

# Regional assistance programs

17 MAY 2018



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled '**Regional assistance programs**'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

**Margaret Crawford**

Auditor-General  
17 May 2018

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## **Section one**

Regional assistance  
programs



# Executive summary

In 2011, the NSW Government established Restart NSW to fund new infrastructure with the proceeds from the sale and lease of government assets. From 2011 to 2017, the NSW Government allocated \$1.7 billion from the fund for infrastructure in regional areas, with an additional commitment of \$1.3 billion to be allocated by 2021. The NSW Government allocates these funds through regional assistance programs such as Resources for Regions and Fixing Country Roads. NSW councils are the primary recipients of funding provided under these programs.

The NSW Government announced the Resources for Regions program in 2012 with the aim of addressing infrastructure constraints in mining affected communities. Infrastructure NSW administers the program, with support from the Department of Premier and Cabinet.

The NSW Government announced the Fixing Country Roads program in 2014 with the aim of building more efficient road freight networks. Transport for NSW and Infrastructure NSW jointly administer this program, which funds local councils to deliver projects that help connect local and regional roads to state highways and freight hubs.

This audit assessed whether these two programs (Resources for Regions and Fixing Country Roads) were being effectively managed and achieved their objectives. In making this assessment, we answered the following questions:

- How well are the relevant agencies managing the assessment and recommendation process?
- How do the relevant agencies ensure that funded projects are being delivered?
- Do the funded projects meet program and project objectives?

The audit focussed on four rounds of Resources for Regions funding between 2013–14 to 2015–16, as well as the first two rounds of Fixing Country Roads funding in 2014–15 and 2015–16.



## Conclusion

**Infrastructure NSW effectively manages how grant applications are assessed and recommended for funding. Infrastructure NSW's contract management processes are also effective. However, we are unable to conclude on whether program objectives are being achieved as Infrastructure NSW has not yet measured program benefits.**

While Infrastructure NSW and Transport for NSW managed the assessment processes effectively overall, they have not fully maintained all required documentation, such as conflict of interest registers. Keeping accurate records is important to support transparency and accountability to the public about funding allocation. The relevant agencies have taken steps to address this in the current funding rounds for both programs.

For both programs assessed, the relevant agencies have developed good strategies over time to support councils through the application process. These strategies include workshops, briefings and feedback for unsuccessful applicants. Transport for NSW and the Department of Premier and Cabinet have implemented effective tools to assist applicants in demonstrating the economic impact of their projects.

Infrastructure NSW is effective in identifying projects that are 'at-risk' and assists in bringing them back on track. Infrastructure NSW has a risk-based methodology to verify payment claims, which includes elements of good practice in grants administration. For example, it requires grant recipients to provide photos and engages Public Works Advisory to review progress claims and visit project sites.

Infrastructure NSW collects project completion reports for all Resources for Regions and Fixing Country Roads funded projects. Infrastructure NSW intends to assess benefits for both programs once each project in a funding round is completed. To date, no funding round has been completed. As a result, no benefits assessment has been done for any completed project funded in either program.



## 1. Key findings

### **The assessment criteria reflect the program objectives**

When the NSW Government approved the program criteria and objectives, Infrastructure NSW developed an assessment methodology for both programs. This methodology included assessment criteria, and a process for recommending projects for funding, that aligned with program objectives.

In the rounds of Resources for Regions and Fixing Country Roads that we reviewed, all funded projects had undergone assessment and were recommended by the Regional Independent Assessment Panel and Infrastructure NSW. We found that funded projects met all the assessment criteria.

### **Infrastructure NSW has not measured project benefits for completed projects**

Infrastructure NSW requires grant recipients to submit project completion reports. However, they do not require grant recipients to assess project outcomes or benefits. Infrastructure NSW noted that, consistent with the Infrastructure Investor Assurance Framework, an assessment of program level benefits would be done once every project in a funding round has been completed. To date, Infrastructure NSW has not measured the benefits for any project funded under either Resources for Regions or Fixing Country Roads. Without project level benefits realisation, future funding decisions are not informed by the lessons from previous investments.

### **Probity and record keeping practices did not fully comply with the probity plans**

Infrastructure NSW developed probity plans for both programs based on a framework provided by its probity advisor. The probity plans provided guidance on the record keeping required to maintain an audit trail, including the use of conflict of interest and probity registers. Infrastructure NSW did not fully comply with these requirements. For example, Infrastructure NSW did not maintain the conflict of interest registers for Resources for Regions and not all public servants involved in the assessment process signed declarations about potential conflicts of interest. The relevant agencies have taken steps to address this in the current funding rounds for both programs.

In addition, Infrastructure NSW engaged the same consultancy to act as its internal auditor and probity advisor. While this is unlikely to have had a major impact on the assessment process, it did introduce a conflict of interest when the consultancy's internal audit report referred to its work as probity advisor to support its findings that there were no known probity issues or concerns.

### **Infrastructure NSW uses a risk-based approach to manage projects effectively, but some areas could be strengthened**

Infrastructure NSW manages the funding deeds for projects funded under Resources for Regions and Fixing Country Roads. It appropriately identifies and manages at-risk projects, and take steps to resolve issues to bring them back on track.

Infrastructure NSW, working with Public Works Advisory regional offices, employs a risk-based approach to validate payment claims. Infrastructure NSW would get better assurance by also conducting annual compliance audits for a random sample of funded projects.

Some projects have been underspent, and in some cases grant recipients have submitted change requests to extend the scope of the project to use the unspent funds. Infrastructure NSW does not require grant recipients to provide any revised economic impact data to support these requests, creating a risk that funds are not being used in the most effective ways to support program objectives. Consideration should be given to reallocating unused funding through the assessment process to ensure that all funding is being used to support the program objectives.

## Agencies' support for applicants has improved over successive rounds of the two programs

For both programs, the relevant agencies conducted briefings and webinars for applicants. The briefings included information on how applicants should demonstrate that their project meets the selection criteria. Transport for NSW and the Department of Premier and Cabinet have also developed tools to assist councils to demonstrate the economic impact of their applications.

The relevant agencies provide feedback on unsuccessful applications to councils. Councils reported that the quality of this feedback has improved over time.



## 2. Recommendations

### By June 2018, Infrastructure NSW should:

1. ensure probity reports address whether all elements of the probity plan have been effectively implemented.

### By June 2018, Infrastructure NSW and Transport for NSW should:

2. maintain and store all documentation regarding assessment and probity matters according to the *State Records Act 1998*, the NSW Government Standard on Records Management and the relevant probity plans.

### By December 2018, Infrastructure NSW should:

3. conduct annual audits of compliance with the funding deed for a random sample of projects funded under Resources for Regions and Fixing Country Roads
4. publish the circumstances under which unspent funds can be allocated to extensions in project scope
5. measure benefits delivered by projects that were completed before December 2017
6. implement an annual process to measure benefits for projects completed after December 2017

### By December 2018, Transport for NSW and Infrastructure NSW should:

7. incorporate a benefits realisation framework as part of the detailed application.



# 1. Introduction

## 1.1 Restart NSW Fund

The NSW Government provides infrastructure investment across regional and rural New South Wales to support long-term economic growth. A key source of funding for this investment is the Restart NSW fund, which, at 30 June 2017, had received \$29.8 billion in deposits. The NSW Government raised most of this money from the sale or lease of government assets. Under the *Restart NSW Fund Act 2011*, Infrastructure NSW has responsibility for assessing projects and making recommendations to the Treasurer for the use of Restart NSW funds.

### Exhibit 1: Restart NSW Fund regional investment compared with total investment as at 30 June 2017

	Regional investment only	Total investment
	\$ billion	\$ billion
Commitments	3.8	17.5
Reservations	5.3	12.1
Unallocated balance	n/a	0.2
<b>Total</b>	<b>9.1</b>	<b>29.8</b>

Source: The Treasury 2017.

Restart NSW funds major regional infrastructure programs, such as:

- Resources for Regions
- Fixing Country Roads
- Cobbora Transition Fund
- Fixing Country Rail
- Hunter Infrastructure and Investment Fund
- Regional Growth - Environment and Tourism Fund
- Regional Growth: Economic Activation Fund
- Regional Tourism Infrastructure
- Restart Illawarra
- Safe and Secure Water Supply.

Resources for Regions and Fixing Country Roads are among the largest of these programs. In the three years to 30 June 2016, \$333.7 million has been allocated to 173 projects in these two programs.

### Exhibit 2: Resources for Regions and Resources for Regions allocations in financial year 2013–14 to 2015–16

	2013–14	2014–15	2015–16	Total
	\$ million	\$ million	\$ million	\$ million
Resources for Regions	Round 1: 41.9			
	Round 2: 75.9	80.2	32.7	230.7
Fixing Country Roads	None	41.4	61.6	103

Source: Audit Office 2017.



