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# New South Wales Auditor-General's Report

## Performance Audit

### Implementation of the NSW Government's program evaluation initiative

NSW Treasury

Department of Premier and Cabinet

Department of Industry, Skills and Regional Development

Department of Justice

Department of Planning and Environment

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Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Implementation of the NSW Government's program evaluation initiative: NSW Treasury, Department of Premier and Cabinet, Department of Industry, Skills and Regional Development, Department of Justice, Department of Planning and Environment.**

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

**Margaret Crawford**  
Auditor-General  
3 November 2016

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# Executive summary

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Government services, in areas such as public order and safety, health and education, are delivered by agencies through a variety of programs. In 2016-17, the NSW Government estimated that it will spend around \$73.3 billion on programs to deliver services.

In May 2012, the NSW Commission of Audit reported that the NSW Government did not have a rigorous framework to evaluate whether programs achieve their expected outcomes and demonstrate value for money.

In August 2012, the NSW Government endorsed program evaluation as a strategy for improving transparency and justification for programs implemented by agencies.

The Commission expected NSW Treasury and the Department of Premier and Cabinet (DPC) to have overall visibility of the outcomes of program evaluations across government to inform NSW Government decision making.

In August 2013, the NSW Government commenced the program evaluation initiative, which required agencies to periodically evaluate their programs. Since then, NSW Treasury and DPC have worked with agencies to implement the initiative. Agencies are required to prioritise programs for evaluation based on size, strategic significance and degree of risk, while recognising their available capability and resources to conduct evaluations.

Departments prepare a list of the programs which their cluster agencies intend to evaluate in the upcoming financial year. NSW Treasury then collates this information into an annual report to the NSW Government through the Expenditure Review Committee of Cabinet (ERC).

This audit assessed whether the program evaluation initiative is being implemented in a way that will inform the NSW Government's investment decisions on programs. In making this assessment, we answered the following questions:

1. How well do the evaluation schedules submitted to ERC meet the criteria for program selection and prioritisation as set out in the NSW Government Evaluation Framework and Program Evaluation Guidelines?
2. Has the program evaluation initiative met its objective of providing evidence-based information to inform investment decisions that meet NSW Government priorities?

More details on the audit scope and focus are in Appendix 5.

## Conclusion

The NSW Government's program evaluation initiative is largely ineffective, as it is not providing sufficient information to government decision makers on the performance of programs.

No information is provided on the performance of programs that have been evaluated. The information that is provided is limited to a list of programs being evaluated in the upcoming financial year, with little assurance that the right programs are on the list. NSW Treasury and DPC are not using evaluation outcomes to analyse agency funding proposals in their advisory role to the NSW Government.

For program evaluation to be effective, agencies should demonstrate they are evaluating the right programs, and the outcomes from completed evaluations should inform advice to the NSW Government on investment decisions.

### **The NSW Government is not receiving enough information to make evidence-based investment decisions**

A key intent of program evaluation is to provide evidence-based information to inform program investment decisions by the NSW Government.

The only information that the NSW Government receives from the program evaluation initiative is an annual evaluation schedule. The schedule contains limited descriptive information on programs being evaluated in the upcoming financial year. It does not include any analysis of the outcomes of completed evaluations to inform the NSW Government's investment decisions.

As central agencies, NSW Treasury and DPC are key advisors to the NSW Government on program funding, and achieving NSW Government priorities. The NSW Commission of Audit viewed program evaluations as a way to support NSW Treasury and DPC's role to provide the NSW Government with informed advice.

In May 2016, agencies started providing copies of their finalised evaluation reports to NSW Treasury and DPC. These reports will contribute to a centralised evidence database about program evaluation. However, agencies are not required to include information on how they have, or intend to, respond to the issues raised in the reports. In addition, neither NSW Treasury nor DPC use the reports to provide the NSW Government with informed advice on evaluated programs. This creates a gap between the intent of program evaluation and the way the initiative has been implemented.

Separately, NSW Treasury is implementing the Financial Management Transformation (FMT) program to improve the NSW Government's approach to program funding. A key element of FMT is the adoption of program budgeting and reporting to improve government decision making by focusing on program performance and value for money.

The FMT program's budgeting and reporting initiative also has the intent of informing investment decisions on programs by the NSW Government. While this part of FMT includes rigorous oversight by NSW Treasury and reporting to the NSW Government, FMT currently lacks a framework for evaluating programs established under FMT.

The FMT program is due to start for the 2017-18 Budget, and NSW Treasury has advised it will develop an evaluation framework to support program budgeting and reporting. NSW Treasury also advised the current program evaluation initiative will be integrated into the new framework.

### **There is little assurance that the right programs are being evaluated**

The annual evaluation schedules are used to inform ERC of programs prioritised for evaluation across government in the upcoming financial year. The program evaluation initiative requires departments to prepare an evaluation schedule for their cluster, taking into account program size, strategic significance and degree of risk. NSW Treasury then collates the cluster evaluation schedules and submits a consolidated annual evaluation schedule to ERC for approval.

There is uncertainty around the quality of information in the annual evaluation schedules that are submitted to ERC for two reasons.

Firstly, of the five departments we reviewed, only the Department of Industry, Skills and Regional Development had processes which gave assurance that the right programs were listed in its cluster evaluation schedule.

Secondly, NSW Treasury and DPC played a limited role in reviewing cluster evaluation schedules for 2014-15 and 2015-16 financial years. As central agencies, NSW Treasury and DPC should have a comprehensive understanding of programs across NSW Government, as well as what will contribute to achieving NSW Government priorities. In their reviews, NSW Treasury and DPC did not take advantage of this information to provide advice to the NSW Government on agency program evaluation activity. NSW Treasury has enhanced the review of cluster evaluation schedules for 2016-17 financial year, but there are still gaps in this review process. In particular, there is no process to resolve any issues raised by NSW Treasury and DPC with departments.

Review by NSW Treasury and DPC is important to provide assurance to ERC that the right programs are being prioritised for evaluation to inform future investment decisions.

## Recommendations

By March 2017:

1. the departments should ensure they implement all elements of the good practice model in Exhibit 3 for preparing cluster evaluation schedules, these being:
  - having an evaluation centre of excellence
  - ensuring that agency and cluster strategic planning processes align programs and program evaluations to NSW Government priorities
  - developing a master list of all current cluster agency programs with their tier ranking and linkage to NSW Government priorities
  - 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.
2. NSW Treasury and DPC should:
  - a) implement a review process to provide assurance that evaluation schedules submitted to ERC meet program evaluation requirements that include:
    - critically assessing departments' master lists of all cluster agency programs
    - documenting how they resolve issues raised with departments about the content of evaluation schedules
    - 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.
  - b) amend the current format for submission of the annual evaluation schedule to ERC to provide their analysis of program evaluation activity, and to link programs listed in the evaluation schedule to NSW Government priorities
  - 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.

By August 2017:

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.



# Introduction

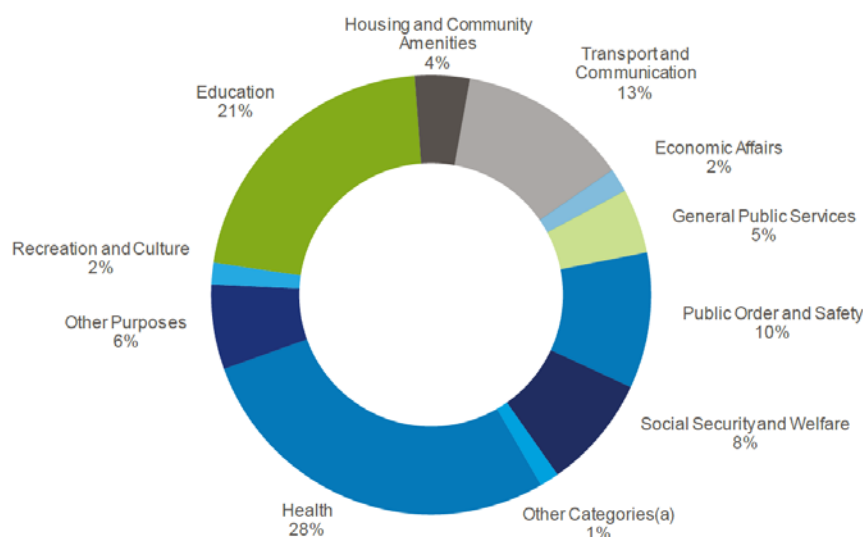
## Background

### NSW Government delivers services to the community through programs

NSW Government agencies deliver services through a variety of programs which are designed to meet government priorities. In 2016-17, the NSW Government budgeted for General Government Sector agencies to spend around \$73.3 billion on programs to deliver their services. A further \$12.5 billion will be spent on capital assets, such as roads, schools, prisons and hospitals to support service delivery. Expenditure by the General Government Sector on delivering services is projected to reach \$79.0 billion in 2019-20.

