



National Audit Office

INFORMATION ASSURANCE SUMMARY REPORTS

Ministry of Defence

The purpose and scope of this review

1 During the period November 2011 to January 2012, the National Audit Office (NAO) carried out an examination of a sample of the Ministry of Defence's (the Department's) indicators and operational data systems. Our work focused on the indicators reported in the Department's October Quarterly Data Summary. As part of our work we undertook 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 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 Ministry of Defence Business Plan 2011–2015 sets out both the Structural Reform Priorities and the Department's key objectives and responsibilities. The Plan included indicators which provide some coverage of the Department's business and of its main priorities, although the reasons for selection and the priorities which were assigned to them by key stakeholders might have provided more context for the reader.
- 5** The Plan highlights the four Structural Reform Priorities for this period:
- restructure the Armed Forces and their capabilities;
 - rebuild the Armed Forces Covenant and develop the New Employment Model;
 - deliver the Defence Reform Unit's review; and
 - deliver Defence in the most effective, efficient and sustainable way.
- 6** The indicators included in the Plan are derived from a wider set of data that informs more extensive reporting to the Defence board. Following the restructuring of the board in the autumn of 2011, the frequency of meetings has increased and this has been underpinned by improvement in the quality of data reported to it. The development of comprehensive Quarterly Performance and Risk Reports on a timely basis has improved the flow of key performance information. The board is supported by a range of Committees, such as the Investment Appraisal Committee, to support key decision-making processes. These have placed greater priority on the importance of accurate and reliable performance data on which to make decisions.
- 7** As well as having sound systems in place for collecting the data it is important to have a robust system in place for collation and review to ensure that the published information is accurate. Without these final checks being in place there is a risk that incorrect data might be reported. Our work identified a small number of results that were incorrectly published in the October Quarterly Data Summary. This has highlighted the need for the Department to strengthen its review processes to minimise the risk that incorrect data will be published. The Defence Audit Committee has been reviewing its future work programme and we have recommended its work programme should incorporate the assurances in respect of the reliability of reported performance data.
- 8** While recognising that publication of the more operational aspects of the Department's performance might need to have a more limited circulation we highlighted the need to include more measurable indicators in areas such as logistics, financial management, and procurement. Indicators which can measurably demonstrate achievement of business priorities will be central to assessing the success of the Department's reforms.
- 9** In all we reviewed three impact and three input indicators. In addition we reviewed six common area of spend indicators. We have assigned each indicator a numerical score, 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.
- 10** The table in **Figure 1** summarises our assessment of the data systems underlying the first tranche of indicators.

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 and three workforce indicators</p> <p>Input Indicator 4: Average percentage by which the cost of the MoD Equipment programme varies compared to forecasts in year</p> <p>Impact Indicator 6: Average number of months that the MoD Equipment programme is delayed in year</p> <p>Impact Indicator 9: Percentage of Service personnel (Officer/Other Ranks) who are satisfied with Service life in general</p> <p>Impact Indicator 10: Overall favourability of the UK Armed Forces</p> <p>Payroll Staff (full-time equivalents)</p> <p>Average staff costs</p> <p>Contingent labour (full-time equivalents)</p>
3	The data system is adequate but some improvements could be made	<p>Two Business Plan indicators</p> <p>Input Indicator 1: Additional cost of operations in Afghanistan, per Service Person deployed</p> <p>Input Indicator 2: Additional cost of new equipment (Urgent Operational Requirements) for operations in Afghanistan, per Service person deployed</p>
2	The data system has some weaknesses which the Department is addressing	<p>Four estates indicators</p> <p>Total office estate</p> <p>Total cost of office estate</p> <p>Estate cost per full-time equivalent</p> <p>Estate cost per m²</p>
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

11 The delivery of an affordable equipment programme is central to the Department's longer term financial management and the Department is due to publish its Equipment Plan forecast during 2012. There were two key impact indicators which the Department has established to measure performance in respect of equipment procurement. The current indicators define cost and time variations based on the annual re-forecast, rather than against the original time and cost forecast at inception of the procurement.

12 Although the current system is fit for purpose when assessed against the current measurement annex criteria, it does not provide a full measure of the Department's performance in respect of long-term procurement. The current set of Business Plan indicators do not include specific measures of longer-term procurement performance, but the Department produces some information on this through the NAO's Major Projects Report.¹ The publication of the Equipment Plan will also provide a good basis for future measurement over a longer time span and should give rise to new indicators which could be used to measure the Department's longer-term procurement performance. This would provide a more meaningful measure of the Department's success.

13 Our selection of Business Plan input indicators included measures relating to operations in Afghanistan. We identified that the method of measurement was based on the endorsed manning level reported to Parliament (the expected deployable force), rather than the actual number who actually served in Afghanistan during the period. We have recommended improvements to the disclosure of the basis of measurement. The Department should ensure that the measurement criteria are sufficiently well explained to enable the reader to understand any risks associated with data and the context in which indicators are reported.

14 We also examined Workforce Size and Estate Costs indicators, which are the Common Areas of Spend indicators published in the Department's Quarterly Data Summary and common to all government departments. We identified some issues relating to the use of third parties and the need for the Department to ensure that it performed sufficient checks on the data used to calculate the indicators, although we did not consider that the absence of these would have a material impact on the reported performance.

¹ Comptroller and Auditor General, *Ministry of Defence, The Major Projects Report 2011*, Session 2010–12, HC 1520-I, National Audit Office, November 2011. Available at: www.nao.org.uk/publications/1012/major_projects_report_2011.aspx