## Regional assistance programs are important sources of funding for local government in regional and rural NSW

NSW councils are the largest recipient of funding for both Resources for Regions and Fixing Country Roads. Many of the local government areas that can apply for funding (in both programs) operate in an environment with a relatively small rate base and a large geographical area. Regional assistance programs such as Resources for Regions and Fixing Country Roads, provide financial support to fund infrastructure which might otherwise be unaffordable.

## 1.2 Resources for Regions

In 2012, the NSW Government initiated the Resources for Regions program. Infrastructure NSW administers the program, with support from other agencies to assist in receiving and assessing applications for funding. The Department of Industry provided this support up until April 2017. Since then, the Department of Premier and Cabinet has been providing support to Infrastructure NSW.

In the three years to 30 June 2016, the NSW Government allocated \$231 million from Resources for Regions to 40 projects across four funding rounds.

The aim of the program is to address infrastructure constraints in mining affected communities through projects aimed at building infrastructure across health, water, road, education, tourism and central business district renewals.

In 2013, the NSW Government considered that eight regional local government areas were highly affected by mining and were eligible to apply for funding. Over successive rounds, the NSW Government added other regional local government areas to this list, provided that their application could demonstrate a link to the impact of mining on their local community. From 2015–16, Resources for Regions has been open to all regional local government areas that can demonstrate they are mining affected to a significant degree. In these rounds, mining affected communities included those affected by current mining activities, as well as those impacted by either increasing or decreasing levels of mining activity.



**Exhibit 3: Local Government areas eligible for Resources for Regions**

Year	2013–14	2013–14	2014–15	2015–16
	Round 1	Round 2	Round 3	Round 4
Eligible LGAs	<ul style="list-style-type: none"> <li>Cobar</li> <li>Lithgow</li> <li>Mid-Western Regional</li> <li>Muswellbrook</li> <li>Narrabri</li> <li>Newcastle</li> <li>Singleton</li> <li>Wollongong</li> </ul>	<ul style="list-style-type: none"> <li>Cobar</li> <li>Lithgow</li> <li>Mid-Western Regional</li> <li>Muswellbrook</li> <li>Narrabri</li> <li>Newcastle</li> <li>Singleton</li> <li>Wollongong</li> </ul>	<ul style="list-style-type: none"> <li>Broken Hill</li> <li>Cessnock</li> <li>Cobar</li> <li>Lithgow</li> <li>Maitland</li> <li>Mid-Western Regional</li> <li>Muswellbrook</li> <li>Narrabri</li> <li>Newcastle</li> <li>Singleton</li> <li>Wollongong</li> </ul>	All regional LGAs that can demonstrate they are mining affected to a significant degree

## 1.3 Fixing Country Roads

In 2014, the NSW Government initiated the Fixing Country Roads program. Transport for NSW and Infrastructure NSW jointly administer the program, which allows councils to apply for funding for projects that better connect local and regional roads to state highways and key freight hubs.

In the two years to 30 June 2016, the NSW Government reserved \$154.6 million of Fixing Country Roads funding for 151 projects. Some of these projects are yet to commence as they are waiting for additional funding from other sources. At 30 June 2016, \$103 million of Fixing Country Roads funding had been allocated to 133 projects. A third round of Fixing Country Roads is currently under assessment.

## 1.4 How projects are assessed and funded

The NSW Government approves the program criteria and objectives, application process and timeline for each round of Resources for Regions and Fixing Country Roads. The relevant agencies publish this information in program guidelines, which provide information on the criteria used to assess applications at both Expression of Interest (EOI) and detailed application stages.

Both programs used a two-stage application process and at both stages, relevant agency staff and the Regional Independent Assessment Panel (RIAP) assessed applications against criteria set by the NSW Government. The RIAP recommended projects for funding to the Chief Executive Officer of Infrastructure NSW, who then recommended projects for funding to the Treasurer.

In the third round (2016–17) of Fixing Country Roads, the NSW Government introduced a single stage assessment process. We did not review this round as part of the audit.

### Exhibit 4: The assessment process for Resources for Regions and Fixing Country Roads

	Resources for Regions	Fixing Country Roads
<b>Round announcement</b>	Department of Premier and Cabinet (DPC) conducts regional information sessions and workshops.	Transport for NSW (TfNSW) conducts regional information sessions and workshops.
	<b>Agencies: DPC</b>	<b>Agencies: TfNSW</b>
<b>EOI</b>	DPC Senior Officers Group consult stakeholders, review EOIs and prepare assessment packs for the Regional Independent Assessment Panel (RIAP). Further information on the composition of the RIAP can be found on page 8. The RIAP reviews the Senior Officers Group's recommendations and formulates the final shortlist of applicants invited to the full/detailed application stage. INSW notifies shortlisted and unsuccessful applicants.	TfNSW reviews applications and prepares a pack for Technical Panel assessment. Technical Panel reviews applications and formulates a shortlist of projects for the RIAP. RIAP reviews Technical Panel recommendations and formulates final shortlist. TfNSW notifies shortlisted and unsuccessful applicants.
	<b>Agencies: DPC and Infrastructure NSW</b>	<b>Agencies: TfNSW and Infrastructure NSW</b>
	<b>Panels: Senior Officers Group, RIAP</b>	<b>Panels: Technical Panel, RIAP</b>

	Resources for Regions	Fixing Country Roads
Detailed application	<p>DPC answer queries from applicants and provides advice on preparing applications.</p> <p>DPC Senior Officers Group reviews applications and prepares a pack for the RIAP.</p> <p>The RIAP reviews Senior Officers' recommendations and formulates funding recommendations to the CEO Infrastructure NSW.</p> <p>The CEO of Infrastructure NSW recommends projects to the Treasurer. The Treasurer submits minute to Expenditure Review Committee (ERC) for endorsement by the Cabinet.</p> <p><b>Agencies: DPC and Infrastructure NSW</b></p> <p><b>Panels: Senior Officers Group, RIAP</b></p>	<p>TfNSW answer queries from applicants and provides advice on preparing applications.</p> <p>TfNSW reviews applications and prepares a pack for the Technical Panel assessment.</p> <p>The Technical Panel reviews applications and formulates a shortlist of projects for the RIAP.</p> <p>RIAP reviews technical panel recommendations and formulates funding recommendations to the CEO Infrastructure NSW.</p> <p>The CEO of Infrastructure NSW recommends projects to treasurer. The Treasurer submits minute to Expenditure Review Committee (ERC) for endorsement by the Cabinet.</p> <p><b>Agencies: TfNSW and Infrastructure NSW</b></p> <p><b>Panels: Technical Panel, RIAP</b></p>
Program Management (Grant Administration)	<p>Infrastructure NSW establishes a Funding Deed with grant recipients for all funded projects. Grant recipients report to Infrastructure NSW monthly on their progress and claim reimbursement of their costs for agreed project milestones less their defined contributions. Public Works Advisory verifies claims for payment. Infrastructure NSW takes corrective action to assist grant recipients to complete projects if required. Grant recipients must submit project completion reports to Infrastructure NSW.</p> <p><b>Agency: Infrastructure NSW, Public Works Advisory</b></p>	<p>Infrastructure NSW establishes a Funding Deed with grant recipients for all funded projects. Grant recipients report to Infrastructure NSW monthly on their progress and claim reimbursement of their costs for agreed project milestones less their defined contributions. Public Works Advisory verifies claims for payment. Infrastructure NSW takes corrective action to assist grant recipients to complete projects if required. Grant recipients must submit project completion reports to Infrastructure NSW.</p> <p><b>Agency: Infrastructure NSW, Public Works Advisory</b></p>

Notes: EOI - Expression of Interest, TfNSW - Transport for NSW, DPC - Department of Premier and Cabinet.  
Source: Audit Office 2017.

For both programs, the agencies publish assessment criteria reflecting the objectives of each program. These criteria are set out below in Exhibit 5.

The *Restart NSW Fund Act 2011* requires a recommendation from Infrastructure NSW before a Minister (in this case, the Treasurer) can approve funding for projects. The NSW Government established a Regional Independent Assessment Panel (RIAP) to consider applications and provide advice about recommendations to the Chief Executive Officer of Infrastructure NSW. A private sector member of the Infrastructure NSW Board who has regional experience chairs the RIAP, which also includes representatives from Local Government NSW and the NSW Farmers Association. At various times, representatives from other industry and stakeholder groups, including the NSW Minerals Council and the NSW Association of Mining Affected Councils, have been members. In accordance with the Act, it is the CEO of Infrastructure NSW who makes recommendations for the use of Restart funds to the Treasurer.

Transport for NSW and the Department of Premier and Cabinet assist Infrastructure NSW during the application and assessment stages. They consult with relevant stakeholders and review applications, brief candidates and provide technical information to assist the RIAP. At project assessment stages, relevant agency staff assess applications and provide information to the RIAP for consideration.