The General Government Sector includes agencies that deliver services in areas such as health, public order and safety, and education. It excludes services provided by the public non-financial corporation (PNFC) sector. The PNFC sector comprises commercial entities, such as Sydney Water, Hunter Water and Essential Energy, and non-commercial entities (businesses that receive government subsidies), such as Sydney Trains, Sydney Ferries and the State Transit Authority.

### Exhibit 1: Distribution of expenditure across NSW Government service areas in 2016-17



Source: NSW Budget Statement 2016-17.

### NSW Government cluster arrangements

Agencies with shared or overlapping policy goals are grouped into ten clusters for administrative and governance purposes. However, a cluster is not a legal or reporting entity. Individual agencies are separate legal entities that must prepare financial and annual reports.

Each cluster is headed by the following coordinating departments:

- Department of Premier and Cabinet
- NSW Treasury
- Department of Education
- Department of Family and Community Services
- Department of Finance, Services and Innovation
- NSW Ministry for Health
- Department of Industry, Skills and Regional Development
- Department of Justice
- Department of Planning and Environment
- Transport for NSW.

Coordinating ministers for each cluster receive resources which they allocate, with the support of portfolio ministers and the department secretary, to agencies within the cluster.

See Appendix 2 for a comprehensive list of the ten clusters, and their associated coordinating ministers, portfolio ministers, departments and agencies.

### **The NSW Commission of Audit recommended NSW Government adopt program evaluation**

In May 2012, the NSW Commission of Audit's final report recommended that the NSW Government adopt program evaluation. The Commission noted that:

New South Wales lacks a rigorous framework for evaluating the effectiveness of government spending and whether it offers value for money. Consequently, there is no transparency on what agencies achieve with their expenditure. Many programs and initiatives continue to be funded on an historic basis, some well beyond their original intended duration, without meaningful evaluation of whether:

- their objectives and outcomes are still relevant and warrant priority
- they are effective and efficient
- expenditure represents value for money
- there are better ways to achieve the desired objective and outcomes.

The Commission concluded that effective and sustainable expenditure in a large part hinges on greater transparency of government expenditure, including robust and systematic program evaluations for both existing and future programs.

In August 2012, the NSW Government endorsed program evaluation as a strategy to improve transparency and justification for programs implemented by agencies. In endorsing the Commission's recommendation, the NSW Government stated that it agreed that systematic evaluation of large or significant programs was important to ensure they continued to meet objectives and provide value for money.

### **NSW Government introduced program evaluation for non-capital funded programs**

In August 2013, the NSW Government introduced program evaluation for non-capital funded programs stating that:

Evaluation is at the heart of good government; it ensures we know whether our services are effective, whether they are delivering value for money and whether they are meeting people's needs. Knowing what works and what doesn't enables us as policy makers and service deliverers to make better decisions. This ensures people are receiving the services they want and need and that the taxpayer's money is being well spent.

Program evaluation is defined as a rigorous, systematic and objective process to assess a program's effectiveness, efficiency, appropriateness and sustainability. A key intent of program evaluation is to provide evidence-based information for informing investment decisions on government programs. Such decisions could result in programs being continued, redesigned, or ceased.

From August 2013, agencies were required to conduct evaluations in line with good practice principles in the NSW Government Evaluation Framework (Evaluation Framework). In January 2016, the NSW Government replaced the Evaluation Framework with the NSW Government Program Evaluation Guidelines (Evaluation Guidelines).

The program evaluation initiative has a number of supporting strategies to assist agencies:

- NSW Treasury's Centre for Program Evaluation provides expert advice to agencies and promotes the use of evaluation in government decision making
- each cluster has a centre of excellence for program evaluation, and participates in a cross-cluster evaluation strategy working group



- DPC and NSW Treasury provide a set of evaluation and review tools for agencies and their evaluation experts
- ongoing capability development through Evaluation Community of Practice events and evaluation conferences.

### There are separate assurance processes for capital funded infrastructure projects

The NSW Government uses other processes to provide assurance that capital funded infrastructure projects are delivered according to its objectives. These include:

- Total Asset Management - a systematic approach to infrastructure planning and management that is consistent across government
- Infrastructure Investment Assurance Framework - ongoing assurance for high profile and high risk infrastructure projects
- Gateway reviews - independent reviews at key stages of an infrastructure project's development and delivery.

### Key requirements of the program evaluation initiative

The August 2013 DPC Circular 2013-08, and the associated Evaluation Framework (2013 Circular and Framework), set out the NSW Government's expectations for achieving evidence-based policy by having program evaluation as an integral part of managing government programs at every stage of the policy cycle. All agencies were expected to periodically evaluate their programs, both new and existing, to assess their continued relevance, relationship to cluster priorities and other programs, efficiency and effectiveness in delivering outcomes in accordance with the Evaluation Framework.

The Evaluation Framework defined a program and program evaluation, as well as providing guidance on what, how and when to evaluate. The Evaluation Framework also provided guidance for ranking programs into four tiers, with Tier 4 being the highest strategic priority.

The 2013 Circular and Framework required agencies to:

- identify and prioritise their programs for evaluation into the four tiers by considering size, strategic significance and degree of risk
- engage NSW Treasury to lead the evaluation of all programs ranked at Tier 4
- evaluate programs ranked at Tier 3, while exercising more discretion for programs at Tiers 2 and 1
- proactively release findings of program evaluations in line with the *Government Information (Public Access) Act 2009*, unless there was an overriding public interest against disclosure
- ensure that all new program proposals, that require consideration by the ERC, include an evaluation plan.

The 2013 Circular and Framework also required clusters, through their department, to:

- establish evaluation centres of excellence to coordinate evaluation activity, provide oversight of evaluation practice and standards, and support capability development within departments and agencies
- prepare cluster evaluation schedules, which list the programs that will be, or are being, evaluated or reviewed over the forward financial year
- ensure the cluster evaluation schedules target the appropriate mix of programs commensurate with their evaluation capacity and capability
- consult with DPC and NSW Treasury when preparing cluster evaluation schedules, prior to NSW Treasury collating all cluster evaluation schedules and submitting a combined evaluation schedule to ERC for approval.

Evaluation schedules submitted to ERC for the 2014-15 and 2015-16 financial years showed an increase in program evaluation activity.

## Exhibit 2: Program evaluation activity

	Tier 1	Tier 2	Tier 3	Tier 4	Total
<b>FY 2014-15</b>	21	51	54	9	<b>135</b>
<b>FY 2015-16</b>	31	100	70	8	<b>209</b>

Source: Audit Office research 2016.

During 2015, NSW Treasury and DPC worked with clusters to strengthen program evaluation standards, including stronger guidance to clusters on when and how to undertake evaluations. In January 2016, DPC Circular C2016-01, with its associated Evaluation Guidelines (2016 Circular and Guidelines), replaced the 2013 Circular and Framework.

See Appendix 3 for the guidance in the NSW Government Program Evaluation Guidelines for ranking programs into Tiers 1 to 4.

## Audit scope and focus

This audit assessed whether the program evaluation initiative is being implemented in a way that will inform the NSW Government's investment decisions on programs. In making this assessment, we answered the following questions:

1. How well do the cluster evaluation schedules submitted to ERC meet the criteria for program selection and prioritisation as set out in the NSW Government Evaluation Framework and Program Evaluation Guidelines?
2. Has the program evaluation initiative met its objective of providing evidence-based information to inform investment decisions that meet NSW Government priorities?

In answering the first question we looked at how departments from selected clusters performed their role of ensuring their cluster evaluation schedules target the appropriate mix of programs commensurate with their evaluation capacity and capability. We also looked at how NSW Treasury and DPC reviewed cluster evaluation schedules before they were collated and submitted by NSW Treasury to ERC for approval.

