



National Audit Office

## INFORMATION ASSURANCE SUMMARY REPORTS

# Department for Business, Innovation and Skills

### The purpose and scope of this review

- 1** During the period November 2011 to February 2012, the National Audit Office (NAO) carried out an examination of a sample of the Department's indicators and operational data systems. This involved a detailed review of:
  - the match between the indicators the Department publishes, the operational data it uses to run itself and the priorities and key business areas of the Department;
  - the process and controls governing the selection, collection, processing and analysis of data; and
  - the reporting of results.
- 2** Our conclusions are summarised as numerical scores. The ratings are based on the extent to which departments have put in place and operated internal controls over the data systems that are effective and proportionate to the risks involved.
- 3** This report provides an overview of the results of our assessment. It does not provide a conclusion on the accuracy of the out-turn figures included in the Department's public performance statements. This is because the existence of sound data systems reduces, but does not eliminate, the possibility of error in reported data.

## Overview

**4** The Business Plan format which the Department follows is standard to all departments and has been developed as part of a new approach to how departments manage themselves and are held accountable by the public. The transparency section of the Department's Business Plan includes an indicator set which relates to the key activities of the Department described in terms of inputs and impacts. The input indicators describe the resources the Department spends on an activity and the impact indicators show the effect of activities. We note that in support of enhanced transparency, the Department has made a wide range of information about the indicators available on its website, including why the indicator matters, what influences it and caveats on the data.

**5** The Department's wide ranging responsibilities focus on creating the right conditions for sustainable growth. To achieve this ambition, however, the Department's role is one of influencing rather than direct delivery, for example, through the activities of its network of partner organisations. The Department found it hard to design an appropriate set of indicators, within the criteria set down by HM Treasury, owing to these broad responsibilities and the level of leverage it can exert.

**6** We found that the indicator set gives coverage to the Department's Structural Reform Priorities, with a particular focus on Higher and Further Education because of the concentration of spend in these areas. Some significant aspects of the Business Plan have, however, been omitted, for example there is no coverage of the Royal Mail in the indicator set. There is also some imbalance in the extent to which the Structural Reform Priorities are represented by both impact and input indicators.

**7** The Department's indicator set, in line with other departments was restricted in terms of overall size with a maximum of 24 indicators allowable. The Department also had to ensure coverage in its indicator set of some key areas including the Social Mobility Strategy and the Plan for Growth. The Department was required therefore, working with HM Treasury, to take decisions on what it did and did not include in the final agreed indicator set. As a consequence we note that it is not always easy to link through from all the Business Plan priorities to related performance data included in the set of Business Plan indicators.

**8** We did not identify any further operational indicators that are used in assessing performance at management board level beyond the formal indicator set. Reporting to the board is focused primarily on the delivery of Business Plan components such as the meeting of key milestones and implementation of policies rather than indicators based on numerical measurements of inputs or impacts.

**9** The Department has, however, developed an Operational Plan which includes 27 outcomes which it wishes to achieve and these are regularly assessed at a senior level to identify how the Department is performing, the likelihood of a successful outcome and the ability to manage any issues arising. There are also a small number of finance-related key performance indicators which are reported to the Executive Finance board. We will want to do further work to identify which are the key operational indicators for the Department and validate the systems associated with these in future years. The Department's governance structure is due to change from April 2012 and we may need to assess again where operational indicators are reported against.

**10** We found no evidence of any significant weaknesses within the wider control environment within the Department, but there are opportunities to reduce the risks to data quality through the use of more formal protocols over data ownership, validation and reporting. These are covered in more detail in paragraphs 14 and 15 on page 4.

**11** We examined 14 data systems in our latest review, of which eight were Business Plan indicators and six were Common Areas of Spend. For 2011, we chose to examine those Business Plan indicators that we concluded were likely to be based on relatively simple underlying data systems or carry a relatively lower level of subjectivity. This approach was adopted as we considered it would be premature to assess more complex measures for which control systems may still be under development. We also examined the Common Areas of Spend indicators on workforce and estates, also published in the Quarterly Data Summary.

**12** **Figure 1** summarises our assessment of the Department's indicator data systems.

## Figure 1

### A summary of the results of our validation exercise

Score	Meaning	Indicators we reviewed that received this score
4	The data system is fit for purpose and cost-effectively run	<b>Three Business Plan indicator and four estates indicators</b>  Government funding for the Post Office as a proportion of the Post Office's turnover.  Early-stage Entrepreneurial activity rate.  Ease of doing business in the UK, ranking of UK on World Bank Doing Business Report.  Total cost of the office estate.  Total size of the office estate.  Estate cost per full-time equivalent.  Estate cost per square metre.
3	The data system is adequate but some improvements could be made	<b>Four Business Plan indicators</b>  UK share of highly cited academic articles.  Proportion of firms who are innovation active.  Change in the net regulatory burden imposed on business by Government.  Openness to Trade: Exports plus imports as a share of GDP, ranked against major competitors.
2	The data system has some weaknesses which the Department is addressing	<b>Two workforce indicators</b>  Full-time equivalent staff numbers.  Average staff costs.
1	The data system has some weaknesses which the Department must address	<b>One Business Plan indicator</b>  Offers made from the Region Growth Fund.
0	No system has been established to measure performance against the indicator	<b>No indicators</b>

Source: National Audit Office analysis

**13** Our findings on the individual data systems were broadly in line with our risk assessment with the majority being assessed as achieving a score of three or four. We did, however, for one of the eight Business Plan indicators, assess it as achieving a score of one, concluding that the data system had weaknesses which the Department must address. Similarly the Common Areas of Spend indicators for staff numbers and staff costs were given scores of two. We have identified specific weaknesses for a number of the systems, some of which may have broader applicability which the Department should consider in respect of the systems not yet assessed.