- For Resources for Regions, this was undertaken by a 'Senior Officers Group' which consisted of staff from the Treasury and the Department of Trade and Investment. Other agency staff participated in this process as required (for example staff from the Department of Primary Industries - Water would join the Senior Officers Group to provide advice on applications relating to water infrastructure).
- For Fixing Country Roads, Transport for NSW convened a Technical Panel, which consisted of staff from the Freight Strategy Branch in Transport for NSW, representatives from Roads and Maritime Services, engineering/economic consultants as well as a member from the Institute of Public Works Engineers Australia.

Infrastructure NSW, as the Treasurer's representative, manages the Funding Deeds for all regional local government and non-government organisation Restart NSW Fund grants. Infrastructure NSW engaged Public Works Advisory, previously NSW Public Works, to assist in project monitoring and validating claims for payment.

## Exhibit 5: Assessment criteria for Resources for Regions and Fixing Country Roads

Resources for Regions	Fixing Country Roads
<b>Strategic assessment</b> <p>Applicants must demonstrate that projects will meet the statutory purpose of the Restart NSW Fund to improve economic growth and productivity in NSW. For the purposes of the Resources for Regions program, funding must be used to improve local infrastructure in regional areas that are significantly affected by mining operations.</p>	<b>Strategic alignment</b> <p>Applicants should show how the project aligns with Australian, State and Local Government, regional and industry priorities.</p>
<b>Economic assessment</b> <p>Applicants must demonstrate how projects will have a positive impact on productivity and economic growth in NSW through the creation or enhancement of publicly owned assets and demonstrate a benefit cost ratio greater than one.</p>	<b>Growth and economic benefits</b> <p>Applications must make a strong case, backed by appropriate letters of support and other evidence, to demonstrate how a project would have a positive impact on cost saving and economic growth. Applicants are advised to start with the Benefit Cost Analysis (BCA) Model as it helps articulate the project. Applicants must demonstrate a benefit cost ratio greater than one.</p>
<b>Affordability</b> <p>Applicants must demonstrate that the project is affordable given the available funding. Project applications must include construction, operating and maintenance costs, supported by estimates or quotes and include all margins and overheads, project and construction management costs and an appropriate amount of contingency for the project stage and risks.</p> <p>Projects with a co-contribution from other sources will be assessed favourably.</p>	<b>Deliverability and affordability</b> <p>Applications should demonstrate the level of shovel readiness and capacity of the proponent to deliver the project through robust strategies for procurement, project management and risk management.</p> <p>Applicants need to indicate that the project is affordable, taking into account net life-cycle cost impacts and allowing for on-going operating, maintenance and replacement requirements.</p>
<b>Deliverability</b> <p>Applicants must demonstrate that they have the capacity to deliver projects through robust strategies for procurement, project management and risk management. Past performance on delivering NSW Government funded projects will be considered.</p>	<b>Access, productivity and safety benefits</b> <p>Applicants will need to demonstrate how the project will achieve access, safety and productivity benefits in the region, particularly with regard to removing constraints in the safe movement of freight from origin to destination, or access to key freight networks. Safety is integral to efficient freight movement.</p>

Source: Infrastructure NSW and Transport for NSW.



## 2. Assessment of applications



**The project selection criteria are consistent with the program objectives set by the NSW Government, and the RIAP applied the criteria consistently. Probity and record keeping practices did not fully comply with the probity plans.**

The assessment methodology designed by Infrastructure NSW is consistent with the program objectives and criteria. In the rounds that we reviewed, all funded projects met the assessment criteria.

Infrastructure NSW developed probity plans for both programs which provided guidance on the record keeping required to maintain an audit trail, including the use of conflict of interest registers. Infrastructure NSW and Transport for NSW did not fully comply with these requirements. The relevant agencies have taken steps to address this in the current funding rounds for both programs.

NSW Procurement Board Directions require agencies to ensure that they do not engage a probity advisor that is engaged elsewhere in the agency. Infrastructure NSW has not fully complied with this requirement. A conflict of interest arose when Infrastructure NSW engaged the same consultancy to act as its internal auditor and probity advisor.

While these infringements of probity arrangements are unlikely to have had a major impact on the assessment process, they weaken the transparency and accountability of the process.

Some councils have identified resourcing and capability issues which impact on their ability to participate in the application process. For both programs, the relevant agencies conducted briefings and webinars with applicants to provide advice on the objectives of the programs and how to improve the quality of their applications. Additionally, Transport for NSW and the Department of Premier and Cabinet have developed tools to assist councils to demonstrate the economic impact of their applications.

The relevant agencies provided feedback on unsuccessful applications to councils. Councils reported that the quality of this feedback has improved over time.

### Recommendations

1. By June 2018, Infrastructure NSW should:
  - ensure probity reports address whether all elements of the probity plan have been effectively implemented.
2. By June 2018, Infrastructure NSW and Transport for NSW should:
  - maintain and store all documentation regarding assessment and probity matters according to the *State Records Act 1998*, the *NSW Standard on Records Management* and the relevant probity plans.

### 2.1 The project assessment and recommendation process

#### All funded projects met the assessment criteria

When the NSW Government approved the program criteria and objectives, Infrastructure NSW developed an assessment methodology for both programs. The assessment criteria reflected the objectives of the programs. The assessment process (if applied consistently) would adequately assess and recommend projects for funding that align with the program objectives.

In the rounds of Resources for Regions and Fixing Country Roads that we reviewed, all funded projects had undergone assessment and were recommended by the RIAP, and then the CEO of Infrastructure NSW. We found that funded projects met all the assessment criteria.

If an application was successfully shortlisted after the EOI stage, applicants provided a detailed application. For both programs, the detailed application required specific documentation such as assessment of benefit cost ratios, project delivery and procurement plans, risk assessment and management strategies, project designs and costing information.



## 2.2 Probity and record keeping

### Infrastructure NSW's internal auditor provided probity services for both programs

From 2013, Infrastructure NSW appointed the consultant it engaged for its internal audit services to provide probity advice services for both programs. This is contrary to the NSW Procurement Board Direction PBD-2013-05 'Engagement of probity advisers and probity auditors'. Agencies must comply with this Direction, which includes a general presumption against engaging probity advisers and auditors already engaged in other work within the agency. This separation ensures that the engagement will not create a real or perceived conflict of interest.

Infrastructure NSW advised that its decision to engage the same consultancy to provide both internal audit and probity services, was a management decision taken with an understanding of the need to separate both roles. However, we found that the separation required to prevent conflict was not maintained. A conflict of interest arose when the consultancy's internal audit report referred to its work as probity advisor to support its finding that there were no known probity issues or concerns. While this is unlikely to have had a major impact on the assessment process, it weakens the transparency and accountability of the process.



When Infrastructure NSW engaged its internal auditor to provide probity services, it noted the need to engage a different consultancy to conduct an audit of the probity services provided. Infrastructure NSW has not yet commissioned this audit, but states that it will do so soon.

### Infrastructure NSW and Transport for NSW have not maintained all required documentation

Infrastructure NSW developed probity plans for both programs based on a framework provided by its probity advisor. The probity plans provided guidance on the record keeping required to maintain an audit trail, including the use of conflict of interest and probity registers. In later rounds of both programs, the relevant agencies incorporated the probity plans into the assessment methodology, and the requirements relating to documentation remained largely unchanged.

Significantly, the probity plans recommend the following as risk mitigation strategies:

- **document compliance and non-compliance with the agreed assessment approach** - to maintain transparency the RIAP will record how it has observed and followed the agreed assessment and evaluation approach. Recognising that at times deviations may be required, the RIAP will also record how and why deviations from this approach may have occurred.
- **maintenance of an audit trail** - it is important that a clear documentation process or audit trail for the program be maintained, outlining the decision-making process and how this aligns with the objectives of the program.
- **record keeping practices** - to maintain transparency in the preparation for, and assessment and evaluation of proposals, strict record keeping practices must be adopted. This would include records such as minutes of the RIAP meetings and correspondence with any entity applying. Appropriate documentation will be maintained to support decisions moving forward.

We found that the record keeping processes for both programs did not fully comply with these requirements. In the documentation for the first two rounds of Resources for Regions that we examined, we found two instances where the decision-making processes used by the RIAP were not accurately described. While not significant in number, these deficiencies affect the transparency and accountability of the process. Infrastructure NSW has acknowledged these deficiencies and has addressed them in subsequent rounds of Resources for Regions.

While the RIAP minutes recorded conflict of interest declarations, Infrastructure NSW advised that it did not maintain the conflict of interest register for Resources for Regions as required by the probity plan. Neither Transport for NSW nor Infrastructure NSW could provide the conflict of interest register for rounds one and two of Fixing Country Roads.