In answering the second question, we looked at how NSW Treasury and DPC used completed program evaluations to inform their advice to the NSW Government on investment decisions, and the evaluation framework proposed for the FMT program.

We did not examine the quality of completed program evaluations, as NSW Treasury is currently undertaking this activity.

The clusters included in this audit were:

- Justice
- Industry, Skills and Regional Development
- Planning and Environment
- Premier and Cabinet
- Treasury.

NSW Government priorities presently consist of 12 Premier's priorities and 18 other NSW Government priorities that are grouped into the following five policy areas:

- a strong budget and economy
- building infrastructure
- protecting the vulnerable
- better services
- safer communities.

See Appendix 4 for a list of NSW Government priorities.

# Key findings

## 1. Evaluation schedules

The annual evaluation schedules are used to inform ERC of programs being evaluated across NSW Government. The programs listed in the schedule for each cluster should be identified and prioritised in accordance with program evaluation requirements. Prioritisation should take into account program size, its strategic significance and degree of risk.

There is uncertainty around the quality of information in the annual evaluation schedules being submitted to ERC for two reasons.

Firstly, of the five departments we reviewed, only the Department of Industry, Skills and Regional Development had processes which gave assurance that the right programs were listed in its cluster evaluation schedule.

Secondly, NSW Treasury and DPC played a limited role in reviewing the cluster evaluation schedules for the 2014-15 and 2015-16 financial years. NSW Treasury and DPC primarily relied on departments to comply with the program evaluation requirements. For example, one of the cluster evaluation schedules we reviewed, and which was incorporated in the annual evaluation schedule submitted to ERC, may have been incomplete because the department had not invited all agencies in its cluster to nominate programs for evaluation.

NSW Treasury has enhanced the review of cluster evaluation schedules for the 2016-17 financial year. NSW Treasury and DPC now check draft cluster schedules for input errors and possible omissions and then NSW Treasury refers findings to departments for comment. However, when NSW Treasury and DPC raised issues with the content of schedules provided by departments, they did not record how the issues were resolved, nor did they have a transparent mechanism to address unresolved issues.

### Recommendations:

By March 2017:

1. the departments should ensure they implement all elements of the good practice model in Exhibit 3 for preparing cluster evaluation schedules, these being:
  - having an evaluation centre of excellence
  - ensuring that agency and cluster strategic planning processes align programs and program evaluations to NSW Government priorities
  - developing a master list of all current cluster agency programs with their tier ranking and linkage to NSW Government priorities
  - 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.
2. NSW Treasury and DPC should:
  - a) implement a review process to provide assurance that evaluation schedules submitted to ERC meet program evaluation requirements that includes:
    - critically assessing departments' master lists of all cluster agency programs
    - documenting how they resolve issues raised with departments about the content of evaluation schedules
    - 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.

### What is a good practice model to select programs for the evaluation schedule?

Programs listed in cluster evaluation schedules should represent the culmination of an identification and prioritisation process covering all agency programs within a cluster. While individual agencies are accountable for this activity in the first instance, the cluster (through

the department secretary) is required to ensure that the evaluation schedule submitted to NSW Treasury, and then ERC, includes the right mix of programs across the cluster. This should be based on program size, strategic significance and degree of risk, the priority for evaluation and the department's evaluation capacity and capability.

The evaluation schedule is used to inform ERC of programs being evaluated across government, and that the right programs are being evaluated at the right times. Accordingly, we expected departments to have processes within their cluster to provide assurance that their evaluation schedules meet requirements.

We assessed the selected departments against a good practice model containing the following four elements:

- an evaluation centre of excellence
- agency and cluster strategic planning processes which align programs and program evaluations to NSW Government priorities
- a master list of all current cluster agency programs with their tier ranking and linkage to NSW Government priorities
- objective prioritisation of programs across the cluster for evaluation and inclusion in the evaluation schedule, having regard to the department's capacity and capability to conduct evaluations.

Only one of these good practice elements - an evaluation centre of excellence - is required in the 2013 Circular and Framework and 2016 Circular and Guidelines. We identified the other good practice elements based on our observations and research.

Having these good practices in place would give a department secretary confidence that their cluster evaluation schedule meets the criteria for program selection and prioritisation.

### **The quality of cluster evaluation schedules is uncertain due to most departments not having good practices**

Of the five departments we reviewed, only the Department of Industry, Skills and Regional Development (Department of Industry) demonstrated all the good practice elements outlined above (see Exhibit 3). The Department of Industry had implemented program evaluation to inform decision-making within its cluster prior to the NSW Government releasing the 2013 Circular and Framework.

In 2012, the Department of Industry established a high level committee called the Program Evaluation Review Group (PERG). The PERG's role is to provide governance and independence to the program evaluation process and ensure that the department prepares high-quality program evaluations. The Department of Industry also established the Economic Appraisal and Evaluation Branch (EAEB) as a centre of excellence for program evaluation. The roles of PERG and EAEB are consistent with the requirement that departments establish evaluation centres of excellence.

Each year, PERG prepares a list of all cluster agency programs. Programs need to demonstrate that they have been derived from an agency and cluster strategic planning process and that they contribute to NSW Government priorities. PERG reviews the list of programs put forward by cluster agencies, and their proposed tier ranking, before recommending to the department secretary which programs should be included in the cluster evaluation schedule. In doing so, PERG takes into account the capacity and capability of the cluster to conduct evaluations.

Processes used by the other four departments we reviewed did not provide assurance that programs listed on their cluster evaluation schedules met requirements. In particular, they did not have robust processes to identify, collate, vet and prioritise programs for evaluation on a cluster wide basis. For example, none had a master list of all programs in the cluster. In most instances, these departments also accepted, without critical assessment, the programs, and their proposed tier rankings, put forward by cluster agencies for inclusion in the evaluation schedule. One department also excluded a large program proposed for evaluation by one of its cluster agencies contrary to requirements.

The Departments of Justice and Planning and Environment partially met some of the good practice elements in Exhibit 3. The Department of Justice included additional information fields to the standard NSW Treasury template agencies use to propose programs. This enabled it to carry out a check of proposed tier rankings. The Department of Planning and Environment reviewed agency evaluation proposals against common criteria to maintain consistency across the cluster.

In addition, the Office of Environment and Heritage (OEH), in the Planning and Environment cluster, used a program identification and prioritisation process for evaluations similar to that of the Department of Industry. For example, its Enterprise Program Management Office, in consultation with division heads, developed an office-wide list of eligible programs through the office strategic planning process which also aligns the programs to NSW Government priorities. The Department of Planning and Environment has advised us that it will be using the OEH approach in a coordinated way across the cluster.

All departments have established units dedicated to support the program evaluation initiative within their cluster. With the exception of the comprehensive reviews conducted by the Department of Industry, and some limited review by the Departments of Planning and Environment and Justice, their roles were primarily limited to seeking and collating proposals from cluster agencies for inclusion in the cluster evaluation schedule, and providing advice to cluster agencies on program evaluation matters on request.

NSW Treasury advised us that it implemented an enhanced coordination and review process for the 2016-17 Treasury cluster evaluation schedule. This involved the Centre for Program Evaluation (CPE) being responsible for programs proposed for evaluation within the principal department, while the Chief Financial Officer (CFO) was responsible for cluster agencies outside of the principal department. CPE and the CFO met to discuss and agree on the content of an overall Treasury cluster evaluation schedule which was then reviewed by the Executive Director of Budget Strategy Division before referral to the Secretary of NSW Treasury for approval.

In June 2016, the Department of Justice implemented structural initiatives designed to meet the good practice model outlined in Exhibit 3. It has established a Justice Cluster Implementation Unit (JCIU) with a mandate to provide a single point of oversight of all major policy and program reforms across the department and other agencies within the Justice cluster. The unit has already finalised a master list of programs for the principal department, aligned to NSW Government and ministers' priorities. The unit is also listing all reforms identified in the department master list and incorporating milestones for measurable KPIs, and plans for evaluations. These initiatives will be extended collaboratively to other cluster agencies over time.

The Department of Justice also established a Corporate Performance Unit within the Office of the Secretary to prepare reports on the delivery of organisational outcomes, advise on the department's evaluation systems and identify priority programs across the cluster for evaluation in consultation with JCIU and cluster agencies.

