

**Submission
No 4**

**EXAMINATION OF THE AUDITOR-GENERAL'S PERFORMANCE
AUDIT REPORTS OCTOBER 2016 – MAY 2017**

Organisation: NSW Treasury

Date Received: 9 January 2018

Mr Bruce Notley-Smith, MP
Chair
Public Accounts Committee
Parliament of NSW
Macquarie Street
SYDNEY NSW 2000

- 9 JAN 2018

Dear Mr Notley-Smith,

Re: Auditor-General's performance audit report - Implementation of the NSW Government's program evaluation initiative

Thank you for your letter of 2 November 2017 asking Treasury to provide the Public Accounts Committee with a submission outlining the department's response to the Auditor-General's report *Implementation of the NSW Government's program evaluation initiative*, which was tabled on 3 November 2016.

Treasury welcomes the contribution from the Audit Office towards further strengthening program evaluation in government. Treasury has been active in implementing the recommendations specifically identified for Treasury and also worked with Department of Premier and Cabinet (DPC) to build evaluation capacity within the NSW Government. Please find attached the completed template summarising our actions to date.

While clusters are at the forefront of prioritising evaluation resources and ensuring evaluations inform ongoing policy development, the annual evaluation schedule provides the opportunity for central agencies and Ministers to support effective prioritisation across government. In preparing the 2017-18 whole-of-government Annual Evaluation Schedule, Treasury and DPC implemented a more rigorous preparation and review process for each of the evaluation schedules submitted by individual clusters, which included changes to the evaluation schedule template to request additional information from clusters and an amended reporting format that provided a greater level of analysis to ERC. This process was finalised in November 2017, with the Expenditure Review Committee of Cabinet's approval of the whole-of-government 2017-18 Annual Evaluation Schedule.

In response to the recommendations, Treasury explored possible options to provide greater transparency of evaluation findings to decision makers. As a result, Treasury has also initiated building a NSW Evidence Bank to enable the comparative analysis of program effectiveness, costs and benefits. The Evidence Bank will collate information from completed program evaluations, reviews and performance audits and provide greater transparency and assurance around the quality of evidence provided to decision makers.

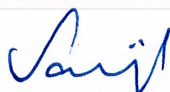
As noted in the Auditor-General's report, whilst Financial Management Transformation (FMT) started in the 2017-18 Budget, the development of the associated performance monitoring and program evidence frameworks are continuing. Treasury is still in the process of fully delivering on the Recommendation 3 and integrating the evaluation initiative within FMT. The State Outcomes framework is expected to be approved by government in December 2017, following an extensive consultation period with clusters over 2017.

Integration of the current program evaluation initiative and NSW Evidence Bank findings into the FMT performance framework will occur progressively as the Evidence Bank is developed and as the program budgeting IT system undergoes further development phases in 2018-19. Further improvements will also be made Annual Evaluation Schedule process and format, in particular working with clusters to determine the appropriate level of recurrent expenditure that is subject to evaluation activity within their cluster.

I look forward to continuing to work with agencies to continue to strengthen program evaluation and the use of program evaluation findings. I also want to highlight that our evaluation approach will continue to improve, there are a number of complementary initiatives aimed at improving our understanding and reporting of 'what works' are being implemented, including: Financial Management Transformation (FMT) and a new performance monitoring framework and implementation of the recurrent investment assurance framework supported by the revised cost-benefit guidelines.

If you require any further details of the initiatives we are undertaking in response to the Auditor-General's report, please don't hesitate to contact me or the contact officer above.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'San Midha'.

San Midha
A/Secretary

Attachments

Implementation of Recommendations - Treasury

						government priorities, the processes to align programs and program evaluations to these will continue to change moving forward.	
	c) Developing a master list of all current cluster agency programs with their tier ranking and linkage to NSW Government priorities	Accepted	C) The Audit Report noted that Treasury had not implemented this strategy.	March 2017	Completed Treasury developed a masterlist of programs suitable for evaluation consistent with the new Treasury cluster program groups reported in the 2017-18 Budget. Where programs were identified as potentially suitable for evaluation, a tier ranking was assigned.	Economic Strategy Division and Agency, Budget and Policy Group	
	d) objectively prioritising programs across the cluster for evaluation and inclusion in evaluation schedules, taking account of the department's capacity and capability to conduct evaluations.	Accepted	b) The Audit Report noted that Treasury had only partially implemented this strategy	March 2017	Completed, with ongoing improvements A multi-step, more rigorous identification and prioritisation of programs for evaluation was implemented in 2017-18 and took into account other forms of program assessment, where the program is in its life-cycle, as well as the timing of ongoing policy development. Prioritisation was also consistent with the guidance provided in the <i>NSW Government Program Evaluation Guidelines</i> , which includes taking into account government priorities. We are also working with clusters to identify the appropriate level of recurrent expenditure that should be subject to an evaluation.	Economic Strategy Division and Agency, Budget and Policy Group	
2	NSW Treasury and DPC should: a) implement a review process to provide assurance that evaluation schedules submitted to ERC meet program evaluation	Accepted	The Audit Report noted that Treasury and DPC should drive improvements to the evaluation initiative	March 2017	Completed, with ongoing improvements In preparing the 2017-18 Annual Evaluation Schedule Treasury and DPC implemented a more rigorous preparation and review process for the evaluation schedules submitted by each cluster. These new processes included: i. Some clusters have yet to develop a	Economic Strategy Division and Agency, Budget and Policy Group	