Additionally, for the rounds of funding that we examined, the only requirement for a conflict of interest declaration applied to permanent members of the RIAP. These requirements did not apply to other parties involved in the assessment process, such as members of the Fixing Country Roads Technical Panel, or the Resources for Regions Senior Officers Group or other professional service providers involved in the assessment. The work undertaken by these other parties significantly influenced the decisions to recommend projects for funding. Given this, it is important that such mechanisms are put into place. We note that Infrastructure NSW has corrected this omission in the third round of Fixing Country Roads (2016–17).

The probity reports for rounds one and two of Resources for Regions did not identify any of the issues described above.

## 2.3 Supporting local government to apply for funding

### **Some councils experience resource and capacity issues which impact their ability to apply for funding**

For both programs, the detailed application process is resource intensive for councils. Some councils did not have staff with expertise in putting together evidence supporting the economic impact of projects (such as the benefit cost ratio required by both programs). Additionally, detailed applications were more likely to be successful if the projects provided detailed design and costing information. This type of information requires an investment of staff time, and occasionally external consultancies. Some of the smaller councils we met with spoke to the challenges that this presented.

Additionally, for both Resources for Regions and Fixing Country Roads, the relevant agencies were unable to provide councils with notice of when a round of funding would open. As a result, councils were not able to plan their resources in advance of a funding round opening. Several councils expressed a desire for a calendar or schedule, which would include information on when various grant programs would be available to assist them in planning and allocating resources.

We note that Transport for NSW has changed the application process for Fixing Country Roads. Under the new arrangement, the funding program remains open continuously, and the assessment process occurs at multiple times throughout the year.

We note that the NSW Government decides when a new round of Resources for Regions is announced. Accordingly, it is not possible for Infrastructure NSW to provide notice for potential applicants as to when a new round of funding will open.

### **Feedback provided to unsuccessful applicants has improved over time**

During earlier rounds of Resources for Regions and Fixing Country Roads, unsuccessful applicants were provided with minimal feedback unless they contacted Infrastructure NSW or Transport for NSW. This is particularly true for the first rounds of Resources for Regions where Infrastructure NSW did not provide individual feedback to unsuccessful applicants at either the EOI or detailed application stage. As a result, councils reported being uncertain as to whether unsuccessful projects should be resubmitted for future rounds, or if projects were unlikely to be considered in future rounds.

During the recent rounds of both programs (neither of which were reviewed in detail as part of this audit), we note that the feedback being provided to applicants has improved. Some of the councils we spoke to also commented that feedback had improved, and appreciated any additional information to assist in preparing for future rounds. By 2016, unsuccessful applicants were given feedback at the EOI stage.



### **The processes to support applicants have evolved and improved over successive rounds of Resources for Regions and Fixing Country Roads**

For both programs, the relevant agencies conducted briefings and webinars to provide advice to applicants. These were conducted before, or during, the period where calls for Expressions of Interest opened. These briefings included useful additional information on how applicants should demonstrate that they have met the selection criteria. Over time, the relevant agencies collected and published useful frequently asked questions and responses.

Recently, Transport for NSW provided grant writing workshops for councils. These workshops support capacity development for council staff who are responsible for putting together applications and are likely to improve the quality of applications received in future rounds. Transport for NSW has evaluated the success of their capability development activities, and implemented changes in line with the results of this evaluation.

In more recent rounds of both programs, the Department of Premier and Cabinet and Transport for NSW have been a central point of contact for councils. This has meant that councils have been able to use an existing relationship with agency staff, who are then able to provide appropriate information or referral as required. The councils we spoke with acknowledged that this additional support was beneficial.

### **The Department of Premier and Cabinet and Transport for NSW have implemented processes to assist councils to demonstrate economic impact**

During the rounds of both programs that we reviewed, there was further room for improvement to support applicants to prepare economic modelling in line with the Treasury guidelines and the assessment criteria. As the benefit cost ratio (BCR) and economic analysis are important components of the assessment of both programs, improvements in these are likely to have significant positive impacts on the outcomes of the selection process.

For Fixing Country Roads, Transport for NSW has developed a spreadsheet-based tool to assist councils to calculate the likely BCR of their proposal. This spreadsheet relies on councils providing inputs (such as existing freight data and traffic counts) and calculates a BCR according to the data provided. Councils are expected to substantiate data they put into the spreadsheet. The Technical Panel then assess their work. Some councils have found this tool useful, although some councils stated that it was challenging to collect the required data.

In the most recent round of Resources for Regions, the Department of Premier and Cabinet asked shortlisted applicants to complete a data sheet instead of calculating a BCR as part of the detailed application. The Department expects that this change will improve the quality of economic data considered by the RIAP during its assessment.



### 3. Managing project delivery and outcomes

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Infrastructure NSW is responsible for overseeing and monitoring projects funded under Resources for Regions and Fixing Country Roads. Infrastructure NSW effectively manages projects to keep them on track, however it could do more to assure itself that all recipients have complied with funding deeds. Benefits and outcomes should also start to be measured and reported as soon as practicable after projects are completed to inform assessment of future projects.

Infrastructure NSW identifies projects experiencing unreasonable delays or higher than expected expenses as 'at-risk'. After Infrastructure NSW identifies a project as 'at-risk', it puts in place processes to resolve issues to bring them back on track. Infrastructure NSW, working with Public Works Advisory regional offices, employs a risk-based approach to validate payment claims, however this process should be strengthened. Infrastructure NSW would get better assurance by also conducting annual audits of compliance with the funding deed for a random sample of projects.

Infrastructure NSW collects project completion reports for all Resources for Regions and Fixing Country Roads funded projects. It applies the Infrastructure Investor Assurance Framework to Resources for Regions and Fixing Country Roads at a program level. This means that each round of funding (under both programs) is treated as a distinct program for the purposes of benefits realisation. It plans to assess whether benefits have been realised once each project in a funding round is completed. As a result, no benefits realisation assessment has been done for any project funded under either Resources for Regions or Fixing Country Roads. Without project-level benefits realisation, future decisions are not informed by the lessons from previous investments.

#### Recommendations

3. By December 2018, Infrastructure NSW should:
  - conduct annual audits of compliance with the funding deed for a random sample of projects funded under Resources for Regions and Fixing Country Roads
  - publish the circumstances under which unspent funds can be allocated to changes in project scope
  - measure benefits delivered by projects that were completed before December 2017
  - implement an annual process to measure benefits for projects completed after December 2017
4. By December 2018, Transport for NSW and Infrastructure NSW should:
  - incorporate a benefits realisation framework as part of the detailed application.

## 3.1 Contract management

### **Infrastructure NSW uses a contract management tool to monitor the progress of funded projects and to receive claims for payment**

Each successful Resources for Regions and Fixing Country Roads project has a funding deed signed by the recipient and the Secretary of the Treasury on behalf of the Treasurer. The funding deed is a standard contract for all Restart NSW funded projects. The deed requires grant recipients to submit monthly reports which must include:

- the status of delivery against schedule
- any delay in the delivery of the project
- details of the project costs incurred to date
- project risks or other issues
- key achievements in the reporting period
- copies of published reports and materials in relation to the project
- photographs documenting the progress of the project.

Infrastructure NSW oversees and monitors Restart NSW funded projects. It does not use Restart NSW funds to support these activities and does not receive additional funding from the Treasury for this role.

Infrastructure NSW uses Public Works Advisory's Asset.gov online portal to manage all Restart NSW projects (which includes Resources for Regions and Fixing Country Roads). Asset.gov is a set of web based applications that facilitate communication, information management and project reporting.

The Asset.gov portal allows grant recipients to meet the progress reporting requirements of the funding deed. Infrastructure NSW generates consolidated status reports through Asset.gov and monitors progress.

### **Grant recipients report on project progress and submit claims to receive reimbursement for work performed**

Funding for Resources for Regions and Fixing Country Roads is paid by reimbursement for work done. Grant recipients use Asset.gov to submit claims for payment alongside monthly progress reports. Infrastructure NSW requires grant recipients to support payment claims with cost reports (which are often extracts from the recipient's General Ledger) and an invoice from the grant recipient for the amount claimed. Infrastructure NSW does not require grant recipients to provide other supporting information as evidence that grant recipients have undertaken the work, such as invoices from contractors or suppliers.

Most projects are funded from multiple sources. For almost all projects, the Treasury reimburses grant recipients an amount that is relative to the proportion of Restart NSW funds contributing to the project. For example, if half the project costs are covered by Restart NSW and half from other sources, claims for payment for the Restart NSW component are reimbursed at 50 per cent of the payment claim. This arrangement mitigates the risk that grant recipients use the Restart NSW component disproportionately.

For all Restart NSW funded projects (which includes projects funded under Fixing Country Roads and Resources for Regions), the funding deed specifies that grant recipients need to submit a project completion report. Once the project completion report is provided to Infrastructure NSW, the recipient can submit the final claim for the project.

### **Infrastructure NSW uses a risk-based methodology to validate claims for payment**

Infrastructure NSW provides program assurance to the Treasurer for Restart NSW funded projects. As projects funded under Restart NSW are distributed across New South Wales, Infrastructure NSW has engaged Public Works Advisory, previously NSW Public Works, to undertake assurance activities on its behalf for Restart NSW funded projects.