Some departments expressed the view that they had no authority to override the programs proposed for evaluation by cluster agencies with separate portfolio ministers. Nevertheless, for the Industry cluster, which has six portfolio ministries, the Department of Industry has established a cooperative process to overcome such an obstacle.

All department secretaries are accountable for the accuracy and completeness of the cluster schedules submitted to NSW Treasury for ERC approval. They should resolve this issue in their clusters so they have reasonable assurance that the programs listed in their cluster evaluation schedules meet the requirements for program selection and prioritisation.

### Exhibit 3: Department compliance with the good practice model for preparing evaluation schedules

Good practice element	Industry, Skills and Regional Development	Justice	Planning and Environment	DPC	NSW Treasury
Evaluation centre of excellence	Yes	Yes	Yes	Yes	Yes
Process for cluster-wide program identification based on agency and cluster strategic planning process which aligns to NSW Government priorities	Yes	Partial**	Partial	No	Partial*
Master list of all cluster programs, including their Tier ranking and links to NSW Government priorities	Yes	Partial**	Partial	No	No
Objective process to prioritise cluster agency programs across the whole cluster, taking into account capability and capacity to conduct evaluations	Yes	Partial**	Partial	No	Partial*

\* Applicable for 2016-17 financial year only.

\*\* Since June 2016.

Source: Audit Office research 2016.

### The quality of the annual evaluation schedule submitted to ERC is uncertain due to limited review by NSW Treasury and DPC

NSW Treasury and DPC have a dual role in preparing the annual evaluation schedule submitted to the ERC. In the previous section, we discussed the first part of their role as the coordinating department for their cluster evaluation schedule.

Their other role as central agencies is to ensure that the program evaluation initiative is effectively implemented. The 2013 Circular and Framework required departments to consult with NSW Treasury and DPC when preparing their cluster evaluation schedules.

As central agencies, NSW Treasury and DPC should have a comprehensive understanding of programs across NSW Government, as well as what will contribute to achieving NSW Government priorities. In their reviews, NSW Treasury and DPC did not take advantage of this information to provide advice to the NSW Government on agency program evaluation activity.

NSW Treasury and DPC played a limited role in using the consultation process to assess whether cluster programs were being prioritised for evaluation in accordance with requirements for the first two annual evaluation schedules submitted to ERC for 2014-15 and 2015-16 financial years.

For example, NSW Treasury analysts reviewed the draft 2014-15 cluster evaluation schedules submitted by three of the departments in our review. NSW Treasury met with the departments to discuss issues identified by NSW Treasury analysts, but could not advise us whether or how these issues were resolved. In most instances, there were no changes made to draft schedules submitted by the departments. For the 2015-16 evaluation schedule, there was less extensive review by NSW Treasury analysts, with no meetings recorded and again, NSW Treasury (or relevant departments) had no records of how issues raised were resolved.

DPC reviewed the 2014-15 cluster evaluation schedule submitted by three of the departments in our review. DPC also advised it reviewed cluster evaluation schedules from these departments for the second round in 2015-16 and that changes to schedules were made in some instances. However, it was unable to provide evidence of such reviews or the changes made.

For the 2016-17 cluster evaluation schedules, NSW Treasury enhanced the central agency review process. CPE now cross-checks each department's draft schedule against budget papers, department annual reports and NSW Government priorities. Draft schedules are also referred to NSW Treasury analysts and to DPC for comment. CPE sends consolidated feedback to departments, and records department responses. However, NSW Treasury could not provide records of how the department responses were acquitted or issues resolved, and the enhanced review process did not have a mechanism to address unresolved issues.



NSW Treasury's enhanced review approach for central agencies carries a risk that gaps and inaccuracies in cluster evaluation schedules have not been addressed and resolved before being submitted to ERC.

The lack of documented resolution of issues raised by NSW Treasury and DPC, and the absence of a transparent mechanism to address unresolved issues, suggests that the NSW Treasury enhanced review process does not provide assurance that the right programs were selected for inclusion in the evaluation schedule.

Neither NSW Treasury nor DPC asked departments for a master list of all programs in their cluster. This would have assisted NSW Treasury and DPC to identify programs which were not being prioritised for evaluation but potentially should have been, or which may not have been ranked at the correct tier.

While the 2016 Circular and Guidelines no longer include the requirement for departments to consult with NSW Treasury and DPC when developing their cluster evaluation schedules we note that NSW Treasury through its enhanced review process for the 2016-17 financial year achieves the same result. Departments now submit their cluster evaluation schedules to NSW Treasury for review, prior to NSW Treasury collating and submitting a combined evaluation schedule to ERC for approval. DPC (as well as the other departments) can also view and comment on the collated schedule prepared by NSW Treasury, prior to it being submitted to ERC.

## 2. Informing investment decisions

A key intent of program evaluation is to provide evidence-based information to inform the NSW Government's investment decisions on programs.

As central agencies, NSW Treasury and DPC are key advisors to the NSW Government on funding and achieving State priorities. The NSW Commission of Audit viewed program evaluations as a way to support NSW Treasury's and DPC's role to provide the NSW Government with informed advice.

NSW Treasury and DPC do not use finalised evaluation reports, and agency responses, to support them in their role of advising the NSW Government on investment decisions on programs. This creates a gap between the intent of program evaluation and the way the initiative is being implemented.

Currently, the only information that the NSW Government receives from the program evaluation initiative is through the annual evaluation schedule. The limited information presented in the schedule and supporting NSW Treasury submission does not include any analysis by NSW Treasury and DPC on the outcomes of completed evaluations to inform investment decisions. With ERC receiving the annual evaluation schedule after the Budget, the schedule is of no use as a tool to assist the NSW Government in making investment decisions on programs.

Separately, NSW Treasury is implementing the Financial Management Transformation (FMT) program to improve the NSW Government's approach to program funding. A key element of FMT is the adoption of program budgeting and reporting to improve government decision making by focusing on program performance and value for money.

The FMT program's budgeting and reporting initiative also has the intent of informing investment decisions on programs by the NSW Government. While this part of FMT includes rigorous oversight by NSW Treasury and reporting to the NSW Government, FMT currently lacks a framework for evaluating programs established under FMT.

The FMT program is due to start for the 2017-18 Budget, and NSW Treasury has advised that it will develop an evaluation framework to support program budgeting and reporting. NSW Treasury has also advised that the current program evaluation initiative will be integrated into the new framework.

### **Recommendations:**

#### **By March 2017:**

2. NSW Treasury and DPC should:
  - b) amend the current format for submission of the annual evaluation schedule to ERC to provide their analysis of program evaluation activity, and to link programs listed in the evaluation schedule to NSW Government priorities
  - 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.

#### **By August 2017:**

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.

### How should program evaluation results inform investment decisions by the NSW Government on programs?

A key intent of the program evaluation initiative is to provide evidence-based information to inform investment decisions by the NSW Government on programs.

To achieve this, the NSW Commission of Audit recommended that NSW Treasury lead the evaluations of major and significant programs. For smaller scale programs, the Commission recommended that agencies collaborate with NSW Treasury and DPC when conducting the evaluations.

The Commission viewed program evaluations as a way to support NSW Treasury's and DPC's role to provide the NSW Government with informed advice on the costs and benefits of programs. The Commission stated in its final report that robust, objective and periodic evaluations of programs can:

- validate the relevance of specific programs and initiatives against government priorities
- expose ineffective programs to wide scrutiny and therefore assist in overcoming sectional interest support for ineffective programs
- promote innovation and consideration of alternative approaches to the same objective and guide the reallocation of resources to other programs and areas.

### The program evaluation initiative is not being implemented in a way which informs investment decisions by the NSW Government on programs

The program evaluation initiative specifies limited reporting to the NSW Government that is not designed to provide any advice that would inform investment decisions. Since May 2016, agencies have been required to provide NSW Treasury and DPC with finalised evaluation reports. However, NSW Treasury and DPC did not use of this information to advise the NSW Government on investment decisions on programs.

Currently, the only report to the NSW Government from the program evaluation initiative is the annual evaluation schedule to ERC and the supporting submission prepared by NSW Treasury. Following the issuing of the program evaluation 2016 Circular and Guidelines, the requirement for agencies to provide an evaluation plan with proposals for new programs to ERC was discontinued. This further reduced the level of reporting to the NSW Government on program evaluation.

