



National Audit Office

INFORMATION ASSURANCE SUMMARY REPORTS

HM Treasury

The purpose and scope of this review

- 1** During the period November 2011 to March 2012, the National Audit Office 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 they use to run themselves 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 outturn 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 Our review focused on the priorities and performance indicators contained within the HM Treasury Business Plan 2011-12, which was published in May 2011. The Department's three priorities were:

- **P1** Reduce the structural deficit in a fair and responsible way;
- **P2** Secure an economy that is more resilient, and more balanced between public and private sectors and between regions; and
- **P3** Reform the regulatory framework for the financial sector to avoid future financial crises.

5 These priorities are supported by nine indicators intended to demonstrate the impact of HM Treasury's Business Plan, and five cost input indicators. We reviewed all 14 indicators in the course of our work.

6 Generally, we consider that the scope of priorities is wider than the limited coverage of the indicators would suggest. We also note that the subjective nature of some of the priorities makes it difficult to identify and define a complete set of indicators. For example, progress against the aim to "reduce the structural deficit in a fair and responsible way", is clearly a matter of subjective, rather than objective, judgement with no obvious set of agreed criteria or metrics on which to report progress.

7 We note that in respect of the priority on '*regulatory reform*' there is a particularly obvious disconnect between the priority and the chosen indicators, which makes the indicators ineffective for monitoring the Department's progress on that priority.

8 We are aware from our other work on HM Treasury that it has been revisiting and refining the information being reported to its Board to support decision making. We note that the published Business Plan priorities, and supporting indicators, do not map closely to the way the Department is managed, and that the Quarterly Data Summary performance metrics are unlikely to be used by the Board to support strategic decision making. As a result, we feel it is too early to conclude more generally on the completeness of operational data being used within the Department. This will be the focus of our validation work in the second and third years of this project.

9 **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	<p>Four Business Plan indicators</p> <ul style="list-style-type: none"> Cyclically adjusted current deficit Regional employment rate Main Corporate Tax rate Changes to government's financial exposure to the financial sector through its exceptional support measures
3	The data system is adequate but some improvements could be made	<p>Three Business Plan indicators and seven estates and workforce indicators</p> <ul style="list-style-type: none"> Public sector net debt as a percentage of GDP GDP per capita (adjusted for inflation) Number of top-50 European companies (by market capitalisation) Total cost of the office estate Total size of the office estate Estates cost per full-time equivalent Estates cost per square metre Full-time equivalent staff numbers Contingent labour Average staff costs
2	The data system has some weaknesses which the Department is addressing	<p>Seven Business Plan indicators</p> <ul style="list-style-type: none"> Departmental DEL outturn Total gross new lending by Barclays, HSBC, Lloyds Banking Group, RBS and Santander Cost of public expenditure planning and control Cost of supporting tax policy Cost of international engagement and financial services policy Cost of supporting and developing macroeconomic and fiscal policy Cost of supporting debt management
1	The data system has some weaknesses which the Department must address	No indicators
0	No system has been established to measure performance against the indicator	No indicators

Source: National Audit Office analysis

10 In the period covered by this review, HM Treasury defined the 'group' for performance reporting purposes as being the core Department and its executive agencies the Asset Protection Agency and the Debt Management Office. However, we note that for the purposes of financial reporting, the HM Treasury group will expand in 2011-12 to include bodies such as United Kingdom Financial Investments, the Money Advice Service and the Financial Services Compensation Scheme. In this context, it is therefore possible that different definitions of the 'group' will be used for financial and performance reporting purposes. Clearer central Cabinet Office guidance on how the departmental 'group' should be defined for performance reporting purposes should therefore be issued.

11 We were unable to obtain clear evidence from HM Treasury about the formal risk assessment procedures conducted over the reliability of the data. This was, in part, because of the presumed reliability of the data sources – where this was published by a reputable source, or was a National Statistic. However, we consider that, in some cases, such a risk assessment could provide valuable additional assurance over the appropriateness of the data set.

12 We were also unable to determine the extent to which external 'expert' advice was sought when designing indicators and associated data sets. This is an issue which we understand has already been identified within the Department, and will be taken forward into future business planning rounds.

Recommendations

13 We recommend therefore that HM Treasury should:

- ensure that Business Plan priorities and related indicators are linked with greater precision;
- complete formal risk assessment of the risks to each data system, and consider what external 'expert' input may be required;
- ensure that the definition of the 'group' for performance reporting purposes is consistent with other departmental groups. Where there is a misalignment between financial and performance reporting groups, this should be clearly explained; and
- those responsible for data systems should undertake more validation of data to ensure that there are no inherent errors, and to limit the effect of potential human errors on reporting.