

**Submission  
No 12**

**EXAMINATION OF THE AUDITOR-GENERAL'S  
PERFORMANCE AUDIT REPORTS DECEMBER 2014  
- JUNE 2015**

**Organisation:** The Treasury  
**Name:** Mr Rob Whitfield  
**Position:** Secretary  
**Date Received:** 27 June 2016

## IMPLEMENTATION OF RECOMMENDATIONS

## NSW Treasury

*Large Construction Projects: Independent Assurance*

RECOMMENDATION		ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBILITY (Section of agency responsible for implementation)
1	That Treasury should review the capital project assurance system for capital projects costing less than \$100 million, including the Gateway review process and its monetary thresholds, to introduce a greater focus on project risk, noting that cost is only one component of risk (by December 2015)	Accepted	Confirm responsibility for external assurance processes for projects less than \$100 million	July 2015	Completed. In mid-2015 the Government agreed to enhancements to the role of Infrastructure NSW (INSW) to create a strong project assurance vehicle to support the Minister for Infrastructure as Chair of the Cabinet Infrastructure Committee and provide a single point accountability across all capital projects and programs. This included <ul style="list-style-type: none"> <li>• moving responsibility for all capital assurance for projects above \$10 million to INSW</li> <li>• establishing an Investor Assurance Committee convened and chaired by INSW</li> </ul>	Infrastructure NSW
			Develop risk based assessment criteria	October 2015	Completed. In October the Government endorsed in principle a tiered, risk based, approach to infrastructure assurance proposed by INSW.	Infrastructure NSW

			Promulgate and issue a complete Infrastructure Investor Assurance Framework (IIAF)		On track. A final framework has been developed by INSW and is being considered by government. INSW presented the proposed new framework to the Auditor General in January 2016 with a follow-up presentation to the new Auditor General in May 2016.	Infrastructure NSW
			Commission a review of Gateway Policy	September 2016	A review was undertaken in late 2015, with a final report in March 2016. Treasury is developing a revised Gateway policy.	Treasury
2	That Treasury should enhance assurance processes surrounding major scope variations (by December 2015)	Accepted	Confirm existing policy framework	Ongoing	Completed. The existing policy framework requires variations of greater than 10% in the approved capital cost of a project to be approved by the Treasurer, even if the variation is within the agencies and can be accommodated within the agencies capital expenditure authorisation limit ( Treasury Circular TC12/20 Budget controls)	Treasury
			Incorporate project variations within the Infrastructure Investor Assurance Framework (IIAF)		On track. The Infrastructure Investor Assurance Framework includes three tools: Gateway Reviews and periodic health checks; regular project reporting including identifying changes to timing, cost, quality and risk which are focussed on identifying and dealing with major scope variations; and on-going monitoring.	Infrastructure NSW
3	That Treasury should issue documentation which clarifies the Government's decisions on Gateway Reviews for large capital project assurance (by July 2015)	Accepted	Confirm responsibility for external assurance processes for projects above \$100 million	July 2015	Completed In mid-2015 the Government agreed to enhancements to the role of Infrastructure NSW (INSW) to create a strong project assurance vehicle to support the Minister for Infrastructure as Chair of the Cabinet Infrastructure Committee and provide a single point accountability across all capital projects and programs. This included <ul style="list-style-type: none"> <li>moving responsibility for all capital assurance for projects above \$10 million to INSW</li> </ul>	Infrastructure NSW

					<ul style="list-style-type: none"> <li>• establishing an Investor Assurance Committee convened and chaired by INSW</li> </ul> <p>This was a Cabinet decision which was included in circulated decision papers and subsequently implemented through advice provided by INSW to all agencies. This included:</p> <ul style="list-style-type: none"> <li>• Formal advice to Secretaries of agencies in relation to the transition arrangements for the IIAF.</li> <li>• Road shows in December 2015 with affected agencies to update them on the implementation of the IIAF, followed by detailed briefing sessions for individual agencies (as requested).</li> <li>• Formal advice to Secretaries of agencies in relation to the interim arrangements for ICT project investor assurance.</li> <li>• Formal request to Secretaries of agencies seeking nominations to governance committees established as part of the IIAF.</li> <li>• Ongoing briefings with individual affected agencies during January to June 2016.</li> </ul> <p>Following the endorsement of the IIAF by Cabinet (proposed June 2016) NSW Treasury is to issue a circular to NSW Government agencies outlining the IIAF and clarifying that Infrastructure NSW is responsible for its implementation.</p>	
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4	That Treasury should report publicly on compliance with Gateway review and other reporting and monitoring requirements for capital projects costing less than \$100 million (by December 2015)	Accepted (with qualification)	Treasury investigated the mechanisms for publically reporting on Gateway reviews. The release of internal compliance information is a policy issue for the government, not an administrative action which Treasury can take without direction. Responsibility for undertaking investor assurance now rests with INSW. Our response includes a status on ongoing Gateway review reporting agreed with INSW.	Not applicable	<p>The Gateway process was originally developed to examine programs and projects at key decision points in their lifecycle. It looks ahead to provide assurance that they can progress successfully to the next stage. Reviews were conducted on a confidential basis for the Senior Responsible Owner (SRO) who is key instigator (initiator) of the Review.</p> <p>The NSW Government made a decision to improve capital processes used at the centre of government with a specific focus on the "investor perspective" - and the role of the investor at all stages of the capital investment lifecycle. Infrastructure Investor Assurance includes the preparation of regular project reports and outcomes of Gateway Reviews and Health Checks, which are provided to CIC to ensure that the Government and the Minister for Infrastructure are supported by effective tools to monitor the Government's infrastructure program, receive early warning of any emerging issues, and are able to act ahead of time to prevent projects from failing.</p> <p>The IIAF seeks to strike the balance between investor transparency and agency/project confidentiality to maximise value.</p> <p>All reports are subject to cabinet confidentiality.</p>	Infrastructure NSW
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6*	The Treasury and Infrastructure NSW should regularly monitor and evaluate the effectiveness of the Government's large capital project external assurance arrangements	Accepted	Review the implementation of the IIAF and regularly evaluate performance.	Mid 2017	<p>Following the first 12 months of operation from the finalisation of the IIAF, Infrastructure NSW will review the implementation of the IIAF with NSW Treasury, the Department of Premier and Cabinet, and relevant delivery agencies.</p> <p>A crucial part of the IIAF will be to regularly evaluate the performance of the IIAF itself and contribute to the analysis of project and assurance issues and trends. To this end, the key aspects of the performance management approach include:</p> <ul style="list-style-type: none"> <li>• Cluster Assurance Plans</li> <li>• Reporting on the Assessment of Expert Reviewer Panel capability</li> <li>• Reporting on Gateway Reviewer Performance</li> <li>• Reporting on Performance of closing out recommended actions for all projects undergoing a Review</li> <li>• Reporting on Trends and analysis of the key issues</li> <li>• Reporting on Overall performance of the IIAF</li> </ul> <p>The above are to be provided to Cabinet, IIAC, the INSW Board and Treasury as appropriate.</p>	Infrastructure NSW
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\* Note: Under the Performance Audit report, recommendation 5 was assigned to Infrastructure NSW.