ERC approves programs listed in the annual evaluation schedule that agencies are evaluating, or propose to evaluate in the upcoming financial year. There is limited information in the schedule, such as program tier ranking, program budget, commencement date, type of evaluation and its status, and whether the evaluation will be undertaken internally or externally. The NSW Treasury submission to ERC reports on the number of evaluations completed since the previous evaluation schedule, but does not include any assessment of the outcomes of completed evaluations.

Departments submit their cluster evaluation schedules to NSW Treasury after the Budget is tabled for the upcoming financial year. This means that the program evaluation initiative cannot inform investment decisions for that year as ERC receives the annual evaluation schedule after funding is approved for agency programs.

NSW Treasury advised that having ERC oversight of the evaluation activities of agencies would make agencies more inclined to complete evaluations and act on their findings. This would also give ERC an understanding of the extent of evaluation activity being undertaken. However, even under this limited objective, the current evaluation schedule, and the supporting NSW Treasury submission to ERC, provide little context to the current level and scope of evaluations being conducted. The schedule and submission to ERC would be more useful if they compared the current level of evaluation activity to the overall number of programs within the clusters and their overall budget. The schedule should also link each program listed to NSW Government priorities.

NSW Treasury's Centre for Program Evaluation (CPE) collates the annual evaluation schedules from all departments and prepares the submission to ERC. CPE's focus has been on supporting and promoting the use of program evaluation by helping to build capacity across the NSW Government sector, and helping to build an evidence base within NSW Treasury and DPC about what works from completed evaluations.

NSW Treasury advised that CPE will be reviewing the quality of completed evaluations to ensure they meet expectations. However, there is no plan for NSW Treasury or DPC to use the results of program evaluations, and agency responses to those evaluations, to inform their advice to NSW Government on investment decisions during the Budget process.

The program evaluation initiative, as it is presently structured, is not transparent and does not have a clear role for NSW Treasury and DPC as the NSW Commission of Audit recommended. For example, consistent with a commission recommendation, NSW Treasury was required to lead evaluations on programs ranked at Tier 4. However, when the program evaluation 2016 Circular and Guidelines were issued this requirement was discontinued.

It was not until May 2016, that departments were required to provide NSW Treasury with copies of finalised evaluation reports from their cluster, with NSW Treasury forwarding these to DPC. However, departments are not required to include their cluster agency responses to the reports.

### **There is no evaluation framework to support program budgeting and reporting under the FMT program**

The adoption of program budgeting and reporting as a key component of the FMT program requires a proven and systematic evidence-based methodology for measuring the efficiency and effectiveness of programs established under FMT. For this to occur, NSW Treasury needs to develop a framework suitable for evaluating the typically large scale programs being identified under FMT. NSW Treasury advised that such programs can reach billions of dollars in size.

FMT program budgeting and reporting and the program evaluation initiative both aim to provide evidence-based information to inform investment decisions on programs. Both initiatives have the same definition for a program as a set of objectives, managed together over a sustained period of time, producing outputs that aim to achieve an outcome or government objective for a client or client group. However, under the NSW Treasury Program Budgeting and Reporting Guidelines, a minimum threshold for program size of \$20.0 million per annum in recurrent and/or capital spending for FMT programs currently applies. This threshold is under review in light of the large scale projects being identified as program budgeting and reporting is being developed and refined. The program evaluation initiative has no minimum program size, but does use a tier ranking system to determine the priority for conducting evaluations and programs can cost significantly less than the minimum threshold for FMT programs.

NSW Treasury advised us of the importance of evaluation to the FMT program (and program budgeting and reporting). However, NSW Treasury guidelines on program budgeting and reporting, and on preparing performance information, do not directly mention or reference the need for evaluation of programs established under FMT. NSW Treasury also advised that while program budgeting is due to start for the 2017-18 Budget, this is an initial stage of the implementation process, aimed at testing the design of FMT, with full implementation proposed for the 2018-19 Budget.

NSW Treasury has advised us that to address this gap, it will develop an evaluation framework as part of an outcome based budgeting model to support program budgeting and reporting. NSW Treasury also advised that the current program evaluation initiative will be integrated into the new framework.

# Appendices

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## Appendix 1: Agency Responses

### Response from Department of Premier and Cabinet



Reference: A1842325

Margaret Crawford  
Auditor-General of NSW  
Audit Office of New South Wales  
GPO Box 12  
SYDNEY NSW 2001

Dear Auditor-General

Thank you for your letter dated 27 September 2016 and for the opportunity to respond to the Performance Audit Report, "Implementation of the NSW Government's program evaluation initiative".

Program evaluation is a valuable tool for the NSW Government. It helps to ensure that government services effectively deliver on their objectives, achieve value for money, and meet the needs of the community. The audit's two focus areas – prioritising the right mix of programs for evaluation, and using evaluation findings to inform investment decisions – are central to the success of program evaluation processes.

The Department of Premier and Cabinet (DPC) supports the intent of the audit report's recommendations. There is opportunity to strengthen capacity across the sector to prioritise, plan and commission evaluations and to use the findings to shape program delivery. In particular, the phased introduction of the Financial Management Transformation (FMT) reforms will support greater linkages between program budgeting and program performance.

NSW Treasury and DPC will continue to promote efficient practices for preparing and reviewing the annual cluster evaluation schedule. I understand that NSW Treasury will also integrate program evaluation into the policy framework for FMT. This will reinforce the importance of using of evaluations to inform budget processes.

DPC will continue to engage with NSW Treasury on these matters to further improve the NSW Government's service delivery.

I would like to thank the Audit Office for its efforts in preparing this report and for the opportunity to provide this response.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'SD', with a stylized flourish at the end.

Simon Draper  
Acting Secretary  
26 October 2016

52 Martin Place, Sydney NSW 2000 ■ GPO Box 5341, SYDNEY NSW 2001  
Tel: (02) 9228 5555 ■ [www.dpc.nsw.gov.au](http://www.dpc.nsw.gov.au)

## Response from NSW Treasury



Contact: John Blighe  
Telephone: (02) 9228 3522  
Our Reference: P16/5223

Ms Margaret Crawford  
Auditor-General  
Audit Office of New South Wales  
GPO Box 12  
SYDNEY NSW 2001

A handwritten signature in black ink, appearing to read 'Margaret', with a flourish extending to the right.

Dear Ms Crawford

### **Audit Office Performance Audit: Implementation of the NSW Government's Program Evaluation Initiative**

Thank you for your letter of 27 September 2016 providing Treasury with the opportunity to provide a response to the performance audit.

Treasury has partnered with the Department of Premier and Cabinet and clusters to promote program evaluation in the NSW general government sector in response to the Commission of Audit Report. Specific achievements to which Treasury has contributed include: the establishment of evaluation standards and guidance (the NSW Government Program Evaluation Framework and Guidelines); the establishment of Treasury's Centre for Program Evaluation; conducting evaluation training and capability building across the sector; and facilitating agreement to an annual evaluation schedule across government. These activities support evaluation of both government spending and the exercise of government powers.

Treasury welcomes the contribution from the Audit Office towards further strengthening evaluation in New South Wales and broadly supports the directions of the recommendations. Stronger evaluation informs resource allocation and regulatory decisions and leads to improved outcomes for citizens.

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. Treasury will continue to promote efficient practices to coordinate evaluation schedules submitted by individual clusters and will support the prioritisation of evaluation activity.

The next annual evaluation schedule process is due in mid-2017, which will enable new budget programs to be included in the schedule and for evaluations to be commissioned to inform the following budget process where appropriate. Treasury will support more active use of these evaluations and continue to draw on completed evaluations in framing its advice to government.

The Financial Management Transformation (FMT) reforms Treasury is leading are designed to ensure that both financial and non-financial performance indicators are collected to support ongoing program monitoring and review, as well as program evaluation. This will in turn support improved use of resources and outcomes. It is expected that the underpinning policy framework will be developed in the third quarter of 2017.

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GPO Box 5469, Sydney NSW 2001 ■ Telephone: (02) 9228 4567 ■ [www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)



Treasury draws on budget information in providing input to evaluation schedules, and the information available to inform this task will be further enhanced through the implementation of FMT. Reviewing purpose built master lists would introduce another level of reporting by clusters and may not be necessary in this context.