Under the arrangement with Infrastructure NSW, Public Works Advisory regional offices review and validate progress reports and claims for payment submitted through the Asset.gov portal. Progress reports must include supporting documentation for the Public Works Advisory to validate the claim.

Infrastructure NSW uses a risk-based methodology to validate claims for payment. As part of this methodology, Infrastructure NSW and Public Works Advisory hold monthly review calls for all live projects. Infrastructure NSW requires Public Works Advisory to certify acceptable payment claims, and as part of this role Public Works Advisory can undertake additional tasks, such as site visits, to ensure projects are progressing as reported. The methodology also requires staff from Infrastructure NSW to call every grant recipient monthly to discuss progress.

This risk-based approach is well suited to helping Infrastructure NSW identify projects experiencing unreasonable delays or higher than expected expenses. This approach is consistent with the guidance provided in the Australian National Audit Office's 2013 'Implementing Better Practice Grants Administration'.

The funding deed also provides Infrastructure NSW, as the Treasurer's representative, the ability to conduct audits of grant recipients' compliance with the funding deed. Infrastructure NSW currently only uses this compliance audit for projects identified 'at-risk'.

Overall, it would get better assurance by also conducting annual audits of compliance with the funding deed for a random sample of funded projects.

## **3.2 Project risks are identified and addressed**

### **The inclusion of applicants' risk management plans as part of the funding deed is good practice**

For the rounds of Resources for Regions and Fixing Country Roads that we reviewed, applicants were required to provide risk management plans for all projects shortlisted for the detailed application stage. The risk management plans address the specific risks that may impact on the delivery of the project. NSW Government staff with relevant experience in project management, as well as the RIAP, assess the risk management plans.

On approval, Infrastructure NSW includes the risk management plan as a schedule to the project funding deed. This practice is consistent with the guidance provided in the Australian National Audit Office's 2013 'Implementing Better Practice Grants Administration'.

### **Infrastructure NSW manages Restart NSW programs under the NSW Government Infrastructure Investor Assurance Framework**

The NSW Government Infrastructure Investor Assurance Framework (IIAF) establishes oversight arrangements of the state's infrastructure program. The IIAF applies to capital projects and programs with a value of \$10 million or more delivered by General Government agencies and Government Businesses. The IIAF uses a three tiered, risk-based approach to project monitoring.

Infrastructure NSW applies the IIAF at a program level to Resources for Regions and Fixing Country Roads. Infrastructure NSW also applies the IIAF to specific projects which are in a state of elevated risk.

### **Infrastructure NSW manages 'at-risk' projects**

Infrastructure NSW identifies projects experiencing unreasonable delays or higher than expected expenses as 'at-risk'. After Infrastructure NSW identifies a project as 'at-risk', it puts in place processes to resolve issues to bring them back on track. This includes initiating compliance audits under the funding deed.

Infrastructure NSW requires grant recipients to self-assess the project risk status on a traffic light scale (green, amber, red). Infrastructure NSW also conducts an assessment of project risk status against this scale. Projects with amber and red statuses are considered at risk and Infrastructure NSW requires project managers to undertake appropriate mitigating actions.

If the project remains in a state of elevated risk (either amber or red), Infrastructure NSW performs a health check in accordance with the IIAF. When there is a concern that a project is not achieving satisfactory progress against the project plans set out in the funding deed, Infrastructure NSW contacts the recipient and arranges a review to assess compliance with the project plans and identify required rectification actions. Infrastructure NSW requires the recipient to prepare and action a rectification plan to address the findings of the review. Infrastructure NSW may amend the funding deed schedules in accordance with any findings from the review.

Prior to the introduction of the IIAF, Infrastructure NSW applied the review approach modelled on the NSW Government Gateway Health Check.

#### **Case study**

In 2015, Infrastructure NSW identified a Resource for Regions funded project 'at-risk' because it had experienced continual delays. During the review process, Infrastructure NSW met with the relevant council and could collaboratively identify the specific reasons for the delay. Because of this process, Infrastructure NSW could work with council to find solutions and was able to assist council in getting the project back on track. Infrastructure NSW identified that the council did not have the necessary project management capacity to deliver the project. As a result of the review, Infrastructure NSW has assisted the council to engage Public Works Advisory as the project manager. Council staff we met with spoke favourably about this process, specifically noting that the relationship with Infrastructure NSW remains positive and that the project is now on track.

### **3.3 Changes to project scope**

#### **Infrastructure NSW effectively manages changes to project scheduling but more significant project scope changes undergo limited assessment**

Each project's funding deed includes a schedule that sets out expected progress and milestones for the project. Construction projects may not adhere to planned schedules due to bad weather or issues with suppliers or contractors.

In these circumstances, grant recipients submit a change request to Infrastructure NSW. The change request must include the reasons for any change to project schedule. Infrastructure NSW has implemented a process to assess and approve change requests. Infrastructure NSW's management of this process is well documented and it efficiently processes simple change requests. The Councils we spoke to reported satisfaction with this process.

The scope of work for a project is set out in the funding deed and includes details on the location and specifications. For example, the scope of a road project would include details such as the road covering, and information on additional drainage works. A more complex change request may be required if grant recipients want to change key project details such as the project design.

There have been occasions where the grant recipients have been able to deliver a project without spending all the funding allocated to it. In these circumstances, some grant recipients have submitted change requests to extend the scope of the project. For example, a project funded to deliver one kilometre of upgraded road might complete under budget and request to upgrade an adjacent 200 metre section.

Infrastructure NSW approved requests to use unspent allocation to extend the scope of 20 projects (amounting to \$4 million). Infrastructure NSW does not keep data on how many requests were not approved. Also, Infrastructure NSW seeks advice from relevant agency staff on the merits of these requests but does not have criteria to assess them. For example, Infrastructure NSW does not require grant recipients to provide revised economic impact data to support these requests. Infrastructure NSW should publish the circumstances under which unspent funds can be allocated to changes in project scope.

## 3.4 Measuring success

### Infrastructure NSW intends to measure benefits realisation at a program level, in line with the IIAF

Benefits realisation is an end-to-end process during the full lifecycle of an investment in public infrastructure. Defining and tracking project benefits provides evidence that projects and programs are effective and represent value for money.

For the rounds of Resources for Regions and Fixing Country Roads that we examined, Infrastructure NSW did not require the grant recipients to report on whether the project successfully achieved its intended outcome and benefits. Instead, grant recipients are required to submit a project completion report detailing:

- any change requests approved during the project
- the project timeline, including when it reached project milestones
- project risks identified and managed
- project achievements, innovations and lessons learnt
- a final account reconciliation verified by the person who signed the funding deed on behalf of the recipient.

Infrastructure NSW applies the IIAF to Resources for Regions and Fixing Country Roads at a program level. This means that each round of funding (under both programs) is treated as a distinct program for the purposes of benefits realisation. Infrastructure NSW has advised that for this reason, project benefits will not be assessed until all projects in a funding round are complete.

Due to the complexity and size of some of the projects funded under Resources for Regions and Fixing Country Roads, no single round of funding for either program is fully complete (Exhibit 6). As a result, Infrastructure NSW has not yet undertaken any benefits realisation tracking at a project level.

The absence of any benefits tracking – including of completed projects – risks that learnings or deficiencies in benefits realisation from completed projects will not be applied to those still in progress or assessment of future applications.

#### Exhibit 6: Number of projects funded and completed, Resources for Regions and Fixing Country Roads (as at 7 March 2018)

	Number funded	Number completed
<b>Resources for Regions</b>		
Round 1 (FY 2013–14)	6	4
Round 2 (FY 2013–14)	14	9
Round 3 (FY 2014–15)	8	1
Round 4 (FY 2015–16)	12	--
<b>Fixing Country Roads</b>		
Round 1 (FY 2014–15)	74	55
Round 2 (FY 2015–16)	68	18

Source: Audit Office research 2018.

### **Planning for benefits realisation is not yet part of the application process**

Identification and understanding of benefits and how they will be measured is important at the detailed application stage. It helps applicants to show that the proposal will be effective and represent value for money. However, the current assessment process does not require applicants to identify how they will demonstrate that benefits are achieved once a project is completed. Incorporating a benefits realisation strategy during the detailed application stage would improve the ability of Infrastructure NSW to assess the extent that completed projects contribute to achieving Resources for Regions and Fixing Country Roads program outcomes. Incorporation of benefits realisation into the detailed application also aligns with the requirements of the Treasury's TPP08-05 Guidelines for Capital Business Cases which states that benefits realisation is relevant to all categories of proposals.

In 2015, Transport for NSW engaged a consultant to develop a benefits realisation framework to assist local government in benefits realisation measurement. Transport for NSW intended to gradually implement the framework into the Fixing Country Roads program. In round three of Fixing Country Roads, Transport for NSW requires applicants to identify benefits realisation measures as a component of the application and assessment process.