**14** We found that for several of the Business Plan indicators the Department makes use of data produced by third parties, relying on experts in the relevant field to reduce the risks to data quality. In some cases, the data produced by third parties is commissioned by the Department, but in other instances the Department relies on existing sources of information. Where the Department is relying on existing data it can cover a broad spectrum in terms of its validity and robustness, ranging for example from audited accounts to survey data. In some cases there is still more the Department could do to understand the third party methodology and increase the level of assurance it has over the accuracy of the data. We found there is no guidance in place within the Department for teams about the extent to which they should review and validate third party data and so there are inconsistencies in the extent to which teams consider whether the data is fit for purpose. This is important as while data may be generated by third parties, the Department ultimately publishes the results of this and is accountable for performance against its indicator set.

**15** We found that for all but one case the actual figures published by the Department agreed back to the source data and were reported consistently. For one Business Plan indicator reviewed, however, the figures were presented and labelled inconsistently in different departmental publications which could lead to misunderstanding among stakeholders. The Department has told us it will correct this.

**16** For some of the Business Plan indicators reviewed we have highlighted that the indicator may not be the most appropriate measure for the Department in relation to the policy area covered. This was not something which we took account of in the scoring as we were assessing the data systems for the indicators as specified. However, the Department may want to think about whether it could develop more meaningful measures of performance for some of its indicators.

**17** A further general observation is that assessing performance using the Business Plan indicators can be challenging as in many cases there is no clear definition of what success looks like. While we understand the use of explicit targets is now discouraged across central government, it may be difficult for stakeholders to assess performance if the Department itself does not have a clear view of what is a desirable output (or range of outputs). For example, we would expect the Department to benchmark performance against an indicator over time so that it can judge whether performance is reasonable, measure progress and quickly pick up any unexpected trends. We would also expect the Department to have a clear idea of what it wants to achieve in terms of performance against an indicator proportionate to the resource and effort being deployed.

**18** For the Common Areas of Spend indicators on staff numbers and costs we noted weaknesses in the underlying data systems in terms of the completeness of data for the wider Departmental network of partner organisations. The Department is finding it challenging to obtain returns from all relevant parties and comparability between periods is difficult owing to the large number of partner organisations and Machinery of Government changes. There is also limited validation of the returns that are received. There is a risk that unless the data systems improve, the Department will not comply with Cabinet Office guidelines for completion of Quarterly Data Summaries.

## Recommendations

**19 The Department has not provided stakeholders with its rationale for how it developed the indicator set.** A short preamble on the Department's indicator web page (available at: <http://www.bis.gov.uk/about/performance-reports/performance-indicators>) states that "These indicators have been chosen to help the public to judge whether our policies and reforms are having the effect they want". As difficult choices have needed to be made in the creation of the indicator set it would be beneficial if the Department disclosed to stakeholders more on the overall rationale for what has been chosen and more explicit information given on the limitations of the indicator set. Although the Department is clear that "measures do not provide a comprehensive assessment of all the Department's activities" further explanation would help address the risk that stakeholders do not understand omissions from the indicator set.

**20 The Departmental board is strategic in focus and does not review operational data which is reported against at Executive Finance board and Group level.** There may be opportunities on occasion to give the board a richer view of performance through sight of the Strategic Outcome assessments and finance indicators. This could strengthen the board's oversight of operational performance within the Department and deepen the board's understanding of how delivery against policies and key milestones is being achieved. With planned changes to the Department's governance structure from April 2012, the Department will need to ensure that there is continued internal oversight of operational indicators at a senior level.

**21 There is no formal guidance in place within the Department for teams on gaining assurance over third party data.** To avoid inconsistencies in the extent to which teams consider whether third party data is fit for purpose, the Department should review the spectrum of third party data on which it relies and ensure methodologies are understood and documented and where appropriate it has taken steps to assure itself on the validity of the data. The levels of assurance which can be taken from the data will necessarily depend on where it sits within the spectrum of existing third party data which the Department uses. For example, we would be comfortable with the Department taking full assurance from audited accounts, but would expect it to do more to gain assurance over survey data.

**22 The Department does not have quality review processes in place for its performance indicator data prior to publication.** The risk of inaccurate data being published could be minimised if teams checked data submissions at a local level and if overarching review was then carried out by an officer with responsibility for the overall quality of the data set.

**23 The Department does not have a complete data set for Common Area of Spend indicators on staff numbers and costs for all of its relevant partner organisations.** The risk of non-compliance with Cabinet Office guidelines for completion of the Quarterly Data Summaries can be reduced if the Department strengthens its processes for obtaining returns from all relevant partner organisations and the validation of returns once they are received.