undertake detailed analysis of environmental impacts, including air quality
- question the merits of government policy objectives.

## Audit approach

Our procedures included:

- interviewing members of key assessment and advisory groups involved in the NorthConnex Unsolicited Proposal, including:
  - Unsolicited Proposals Standing Steering Committee
  - Proposal Specific Steering Committee
  - Assessment Panel
  - Technical Team
  - Commercial Team
  - Representative team
  - Collaborative Procurement Committee
  - Commercial Negotiations Team
  - RMS/TfNSW Project Team
  - Government Representative Team.

We also interviewed key government staff, such as the Proposal Manager, Project Director, Relationship Manager, external advisors and representatives from the proponent.

We reviewed key documentation and reports relating to the assessment of the project including:

- Assessment reports, minutes from assessment panel and steering group meetings
- Evidence of work done related to the development of the business case
- The final business case
- Treasury, INSW, TfNSW and RMS policies and guidelines for cost assessment for major infrastructure projects
- Traffic modelling reports and data
- Any other assessment conducted on, or using, traffic modelling for the NorthConnex proposal
- RMS, TfNSW and Treasury assessment of tolling prices including changes to establish tollways
- Treasury's work in relation to the M7 Rental monetisation
- Examples from other jurisdictions
- Reports and reviews which evaluated prior similar projects (for example M7, Cross City Tunnel, Lane Cove Tunnel).

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

## Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

## **Acknowledgements**

We gratefully acknowledge the co-operation and assistance provided by current and former staff from the Department of Premier and Cabinet, NSW Treasury, Transport for NSW, Roads and Maritime Services, Infrastructure NSW and other people interviewed as part of the audit.

## **Audit team**

Jason Appleby and Michael Jones conducted the audit. Expert advice was provided by Ted Smithies and Rosemarie Risgalla, Value Network Pty Ltd. Giulia Vitetta, Kathrina Lo and Claudia Migotto provided direction and quality assurance.

## **Audit cost**

Including staff costs, travel and overheads, the estimated cost of the audit is \$245,000.

# Performance auditing

---

## **What are performance audits?**

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

## **Why do we conduct performance audits?**

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

## **What happens during the phases of a performance audit?**

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

## **Do we check to see if recommendations have been implemented?**

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

## **Who audits the auditors?**

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

## **Who pays for performance audits?**

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

## **Further information and copies of reports**

For further information, including copies of performance audit reports and a list of audits currently in progress, please see our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au) or contact us on 9275 7100.