This framework is expected to improve local government capacity to undertake benefits realisation measurement, for both freight infrastructure and more broadly across the work of local government.

## **Section two**

### Appendices





## Appendix one – Response from agencies

### Response from Infrastructure NSW, Transport for NSW and Department of Premier and Cabinet



Ms Margaret Crawford  
NSW Auditor-General  
By email  
[margaret.crawford@audit.nsw.gov.au](mailto:margaret.crawford@audit.nsw.gov.au)  
14 May 2018

PO Box R220  
Royal Exchange NSW 1225  
P+612 8016 0100  
Email@insw.com  
www.insw.com  
ABN 85 031 302 516

Dear Ms Crawford

#### Re: Performance Audit – Regional Assistance Programs

Thank you for your letter dated 9 April 2018, enclosing a copy of the *Performance Audit – Regional Assistance Programs*.

Infrastructure NSW acknowledges the report's conclusion that it effectively manages how grant applications are assessed and recommended for funding. It is also positive that the report concludes that, together with Transport for NSW and the Department of Premier and Cabinet, applicants are well supported during the process.

Further to our recent discussion, please find attached a combined response from Infrastructure NSW, Transport for NSW and the Department of Premier and Cabinet to the report's recommendations about further improvements to program administration.

This letter supersedes the letter I sent you on 8 May 2018 and constitutes a "whole of NSW Government" response to your office's recommendations.

Yours sincerely,

Jim Betts  
CEO  
Infrastructure NSW  
8016 0104

## Auditor General's Recommendations:

1. **By June 2018**, Infrastructure NSW should ensure probity reports address whether all elements of the probity plan have been effectively implemented.

### Infrastructure NSW Response: Agreed

Infrastructure NSW will commission an independent review as part of its 2018 Internal Audit Plan.

2. **By June 2018**, Infrastructure NSW and Transport for NSW should maintain and store all documentation regarding assessment and probity matters according to the State Records Act 1998, the NSW Government Standard on Records Management and the relevant probity plans.

### Infrastructure NSW Response: Completed.

As noted in the Auditor General's report, both Infrastructure NSW and Transport for NSW have already addressed this recommendation and implemented more robust documents and records management systems.

3. **By December 2018**, Infrastructure NSW should conduct annual audits of compliance with the funding deed for a random sample of projects funded under Resources for Regions and Fixing Country Roads

### Infrastructure NSW Response: Noted.

Infrastructure NSW oversees compliance with the Funding Deed by ensuring that the delivery of the project is aligned to the schedules as defined in the Deed. Progress is reported monthly and validated prior to progress payments being made. Recipients must acknowledge compliance with the Deed every month, and must produce a signed completion report at project completion, prior to receiving final claim and retention release.

The Audit clause in the Deed allows Infrastructure NSW to perform health checks on projects in duress or identified as at risk of duress.

Any compliance audits, as recommended, would be additional to the suite of controls currently utilised by Infrastructure NSW to monitor the programs and as such they would be additional cost to the program. To gain the best value from this additional cost, Infrastructure NSW will undertake compliance audits on a risk-assessed basis and not randomly across the programs of works.

4. **By December 2018**, Infrastructure NSW should publish the circumstances under which unspent funds can be allocated to extensions in project scope.

### Infrastructure NSW Response: Agreed.

Extensions of scope can only be approved as a change request under the funding deed, and are assessed on a case by case basis where recipients have successfully delivered the original project scope within the allocated budget. Infrastructure NSW will document this process in program guidelines.

Infrastructure NSW response to Auditor General's Recommendations – Regional Assistance Programs

5. ***By December 2018, Infrastructure NSW should measure benefits delivered by projects that were completed before December 2017***

**Infrastructure NSW Response: Agreed.**

Consistent with the Restart NSW Fund Act, Infrastructure NSW makes recommendations for use of funds. Projects funded under Restart must have a benefit cost ratio (BCR) of one or more. Infrastructure NSW administers the programs with support from sponsor agencies, Transport for NSW and Department of Premier and Cabinet. Sponsor agencies are responsible for program objectives, guidelines and the measurement of program benefits. Infrastructure NSW will collaborate with the sponsor agencies to ensure that program benefits are reported when each program has fifty percent of projects completed, and then again after program completion. Infrastructure NSW will review reported benefits.

6. ***By December 2018, Infrastructure NSW should implement an annual process to measure benefits for projects completed after December 2017***

**Infrastructure NSW Response: Noted.**

Refer to the response to Recommendation 5 above.

7. ***By December 2018, Transport for NSW and Infrastructure NSW should incorporate a benefits realisation framework as part of the detailed application.***

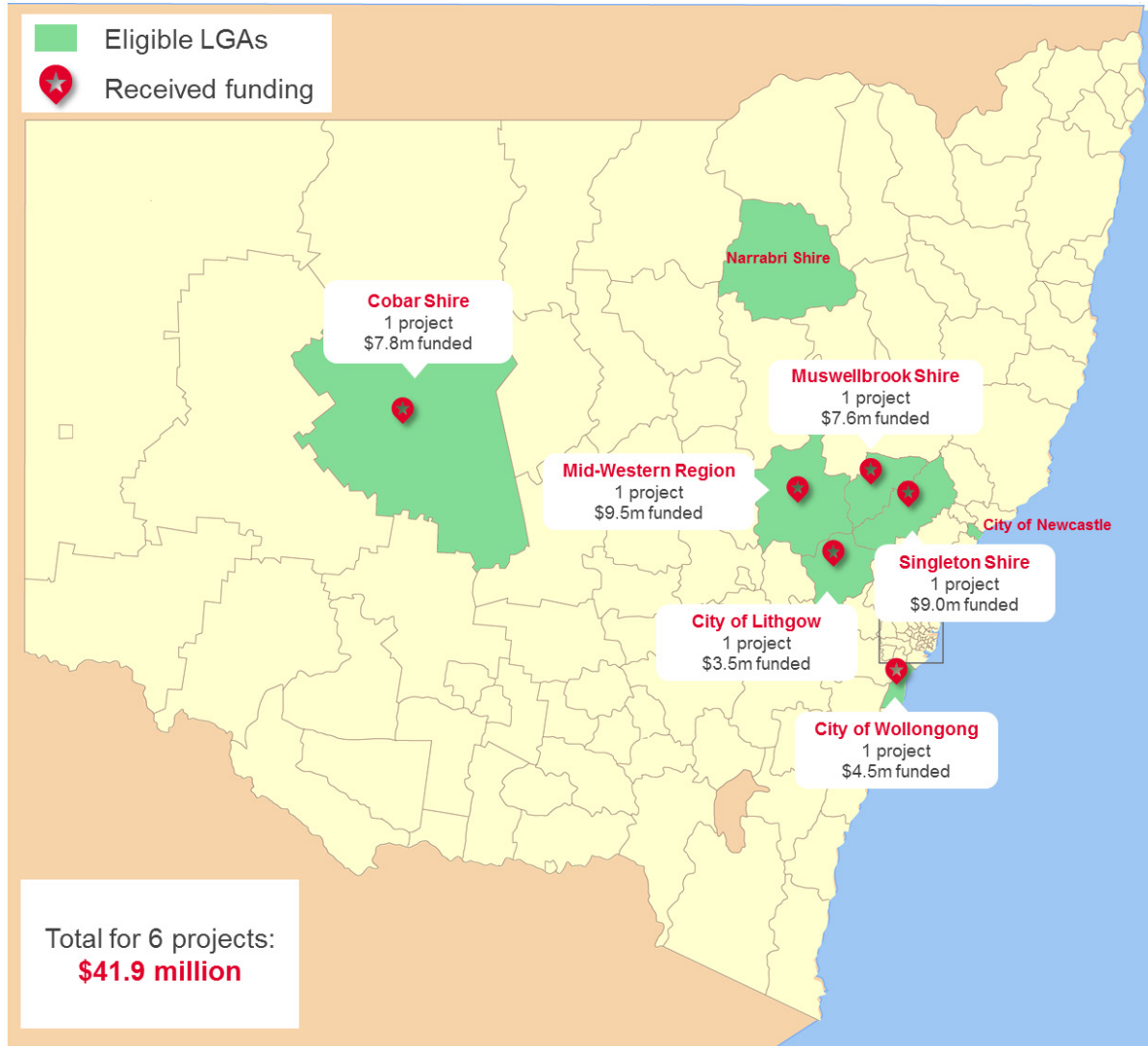
**Infrastructure NSW Response: Agreed.**

Refer to the response to Recommendation 5 above.

