

Appendix 3: About the audit

Audit objective

This audit assessed whether Roads and Maritime Services (RMS) has realised the expected benefits of outsourcing road maintenance for the Sydney region south and west zones under Stewardship Maintenance Contracts (SMC). This objective covers:

Effectiveness:

- do SMC KPIs and performance incentives achieve RMS' and the NSW Government's objectives?
- have SMC KPI targets been achieved?

Efficiency and economy:

- has the net cost of road maintenance for Sydney region south and west zones fallen?

Audit criteria

We addressed the audit objective by assessing whether:

1. RMS justified the decision to adopt the SMC model
2. SMCs include performance indicators and incentives which promote efficiency and effectiveness
3. RMS collects high quality information on contractor performance and takes action to correct performance deficiencies
4. expected net benefits are being achieved.

Audit scope and focus

The scope was limited to RMS' actions regarding the outsourcing of road maintenance services under the SMC for the Sydney region south and west zones, from October 2012 to the present.

A key focus of the audit was the extent to which RMS achieved the expected benefits, net of the costs of implementation. That is, the extent to which road maintenance has improved and costs have fallen compared to previous road maintenance arrangements through Road and Fleet Services and RMS targets.

Audit exclusions

The audit did not:

- examine the market testing process used by RMS to select the two consortia to provide road maintenance services under the SMC
- examine the internal efficiency of the private sector consortia delivering the services under the SMCs (this is beyond mandate)
- question the merits of NSW Government policy objectives.

Audit approach

Our procedures included:

1. Interviewing:
 - relevant RMS personnel involved in the development of, and decision to adopt, the SMC model for Sydney region south and west zones
 - relevant RMS personnel involved in developing and managing the SMC for the Sydney region south and west zones
 - relevant Sydney region south and west zones contractor personnel involved in managing the SMC.

2. Examining

- relevant documentation which outlines RMS' justification for adopting the SMC model for Sydney region south and west zones
- RMS' rationale used to develop performance indicators and incentives incorporated in the SMC
- RMS documentation, including procedures, for managing the SMC contractor's performance
- RMS reports on the SMC contractor performance
- the RMS business case, and related documents (including Cabinet documents) used to justify the decision to outsource road maintenance and define the costs and benefits expected.

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 cooperation and assistance provided by staff from Roads and Maritime Services, the south and west zone contractors and other people interviewed as part of the audit.

Audit team

Ed Shestovsky conducted the audit. Giulia Vitetta and Kathrina Lo provided direction and quality assurance.

Audit cost

Including staff costs, travel and overheads, the estimated cost of the audit is \$180,000.

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 or contact us on 9275 7100.