I look forward to continuing to work with agencies to continue to strengthen evaluation.

Once again thank you for your report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rob Whitfield', with a stylized flourish at the end.

Rob Whitfield  
Secretary

## Response from Department of Planning and Environment



Ms Margaret Crawford  
Auditor-General of NSW  
Audit Office  
15/1 Margaret Street  
Sydney NSW 2000

16/13140

Dear Ms Crawford

**Performance Audit – Implementation of the NSW Government's program  
Evaluation Initiative – Reference PA6582 of 27 September 2016**

Thank you for writing to our Secretary regarding the above performance audit. The Secretary has asked me to reply on her behalf.

The Department supports the proposed program evaluation initiatives and notes the features of good practice outlined in the report.

As mentioned in the report, the Department has already established an evaluation centre of excellence, and has also implemented the other recommendations in part.

The Department commits to completing the implementation of the outstanding recommendations across the cluster as proposed in the report.

Should you require further assistance, please contact Mr Arvind Tyagi, Acting Executive Director, Governance and Performance by telephone on (02) 9274 6404 or by email [arvind.tyagi@planning.nsw.gov.au](mailto:arvind.tyagi@planning.nsw.gov.au)

Yours sincerely

A handwritten signature in blue ink that reads 'Simon Officer'. Below the signature is a horizontal line, and below that is the date '26-10-16'.

Simon Officer  
Chief Financial & Operating Officer

Department of Planning and Environment  
320 Pitt Street Sydney 2000 | GPO Box 39 Sydney 2001 | [planning.nsw.gov.au](http://planning.nsw.gov.au)

## Response from Department of Industry



Department  
of Industry

Office of the Secretary

SECO16/269

Margaret Crawford  
Auditor-General of NSW  
Audit Office of New South Wales  
GPO Box 12  
SYDNEY NSW 2001

Dear Ms Crawford

### **Performance audit – Implementation of the NSW Government's program evaluation initiative**

Thank you for your letter of 27 September 2016 inviting the Department of Industry, Skills and Regional Development to provide a formal response on the final performance audit report on *Implementation of the NSW Government's program evaluation initiative*.

The Department welcomes the Auditor-General's finding that it demonstrated all the good practice elements for preparing cluster evaluation schedules and had processes which gave assurance that the right programs were listed on its cluster evaluation schedule.

Recommendations 2 and 3 relate specifically to NSW Treasury and DPC, not the Department of Industry, Skills and Regional Development. A specific response to recommendation 1 follows:

#### **Recommendation 1**

By March 2017 the departments should ensure they implement all elements of the good practice model for preparing cluster evaluation schedules.

**Response:** Supported, the Department of Industry, Skills and Regional Development will continue its existing processes that provide assurance that the right programs are listed on its cluster evaluation schedule, noting that the Auditor-General assessed these processes as demonstrating all the good practice elements for preparing cluster evaluation schedules.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Gary Barnes'.

Gary Barnes  
Acting Secretary

5 OCT 2016

GPO Box 5477, Sydney NSW 2001, Australia  
Level 49 MLC Centre, 19 Martin Place, Sydney NSW 2000, Australia  
Tel: +612 9338 6600 Fax: +612 9338 6860 www.industry.nsw.gov.au ABN: 72 189 919 072

## Response from Department of Justice



Justice

Office of the Secretary

Justice Precinct Offices  
Locked Bag 5111  
PARRAMATTA NSW 2124  
Tel 02 8688 7777  
[www.lawlink.nsw.gov.au](http://www.lawlink.nsw.gov.au)

Your Ref: PA6582/ Our Ref: 16/7529/DJ

Ms Margaret Crawford  
Auditor-General of NSW  
Performance Audit  
The Audit Office  
GPO Box 12  
SYDNEY NSW 2001

Dear Ms Crawford

Thank you for your letter dated 27 September 2016 on the final report of *Performance Audit – Implementation of the NSW Government's program evaluation initiative* for comment and final response.

I have reviewed the final report provided by the Audit Office and agree with the recommendations contained in the final report of the Auditor General.

The Department of Justice will continue to ensure that the Justice Cluster implement all elements of the good practice framework in Exhibit 3 of your report for program evaluation. We will continue to objectively prioritise programs across the Cluster for evaluation and inclusion in the evaluation schedules, taking account the Department's capacity and capability to conduct evaluations.

Should the Audit Office wish to discuss this matter further, or require additional information please do not hesitate to contact the Department liaison officer for this report Ms Nicole Miller, Director, Corporate Performance, Office of the Secretary, Department of Justice on 8061 9283 or via email at [Nicole.Miller@justice.nsw.gov.au](mailto:Nicole.Miller@justice.nsw.gov.au).

Yours sincerely

Andrew Capple-Wood  
Secretary

12/10/16

## Appendix 2: Cluster structure

Cluster	Education	Family and Community Services	Finance, Services and Innovation	Health	Industry, Skills and Regional Development	Justice	Planning and Environment	Premier and Cabinet	Transport and Infrastructure	Treasury
<b>Coordinating Ministers</b>	Minster for Education	Minister for Family and Community Services	Minster for Finance, Services and Property	Minister for Health	Minister for Industry, Resources and Energy	Minister for Justice and Police	Minister for Planning	Premier	Minister for Transport and Infrastructure	Treasurer
<b>Other Ministers</b>	Minister for Aboriginal Affairs Assistant Minister for Education Minister for Early Childhood Education	Minister for Ageing Minister for Disability Services Minister for Social Housing Minister for Multiculturalism	Minister for Innovation and Better Regulation	Minister for Medical Research Minister for Mental Health Minister for Women Assistant Minister for Health Minister for the Prevention of Domestic Violence and Sexual Assault	Minister for Primary Industries Minister for Small Business Minister for Regional Development Minister for Skills Minister for Lands and Water	Minister for the Arts Attorney General Minister for Veterans Affairs Minister for Racing Minister for Corrections Minister for Emergency Services	Minister for the Environment Minister for Heritage Minister for Local Government Assistant Minister for Planning	Minister for Western Sydney Minister for Trade Tourism and Major Events Minister for Sport	Minister for Roads, Maritime and Freight	Minister for Industrial Relations
<b>Departments</b>	Education, Department of	Family and Community Services, Department of*	Finance, Services and Innovation, Department of	Health ,NSW Ministry for	Industry, Skills and Regional Development, Department of	Justice, Department of	Planning and Environment, Department of	Premier and Cabinet, Department of	Transport for NSW	The Treasury
<b>Executive Agencies</b>		Multicultural NSW Staff Agency	Service NSW	Health Professionals Councils Authority Office Mental Health Commission Staff Agency NSW Institute of Psychiatry Staff Agency	Local Land Services Staff Agency	Crown Solicitor's Office Fire and Rescue NSW Office of the NSW Rural Fire Service Office of the NSW State Emergency Service Art Gallery of NSW Australian Museum Library Council of NSW Staff Agency Trustees of the Museum of Applied Arts and Sciences Staff Agency Independent Liquor and Gaming Authority Staff Agency Sydney Opera House Trust Staff Agency	Local Government, Office of Environment and Heritage, Office of Urban Growth NSW Development Corporation Staff Agency	Barangaroo Delivery Authority Staff Agency Institute of Sport, NSW Sydney Cricket and Sports Ground Trust Staff Agency Destination NSW Staff Agency Infrastructure NSW Natural Resources Commission Staff Agency Parliamentary Counsel's Office Sport, Office of		
<b>Other Services</b>	Teaching Service			NSW Health Service	Sunset Power International Pty Ltd	Police Force, NSW			Transport Service	
<b>Separate Agencies</b>	Board of Studies, Teaching and Educational Standards	Office of the Children's Guardian		Health Care Complaints Commission Staff Agency	TAFE Commission (Senior Executives) Staff Agency	Director of Public Prosecutions, Office of the* Information and Privacy Commission Legal Aid Commission Staff Agency Crime Commission, NSW Police Integrity Commission Staff Agency*	Environment Protection Authority Staff Agency	Independent Pricing and Regulatory Tribunal Staff Agency Ombudsman's Office Public Service Commission Electoral Commission, NSW	Independent Transport Safety Regulator	