2	<p>requirements that include:</p> <ul style="list-style-type: none"> (i) critically assessing departments' master lists of all cluster agency programs (ii) documenting how they resolve issues raised with departments about the content of evaluation schedules (iii) a transparent mechanism to address unresolved issues raised by NSW Treasury and DPC, including determining accountability for the content of evaluation schedules being referred to ERC. 				<p>ii.</p> <p>master list of all cluster agency programs. In its absence, the adoption of the 2017-18 FMT program budgeting framework of program groups as the masterlist, was used to ensure systematic consideration of cluster programs. Work is ongoing with clusters to develop a masterlist through the FMT performance monitoring framework. For the 2017-18 Annual Evaluation Schedule process, face to face discussions were held individually with each cluster, Treasury and DPC representatives to critically examine the level of recurrent expenditure covered by evaluation and what should be evaluated in the context of cluster and government priorities. Clear documentation of feedback provided to clusters and resolution of amendments to cluster draft schedules to ensure they align as closely as possible with government priorities and Budget decisions.</p> <p>iii.</p> <p>These actions were completed in August/September 2017, in line with the deadline for the related submission to ERC.</p>	
2	<p>b) amend the current format for submission of the annual evaluation schedule to ERC to provide their analysis of program</p>	Accepted		March 2017	<p>Completed</p> <p>Significant changes were made to the evaluation schedule template to request additional information from clusters. As a result, to the 2017-18 submission to ERC:</p>	Economic Strategy Division

2	<p>evaluation activity, and to link programs listed in the evaluation schedule to NSW Government priorities</p>	Accepted			<ul style="list-style-type: none"> provided a greater level of analysis of evaluation information provided by clusters linked program evaluation activity to cluster recurrent expenditure provided specific summaries of evaluation activity and characteristics by cluster presented a summary of the findings of evaluations completed in 2016-17 and explanation of how recommendations had been implemented summarised evaluation activity in relation to government priorities. <p>This action was completed with ERC's consideration of the Annual Evaluation Schedule in November 2017.</p>	
	<p>c) implement a process by which they use finalised program evaluation reports, and agency responses, to provide evidence-based advice to the NSW Government on agency funding bids for evaluated programs.</p>			March 2017	<p>Ongoing, not completed</p> <p>Treasury is building a NSW Evidence Bank to enable comparative analysis of program effectiveness, costs and benefits.</p> <p>The Evidence Bank will collate and assess the quality of evidence from finalised program evaluation, review and performance audit reports.</p> <p>Over the medium term, meta-analysis of interjurisdictional and international evidence will also be undertaken to inform the Evidence Bank, taking into account relevance for NSW specific conditions.</p> <p>The Evidence Bank will drive higher quality</p>	<p>Economic Strategy Division Agency, Budget and Policy Division Financial Management Transformation</p>

3	NSW Treasury should develop an evaluation framework to support the program budgeting and reporting component of the FMT program, and ensure the current program evaluation initiative is integrated into the new framework.	Accepted	The Audit Report noted the importance of Treasury integrating evaluation into financial management transformation	August 2017	<p>program evidence and provide greater transparency and assurance around the quality of evidence provided to decision makers.</p> <p>While the Evidence Bank is a medium term project, Treasury is also driving better integration of evidence into Budget processes in the short-term. This includes strengthening the requirement for outcomes and evidence to be provided in submissions to Cabinet and its committees where funding is sought, as well as the continued development of the performance monitoring and program evidence components of the Financial Management Transformation (FMT) IT system.</p> <p>Ongoing, not completed</p> <p>Treasury continues to develop the FMT performance monitoring and program evidence frameworks following extensive consultation with clusters over 2017.</p> <p>Through these consultations, an agreed State Outcomes Framework has been developed and this is expected to be approved by government in December 2017. The State Outcomes Framework will in turn be supported by regular reporting on high quality, relevant performance indicators.</p> <p>Integration of the NSW Evidence Bank findings into the FMT performance framework will occur progressively as the Evidence Bank is developed and as the PRIME IT system undergoes further development phases in 2018-19.</p>	Financial Management Transformation Economic Strategy Division
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