



National Audit Office

## INFORMATION ASSURANCE SUMMARY REPORTS

# HM Revenue & Customs

### The purpose and scope of this review

**1** During the period September 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.

**4** In addition to our work on Business Plan indicators we also undertook work to identify other operational data and related systems that are central to the Department's performance management and reporting processes.

## Overview

- 5** We looked at the extent that HMRC's published business plan indicators cover the priorities set out in the Business Plan. HMRC's structural reform priorities are to deliver a more focused and effective tax administration by using its customer-centric approach to transform the way it delivers services, manages contact and conducts interventions. In particular, it aims to bring in an extra £7 billion a year by 2014-15 in additional revenues. We found that the input and impact indicators published in the Business Plan and the Quarterly Data Summary are aligned with the Department's vision and the main areas of its business.
- 6** There are some areas where performance information could be improved to give better insight into how the Department is performing in priority areas and making progress with the challenges it faces. In particular, HMRC aims to improve efficiency but the published indicators measuring the unit costs of tax collection and benefits administration are not affected by efficiency alone. Rather, the unit cost indicators are affected by other factors such as tax rates and economic conditions, which may make comparisons over time misleading. HMRC recognises that unit cost indicators can be affected by economic factors, and is therefore working to develop measures that are less vulnerable to these effects (for instance, by looking at the total costs of administering each benefit or tax).
- 7** HMRC uses operational indicators such as lead time of work in progress and work done on time. These are comprised of a large number of separate measures which cannot be aggregated to obtain a single result, often because the separate measures relate to different sorts of activity being carried out by different parts of HMRC. These aggregate measures do not easily allow HMRC to measure overall trends in performance and monitoring performance using a large number of measures must present challenges to senior management. HMRC recognises the case for aggregating some of these performance measures, and from April 2012 is introducing summary indicators for post handling on time. In other cases, aggregation would prevent effective identification of where performance challenges lie. The Department aims to strike a balance between aggregation to provide a snapshot of performance on key issues, and the need to maintain visibility of performance within separate areas of its business.
- 8** We found that HMRC's published and operational indicators focus on current year performance, which means they do not project performance beyond the end of the financial year and do not highlight future challenges or risks.
- 9** As part of our assessment of performance information, we examined the wider control environment that the Department has established to ensure that its performance data is fit for purpose. We found that HMRC has implemented controls around data quality that reduce the risk of poor quality source data, incorrect calculations and inconsistencies between what individual indicators aim to show and how they are measured. For example, HMRC has defined data quality as data that is complete, valid, accurate, timely, relevant and consistent, and has developed a standard structured approach for the development of new indicators
- 10** We examined 19 data systems in our review, of which six were Business Plan indicators and six were operational data sets. We selected our sample, after consultation with the Department, and on the basis of those data streams which were fully functional at the time of our review. We also reviewed a sample of the Department's workforce and estates indicators, which are reported in the Department's Quarterly Data Summary alongside the Business Plan indicators and a range of other measures. **Figure 1** summarises our assessment of the Department's indicator data systems.

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**Figure 1**

A summary of the results of our validation exercise

Score	Meaning	Indicators we reviewed that received this score
4	The indicator's data system is fit for purpose and cost-effectively run	<p><b>Six Business Plan indicators, one operational indicator and three workforce indicators</b></p> <p>Unit costs of collecting: income tax; Corporation Tax; National Insurance Contributions; VAT</p> <p>Unit costs of administering: tax credits; child benefit</p> <p>Tax receipts (Operational Indicator)</p> <p>Full-time equivalent staff numbers</p> <p>Contingent Labour</p> <p>Average staff costs</p>
3	The indicator's data system is adequate but some improvements could be made	<p><b>Three operational indicators</b></p> <p>Staff engagement (annual survey)</p> <p>Accuracy of work done</p> <p>Work done on time</p>
2	The indicator's data system has some weaknesses which the Department is addressing	<p><b>Two operational indicators and four estates indicator</b></p> <p>Number of sick days</p> <p>Lead time</p> <p>Total cost of the office estate</p> <p>Total size of the office estate</p> <p>Estate cost per full-time equivalent</p> <p>Estate cost per square metre</p>
1	The indicator's data system has weaknesses which the Department must address	<b>No indicators</b>
0	No system has been established to measure performance against the indicator	<b>No indicators</b>

Source: National Audit Office analysis

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**11** We found that the systems supporting the Business Plan unit cost indicators and the tax receipts performance indicator were fit for purpose, although, as recognised in paragraph 6 the unit cost indicators will not always show a meaningful measure of efficiency. On other indicators, there were issues with the effectiveness of the systems for collecting and analysing data. HMRC recognises these issues and is considering or taking action to resolve them. Specific points are set out below:

- HMRC measures staff engagement through the Cabinet Office's cross-government staff survey. Although this is an adequate data system, survey response rates declined from 69 per cent in 2010 to 52 per cent in 2011. HMRC is starting to supplement this annual survey with quarterly surveys, which will provide more regular information, but the Department will need to ensure response rates remain sufficiently high to give reliable results.
- The data systems for HMRC's accuracy and work done on time measures are adequate but HMRC records 56 separate results across the two indicators. These separate measures relate to different sorts of activity being carried out by different parts of HMRC, and are not always comparable. As described above, HMRC considers it needs separate measures in order to identify the specific areas where performance challenges lie. Collection and analysis of data is resource-intensive and time consuming and there may be scope for more automated data collection, to improve cost-effectiveness.
- There are some weaknesses in HMRC's data systems for measuring the number of sick days which HMRC is addressing. There is evidence of under-reporting, there was an incident in 2011 where data systems for recording sickness absence became unstable and the measure does not currently comply with recently-issued Cabinet Office guidance. However, HMRC has a clear idea of the extent of under-reporting, it has informed us that the issue causing problems with the data system has been corrected and HMRC plans to comply with the new guidance by April 2012.
- There are some weaknesses in HMRC's data systems for measuring lead time which HMRC is addressing. This relatively new indicator is still in development. HMRC aims to compare lead times across functions and business areas but currently there is a lot of variation across HMRC in how it collects and reports inventory and staff productivity data. HMRC is working to address these issues. While the lead time indicator is being developed, HMRC is using work done on time indicators to monitor levels of work building up.

**12** On the published common areas of spend measures we validated, we found the following:

- HMRC's systems for measuring total numbers of staff and total staff pay are fit for purpose but are not currently including all staff employed by the Department and its agencies as required by Cabinet Office guidelines as Valuation Office Agency (VOA) staff are excluded. HMRC excluded VOA staff costs on the grounds that VOA operates independently of HMRC and makes no contribution to HMRC's Business Plan objectives. HMRC has agreed its approach with HM Treasury.
- HMRC is keen to make efficient use of its estate as it is undergoing a major change programme to reduce its costs. Our 2010-11 audit identified an error in the reported total estate cost, suggesting that the underlying systems could be improved. In particular, there was scope to improve the assessment of risk and the control environment. Since then HMRC has implemented new controls. We will assess the effectiveness of these controls in our 2011-12 audit.

## Recommendations

**13** The following recommendations cover the Department's overall performance reporting approach based on our findings from the first tranche of indicators.

**14** On the performance information the Department uses to monitor and manage the business:

- **The unit cost indicators will not always show a meaningful measure of efficiency.** The unit costs of tax collection and benefits administration are not affected by efficiency alone but will be affected by other factors such as tax rates and economic conditions. HMRC recognises these issues and is working to develop measures that are less vulnerable to economic effects, such as the total costs of administering each benefit or tax. HMRC should consider what these indicators are intended to show, whether their construction is consistent with measuring efficiency and whether they provide a clear assessment of the Department's performance over time.
- **The Department currently measures in-year performance but does not project performance beyond the end of the financial year.** HMRC should develop performance measures which provide it with forward-looking information and which alert it to challenges and risks ahead.

**15** On the effectiveness of HMRC's data systems:

- **A number of the indicators we examined comprised many separate results from different business areas across HMRC.** These separate measures could not be aggregated and often were not comparable because they related to different sorts of activity being carried out by different parts of HMRC. It is also not clear whether the indicators are providing adequate business intelligence in these areas, such as an overall view of performance over time. Where possible, HMRC should aim to streamline and group the separate measures reported by business areas as it now plans to on post handling times. Aggregating some results into single measures where possible would more easily allow a 'health check' to tell the Department how it is doing in key areas such as managing backlogs and maintaining quality, although we note that HMRC aims to strike a balance between aggregation and the need to maintain visibility of performance across the Department.
- **On some indicators manual data collection is time consuming and resource intensive.** There is a risk that with continuing headcount reductions, it may be difficult to maintain the current systems. Where funding allows, HMRC should look at ways of developing more automated and cost-effective ways of collecting data. For example, data on the length of time taken to deal with postal enquiries is collected manually by examining a sample of post received. An automated logging system could be a more cost-effective way of measuring the length of time taken to deal with post. It should also consider whether it is necessary to collect all the data it currently collects for the separate measures, or whether it would be more cost-effective to focus on a reduced number of key measures, such as those which are most business-critical or liable to fluctuations in performance.
- **HMRC's lead time indicator could provide valuable business intelligence but needs further development.** The lead time indicator is in the early stages of development with major issues around how the data is collected and reported, and the reliability of the supporting systems. HMRC should prioritise development of this indicator and address these issues as soon as possible if it is to continue to report performance against the measure to senior management. Once the issues are resolved, lead time could be a very useful measure of levels of work building up and an indicator of challenges on the horizon.