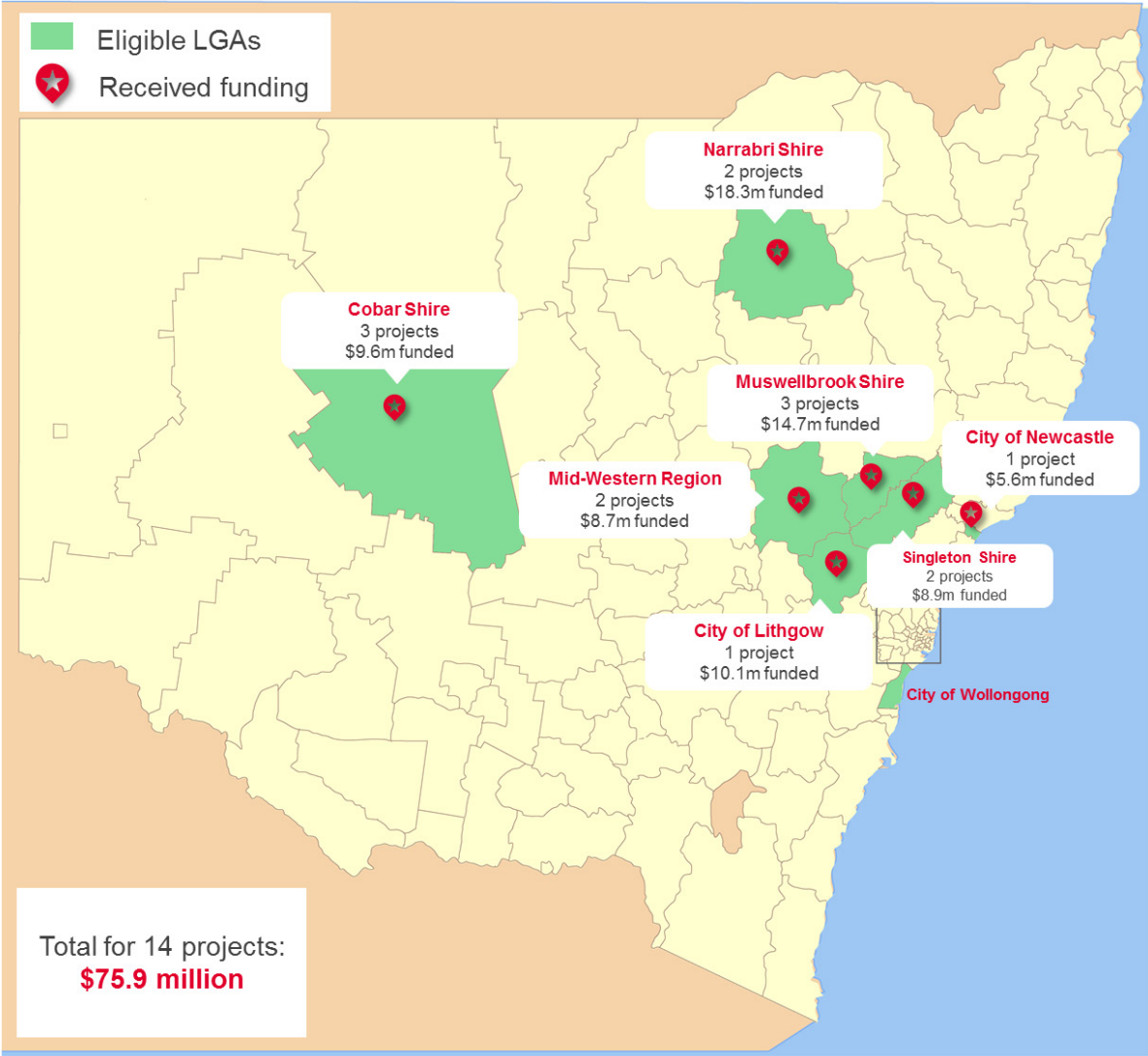


## Appendix two – Maps of funded projects

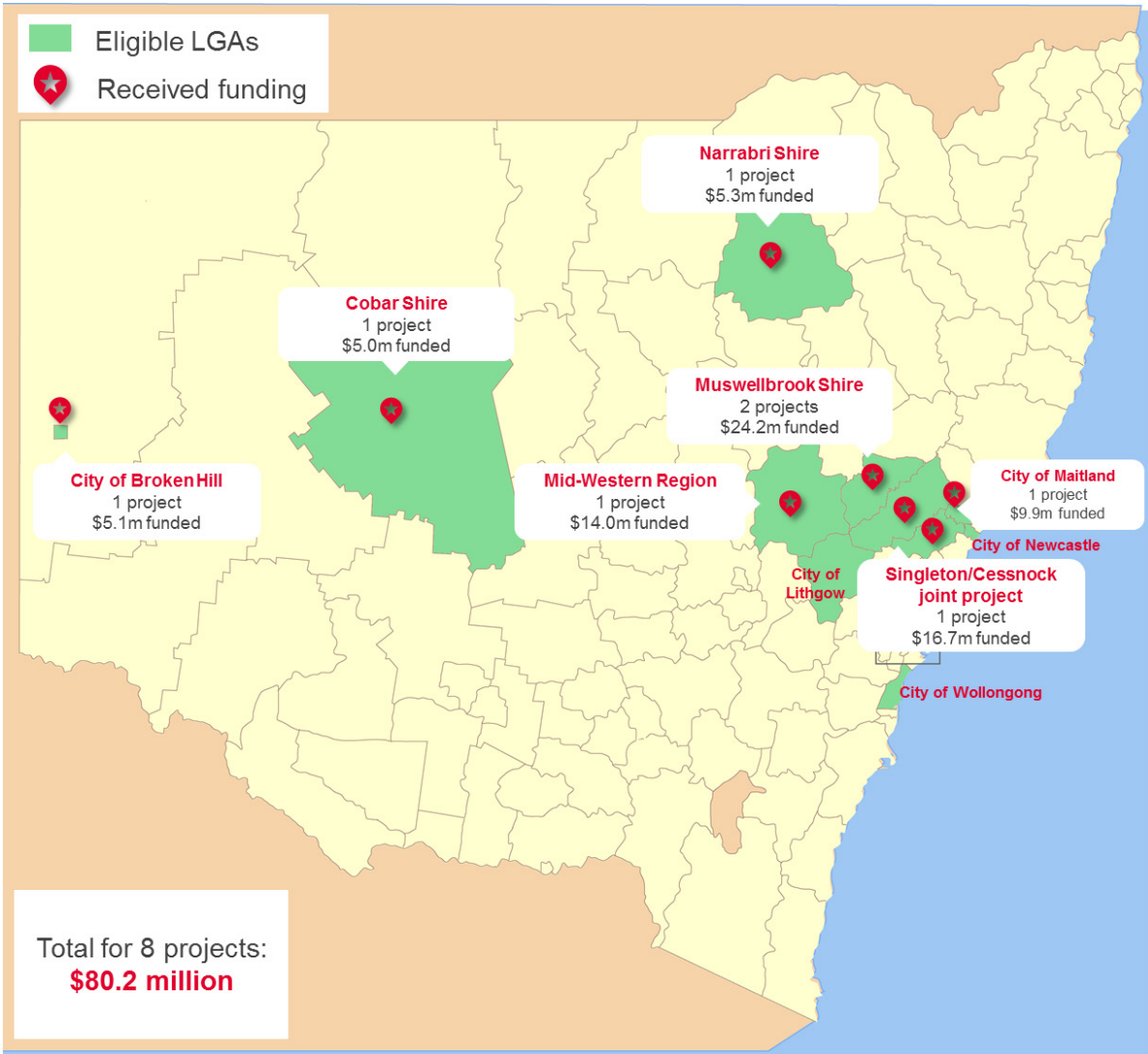
### Resources for regions round 1 (2013–14)