Cluster	Education	Family and Community Services	Finance, Services and Innovation	Health	Industry, Skills and Regional Development	Justice	Planning and Environment	Premier and Cabinet	Transport and Infrastructure	Treasury
Statutory Bodies	NSW Aboriginal Land Council	Children's Guardian	Valuer General	Health Care Complaints Commission	Crown Lands Division	Director of Public Prosecutions	Environment Protection Authority	Ombudsman	State Transit Authority	Long Service Corporation
	Board of Studies, Teaching and Educational Standards	Children & Young People, The Advocate for Aboriginal Housing	NSW Self Insurance Corporation (SICorp)	Sydney Local Health District	Food Authority, NSW TAFE Commission	Legal Aid Commission of NSW	Jenolan Caves Reserve Trust	Sydney Olympic Park Authority	Sydney Ferries	Corporation
	Charles Sturt University	Office	Motor Vehicle Repair Industry Authority	Garvan Institute of Medical Research	Soil Conservation Service	Legal Profession Admission Board	UrbanGrowth NSW Development	Audit Office of NSW Auditor-General of NSW	Independent Transport Safety Regulator	Residual Business Management Corporation
	Council	New South Wales Land and Housing Corporation	Government Property NSW	South Eastern Sydney Local Health District	Local Land Services	Public Guardian	Corporation	Safety Investigations Roads and Maritime Services	Office of Transport Safety Investigations	Liability Management Corporation
	Macquarie University	Official Community Visitors	Teacher Housing Authority of New South Wales	Illawarra Shoalhaven Local Health District	Dams Safety Committee	NSW Trustee and Guardian	Barangaroo Delivery Authority	WestConnex Delivery Authority	Ministerial Corporation	State Rail Authority
	Council	Multicultural NSW	Contributory Superannuation Fund	Local Health District	Veterinary Practitioners Board	Police Integrity Commission	Lord Howe Island Board	Independent Pricing and Regulatory Tribunal	Residual Holding Corporation	Residual Holding Corporation
	Southern Cross University Council		Building Insurers' Guarantee Corporation	Nepean Blue Mountains Local Health District	Rural Assistance Authority	Australian Museum Trust	Taronga Conservation Society Australia (Zoo)	Commission Against Corruption	SAS Trustee Corporation	NSW Treasury Corporation (TCorp)
	University of New South Wales Council		State Records Authority	Local Health District		Museum of Applied Arts and Sciences	Parklands Trust	Independent Pricing and Regulatory Tribunal	Sydney Trains	
	University of Newcastle Council		New South Wales Government	Northern Sydney Local Health District		Centennial Park and Moore Park Trust	Sydney Living Museums	NSW Institute of Sport	NSW Trains	
	University of Technology, Sydney (UTS) Council		Telecommunications Authority	Central Coast Local Health District		Gaming Authority	Historic Houses Trust of NSW	Sydney Cricket and Sports Ground Trust		
	University of Western Sydney		Lifetime Care and Support Authority	Hunter New England Local Health District		Art Gallery of New South Wales Trust	Royal Botanic Gardens and Domain Trust	Venues NSW		
	Board of Trustees		State Insurance Regulatory Authority	Local Health District		Library Council of NSW		Infrastructure NSW		
	University of Wollongong Council		State Insurance Regulatory Authority (SIRA)	Murrumbidgee Local Health District		New South Wales Crime Commission		Destination NSW		
			Building Professionals Board	Southern NSW Local Health District		Sydney Opera House Trust		Inspector of the Independent		
			NSW Architects	Health District		Inspector of the New South Wales Crime Commission		Commission Against Corruption		
			Registration Board	Far West Local Health District		State Emergency Service		Inspector of the Police Integrity Commission		
			Rental Bond Board	District		Rural Fire Service of NSW				
			Sydney Harbour Foreshore Authority	Mid North Coast Local Health District						
			Luna Park Reserve Trust*	Northern NSW Local Health District						
			Fair Trading Administration	Sydney Children's Hospitals Network						
			Corporation Waste Assets Management Corporation	Agency for Clinical Innovation						
				Bureau of Health Information						
				Clinical Excellence Commission						
				Health Education and Training Institute						
				Justice Health and Forensic Mental Health Network						
				Mental Health Commission						
				Ambulance Service of NSW						
				Aboriginal and Torres Strait Islander Health Practice Council of New South Wales						
				Chinese Medicine Council of NSW						
				Chiropractic Council of NSW						



Cluster	Education	Family and Community Services	Finance, Services and Innovation	Health	Industry, Skills and Regional Development	Justice	Planning and Environment	Premier and Cabinet	Transport and Infrastructure	Treasury
Statutory Bodies continued				Dental Council of NSW Medical Council of NSW Medical Radiation Practice Council of New South Wales Nursing and Midwifery Council of NSW Occupational Therapy Council of NSW Optometry Council of NSW Osteopathy Council of NSW Pharmacy Council of NSW Physiotherapy Council of NSW Podiatry Council of NSW Psychology Council of NSW South Western Sydney Local Health District Health Administration Corporation						
State-Owned Corporations					Essential Energy Ausgrid TransGrid Endeavour Energy Hunter Water Corporation Sydney Water Corporation Forestry Corporation of NSW Water NSW		Landcom		Port Authority of NSW	Superannuation Administration Corp (Pillar)
Statutory Positions										

\* This Entity reports to one or more Portfolios/ Clusters. Details can be viewed in GO View: [www.govview.nsw.gov.au](http://www.govview.nsw.gov.au).

Source: NSW Department of Premier and Cabinet (accessed on the 22<sup>nd</sup> of September 2016).

## Appendix 3: Characteristics to determine program evaluation tier ranking

**Table 2.1** Program scale and evaluation characteristics

Scale	Characteristics of program	Characteristics of evaluation
4	<p><b>Priority:</b> strategic priority for government</p> <p><b>Program accountability:</b> Cabinet or Cabinet Committee</p> <p><b>Funding:</b> significant government / department funding</p> <p><b>Risk:</b> high risk (e.g. budget, operational)</p> <p><b>Scope:</b> multiple government departments/agencies and and/or multiple external delivery partners</p> <p><b>Other factors:</b> lack of current evidence base, external reporting requirement (e.g. Commonwealth-State funding arrangements), innovative</p>	<p><b>Primary audience:</b> Cabinet or Cabinet Committee</p> <p><b>Evaluation type:</b> coordinated use of outcome, process and economic</p> <p><b>Responsibility:</b> Ministers or senior executives consider evaluation findings and implement the ones that are adopted</p> <p><b>Impartiality:</b> consider a combination of</p> <ul style="list-style-type: none"> <li>» Oversight: executive from the lead agency chairs evaluation advisory group, with membership representative of participating agencies, including the central agencies</li> <li>» Independence: use an evaluation centre from inside or outside the lead agency, a consultant evaluator or the Centre for Program Evaluation (Treasury).</li> <li>» Include a peer review of methodology and findings by independent subject experts</li> <li>» Publish findings and methodology</li> </ul> <p><b>Resources:</b> quarantined evaluation budget and dedicated staffing</p>
3	<p><b>Priority:</b> strategic priority for department/agency.</p> <p><b>Program accountability:</b> responsible ministers.</p> <p><b>Funding:</b> significant department/ agency funding.</p> <p><b>Risk:</b> moderate to high.</p> <p><b>Scope:</b> multiple departments/ agencies and/or multiple external delivery partners.</p> <p><b>Other factors:</b> lack of current evidence base, internal reporting and evaluation requirement.</p>	<p><b>Primary audience:</b> Ministers and Secretaries.</p> <p><b>Evaluation type:</b> coordinated use of outcome, process and economic.</p> <p><b>Responsibility:</b> Ministers or senior executives consider findings; senior executive implements adopted findings.</p> <p><b>Impartiality:</b> consider a combination of</p> <ul style="list-style-type: none"> <li>» Oversight: executive from lead agency chairs evaluation advisory group, with membership representative of participating agencies, may include central agency(ies).</li> <li>» Independence: use a departmental evaluation centre or consultant evaluator.</li> <li>» Consider a peer review of methodology and findings by independent subject experts.</li> <li>» Publish findings and methodology.</li> </ul> <p><b>Resources:</b> designated evaluation budget and staffing for duration of evaluation.</p>
2	<p><b>Priority:</b> named in department/ agency strategic plan.</p> <p><b>Program accountability:</b> department/agency executive.</p> <p><b>Funding:</b> moderate department/ agency funding.</p> <p><b>Risk:</b> low to moderate.</p> <p><b>Scope:</b> responsibility of single department/agency; may involve external delivery partners.</p> <p><b>Other factors:</b> limited evidence base, internal reporting and evaluation requirement.</p>	<p><b>Primary audience:</b> department/agency executive.</p> <p><b>Evaluation type:</b> coordinated use of outcome and process.</p> <p><b>Responsibility:</b> department/agency executives consider findings and implement adopted findings.</p> <p><b>Impartiality:</b> consider combination of</p> <ul style="list-style-type: none"> <li>» Oversight: program manager and evaluator.</li> <li>» Independence: use an internal evaluator if required.</li> <li>» Peer review within the department/agency.</li> </ul> <p><b>Publish findings and methodology.</b></p> <p><b>Resources:</b> evaluation budget and staffing appropriate to agreed methodology; most likely from within allocated program resources.</p>
1	<p><b>Priority:</b> low or emerging strategic priority for department/agency.</p> <p><b>Program accountability:</b> business unit within department/agency.</p> <p><b>Funding:</b> limited department/agency funding.</p> <p><b>Risk:</b> low.</p> <p><b>Scope:</b> single department/agency; may involve external delivery partners.</p> <p><b>Other factors:</b> local delivery, similar to other evaluated programs found to be successful.</p>	<p><b>Primary audience:</b> business unit executive.</p> <p><b>Evaluation type:</b> coordinated use of outcome and process components.</p> <p><b>Responsibility:</b> business unit executives consider findings and implement adopted findings.</p> <p><b>Impartiality:</b> consider combination of</p> <ul style="list-style-type: none"> <li>» Oversight: program manager and/or evaluator.</li> <li>» Independence: internal evaluation by the business unit, using program staff, if required.</li> <li>» Peer review: within business unit or department / agency.</li> <li>» Publish findings and methodology where practical.</li> </ul> <p><b>Resources:</b> budget and staffing appropriate to agreed methodology, likely from within allocated program resources.</p>