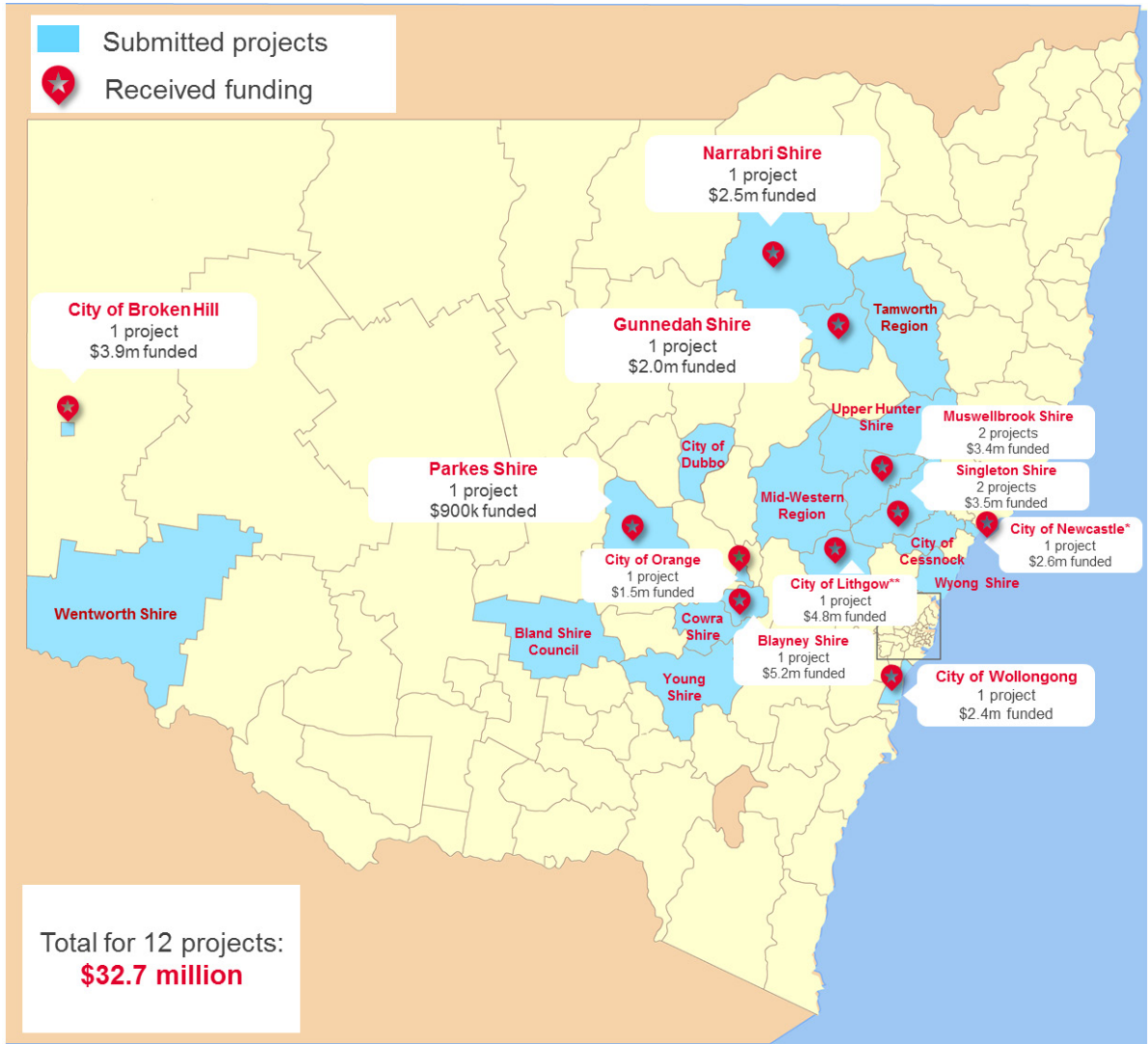
Resources for regions round 2 (2013–14)



Resources for regions round 3 (2014–15)



# Resources for regions round 4 (2014–15)



\* Port of Newcastle; not by EOI; DISRD recommendation.  
 \*\* Unsuccessful at round 3.



## Fixing country roads funded projects round 1 and 2

The map displays the state of New South Wales, Australia, with its local government areas (LGAs) outlined. A legend in the top right corner indicates the status of funding projects:

- Project completed (Green dot)
- Project in progress (Orange dot)
- Project not started yet (Grey dot)

Key features on the map include:

- Road Networks:** Major roads are shown as solid blue lines, while other roads are dashed blue lines.
- Regional Labels:** Various regions are labeled across the state, such as "Tweed", "Bygonne Valley", "Mid-Western Region", "Central Coast", "South Coast", "Newcastle", "Sydney", "Wentworth", "Barramundi", "Cobar", "Murrumbidgee", "Snowy Mountains", "Blue Mountains", "North West Slopes", "Central West", "Riverina", "South West Slopes", "Macquarie", "Orana", "Dubbo", "Narromine", "Parker", "Lachlan", "Bland", "Hilltops", "Yass Valley", "Shoalhaven", "Jervis Bay", "Port Phillip", "Geelong", "Melbourne", "Victoria", "Queensland", "ACT", "NT", "WA", "SA", "TAS", "NZ", "AUS".
- Project Distribution:** Projects are concentrated along major transport corridors and in rural areas. Notable clusters are seen in the Central West, Riverina, and Snowy Mountains regions.
- Legend:** The legend is located in the top right corner, featuring three colored circles corresponding to the project status: green for completed, orange for in progress, and grey for not started yet.





## Appendix three – About the audit

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### Audit objective

This audit assessed whether two regional assistance programs - Resources for Regions and Fixing Country Roads - were effectively managed and achieved their objectives.

### Audit criteria

We addressed the audit objective by answering the following questions, each with their own audit criteria:

#### **Question 1: How well were relevant agencies managing the assessment and funding recommendation process?**

1. There was an effective framework for the assessment and recommendation of projects under the Resources for Regions & Fixing Country Roads programs, including whether:
  - a) there was a clear plan for how potential applicants were invited to apply and were supported through the application and assessment process
  - b) applications were assessed and selected with reference to the defined criteria and objectives for the programs
  - c) project specific risks were identified during the assessment process
  - d) effective probity and assurance processes were implemented.

#### **Question 2: How did the relevant agencies ensure that funded projects were being delivered?**

2. There was an effective framework for project monitoring, including whether:
  - a) measurable project milestones were set and monitored for each project
  - b) payment processes adequately assessed claims including those for projects with multiple funding sources
  - c) effective processes were implemented to manage change requests and project delays.
3. Funding deeds effectively managed project risks, including whether:
  - a) the funding deed adequately managed identified risks
  - b) change requests under funding deeds were effectively managed to address risks.

#### **Question 3: Did the funded projects meet program objectives and project outcomes?**

4. Funded projects met the program objectives.
5. There was timely and appropriate assessment of project outcomes and benefits.

### Audit scope and focus

This audit focused on the following timeframes:

Resources for Regions: all funding rounds from 2013–14 through to 2015–16. The first round of Resources for Regions funding (2012–13) was excluded, as was the 2016–17 round which was being assessed during the audit.

Fixing Country Roads: all funding rounds in 2014–15 and 2015–16, but excluded 2016–17 as it was being assessed during the audit.

## Audit exclusions

The audit did not seek to assess the merits of government policy objectives, including the specific objectives and criteria for the programs which were approved by Cabinet. However, we did comment on whether the assessment processes, and projects selected for funding, effectively addressed the criteria established by Cabinet.

## Audit approach

Our procedures included interviewing members of key assessment and advisory groups involved in the Resources for Regions and Fixing Country Roads programs, as well as relevant stakeholders including:

- staff from Infrastructure NSW, Transport for NSW, RMS and staff involved in previous rounds of Resources for Regions funding (via DPC Regional NSW)
- members of the Regional Independent Assessment Panels
- staff from other agencies involved in providing assessment to evaluation panels (such as Treasury NSW, former DTIRIS/Department of Industry staff)
- a range of local government applicants (both successful and unsuccessful) to ascertain their views on the effectiveness of the process.

We reviewed key documentation and reports relating to programs including (but not limited to):

- guidelines, assessment methodologies and other relevant policies for Resources for Regions and Fixing Country Roads
- applications for funding, and documentation relating the assessment and decision making
- monitoring data: e.g. monthly reports
- funding deeds
- milestones and documentation supporting milestones achievement
- project risk assessment tools
- other guidelines to help applicants with applications
- details of briefing sessions provided to applicants
- probity framework documents
- information submitted to or collected when the project is finished (e.g. final reports, etc.)
- documentation on post-implementation project assessment
- terms of reference for people associated with the assessment and or recommendation of projects and minutes of all meetings held
- other reports, reviews, evaluations or internal audits performed on the program/projects
- any memoranda of understanding between agencies which describe roles and responsibilities.

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 Performance Engagements and other professional standards. The standards require 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 requirements specified in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

## Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by officers of Infrastructure NSW, the Department of Premier and Cabinet, Transport for NSW, the NSW councils we visited and other agencies we interviewed and who provided information to assist our work.

## **Audit cost**

Including staff costs, travel and overheads, the estimated cost of the audit is \$260,000.



## Appendix four – Performance auditing

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### What are performance audits?

Performance audits determine whether State or local government entities carry out their 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 an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government 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* for NSW Government entities, and in the *Local Government Act 1993* for local government entities.

### 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 value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

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

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase the audit team develops an understanding of the audit topic and responsible entities 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 audited entity, program or 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 management representatives 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 management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report tabled in Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

### Who checks to see if recommendations have been implemented?

Following the tabling of the report in parliament, it is usual for entity's audit committee 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 NSW Parliament website.

## **Who audits the auditors?**

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

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is tabled in parliament and available on the NSW Parliament website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

## **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.

## OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

## OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

## OUR VALUES

**Purpose** – we have an impact, are accountable, and work as a team.

**People** – we trust and respect others and have a balanced approach to work.

**Professionalism** – we are recognised for our independence and integrity and the value we deliver.

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