Source: NSW Government Program Evaluation Guidelines - January 2016.

## Appendix 4: NSW Government priorities

State priorities					
Premier's priorities	Strong budget and economy	Building infrastructure	Protecting the vulnerable	Better services	Safer communities
<ul style="list-style-type: none"> <li>• Creating 150,000 new jobs by 2019</li> <li>• Key Infrastructure projects to be delivered on time and on budget across the State</li> <li>• Reduce the proportion of domestic violence perpetrators re-offending within 12 months by 5%</li> <li>• 81% of patients through emergency departments within four hours</li> <li>• Reduce overweight and obesity rates of children by 5% over 10 years</li> <li>• Increase the proportion of NSW students in the top two NAPLAN bands by 8%</li> <li>• Decrease the percentage of children and young people re-reported at risk of significant harm by 15%</li> </ul>	<ul style="list-style-type: none"> <li>• Make NSW the easiest state to start a business</li> <li>• Be the leading Australian state in Business Confidence</li> <li>• Increase the proportion of people completing apprenticeships and traineeships by 65% by 2019</li> <li>• Halve the time taken to assess planning applications for State Significant Developments</li> <li>• Maintaining the AAA credit rating</li> <li>• Expenditure growth to be less than revenue growth.</li> </ul>	<ul style="list-style-type: none"> <li>• 90% of peak travel on key road routes is on time</li> <li>• Increase housing supply across NSW - Deliver more than 50,000 approvals every year.</li> </ul>	<ul style="list-style-type: none"> <li>• Successful implementation of the NDIS by 2018</li> <li>• Increase the number of households successfully transitioning out of social housing by 5% over three years.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase the proportion of Aboriginal and Torres Strait Islander students in the top two NAPLAN bands for reading and numeracy by 30%</li> <li>• 70% of government transactions to be conducted via digital channels by 2019</li> <li>• Increase on-time admissions for planned surgery, in accordance with medical advice</li> <li>• Increase attendance at cultural venues and events in NSW by 15% by 2019</li> <li>• Maintain or improve reliability of public transport services over the next four years.</li> </ul>	<ul style="list-style-type: none"> <li>• LGAs to have stable or falling reported violent crime rates by 2019</li> <li>• Reduce adult re-offending by five per cent by 2019</li> <li>• Reduce road fatalities by at least 30 per cent from 2011 levels by 2021.</li> </ul>

State priorities					
Premier's priorities	Strong budget and economy	Building infrastructure	Protecting the vulnerable	Better services	Safer communities
<ul style="list-style-type: none"> <li>• Increase the proportion of young people who move from specialist homelessness services to long-term accommodation by 10%</li> <li>• Increase the number of Aboriginal and Torres Strait Islander people in senior leadership roles</li> <li>• Reduce the volume of litter by 40% by 2020</li> <li>• 90% of housing approvals determined within 40 days</li> <li>• Improve customer satisfaction with key government services every year, this term of government.</li> </ul>					

Source: NSW Government: Premier's priorities in action.

## Appendix 5: About the audit

### Audit objective

This audit assessed whether the NSW Government's program evaluation initiative is being implemented in a way that will inform the NSW Government's investment decisions on programs.

### Audit criteria

We addressed the audit objective by assessing:

1. how well the evaluation schedules submitted to the Expenditure Review Committee of Cabinet (ERC) met the criteria for program selection and prioritisation as set out in the NSW Government Evaluation Framework and Program Evaluation Guidelines
2. whether the program evaluation initiative met its objective of providing evidence-based information to inform investment decisions that meet NSW Government priorities.

### Audit scope and focus

In assessing the criteria, we examined the following aspects.

For the first criteria we looked at how departments from selected clusters performed their role of ensuring relevant programs were included on the cluster evaluation schedules. We also looked into how NSW Treasury and the Department of Premier and Cabinet (DPC) reviewed cluster evaluation schedules before they were collated and submitted to ERC by NSW Treasury.

For the second criteria we looked at how NSW Treasury and DPC used completed program evaluations to inform their advice to the NSW Government on investment decisions, and how programs established under the Financial Management Transformation (FMT) program were to be evaluated.

We focused on the preparation of cluster evaluation schedules for the Justice, Industry, Skills and Regional Development, Planning and Environment, Premier and Cabinet and Treasury clusters.

The audit also focused on DPC and NSW Treasury in their dual roles of coordinating the preparation of their annual cluster evaluation schedules, and as central agencies ensuring that the program evaluation initiative is effectively implemented.

### Audit Exclusions

The audit did not:

- examine the quality of completed program evaluations
- question the merits of NSW Government policy objectives.

### Audit approach

Our procedures included:

1. Interviewing:
  - key DPC and NSW Treasury staff involved in the program evaluation initiative
  - key staff in departments who were involved in preparing annual evaluation schedules for their cluster, and in other aspects of the program evaluation initiative.
2. Examining:
  - key NSW Government policy documents relating to the program evaluation initiative
  - policy documents relating to the FMT project

- documentation provided by departments relating to the preparation of their annual cluster evaluation schedules, including draft and final evaluation schedules, emails, letters and other documents
- documentation provided by departments relating to the program evaluation initiative within their clusters
- communications between DPC and NSW Treasury and departments relating to their annual cluster evaluation schedules.

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

### **Audit methodology**

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

### **Acknowledgements**

We gratefully acknowledge the co-operation and assistance provided by the Department of Premier and Cabinet, NSW Treasury, the Department of Justice, the Department of Industry, Skills and Regional Development and the Department of Planning and Environment.

### **Audit team**

Ed Shestovsky conducted the performance audit with assistance from Michael Jones. Kathrina Lo and Giulia Vitetta provided direction and quality assurance.

### **Audit cost**

Including staff costs, and overheads, the estimated cost of the audit is \$210,000.



# Performance auditing

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## **What are performance audits?**

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

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

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

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

Performance audits provide independent assurance to parliament and the public.

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Who audits the auditors?**

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

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

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

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

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

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

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

## Our vision

Making a difference through audit excellence.

## Our mission

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.

**Professional people with purpose**

Making a difference through audit excellence.

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