

HM Treasury

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Under Secretary



Parliament Street
London
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DAO(R) 6/92

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Dear Accounting Officer

**NEXT STEPS AGENCIES: VALIDATION OF AGENCY PERFORMANCE
AGAINST KEY TARGETS**

I attach a note, agreed with the National Audit Office, containing guidance on the validation of Agencies' performance against their key targets.

Enquiries

2. Any enquiries about this letter should be addressed to Ian Thomson, Second Treasury Officer of Accounts, telephone 071-270-4304 (GTN 270-4304).

Distribution

3. This letter is being sent to Accounting Officers for Votes and Trading Funds, Agency Accounting Officers and departmental Principal Finance Officers.

Yours sincerely

J S Beastall

J S BEASTALL
Treasury Officer of Accounts

NEXT STEPS AGENCIES: VALIDATION OF PERFORMANCE AGAINST KEY TARGETS

Note by the Treasury

All Agencies will have key performance targets that are published. Setting these targets - covering both corporate financial performance on the one hand and quality of service and efficiency on the other - is a matter for the responsible Minister. Information about the Agency's performance against these targets will be recorded in the Agency's published annual report and accounts, which the Chief Executive will sign.

Validation of Performance: General

2. The principal aim of Next Steps is to improve management in Government. The setting of targets for Agencies is an important means to this end, and the extent to which they are met will be a significant test of the Agency's success. It is therefore important that published information about performance targets is correctly calculated, reliable and fairly presented. Not only is this desirable and right in itself, but there are cases (eg bonus schemes) where expenditure is related to the figures.

3. The primary responsibility for satisfying Ministers that targets have been met lies with the Chief Executive, who will therefore need to set up a properly managed internal system of data collection run by reliable and competent staff, validated where appropriate by the Agency's own internal audit, or by work commissioned from an outside source.

4. There may, however, be occasions where validation, external to the Agency, of the soundness of the relevant systems. or of the achievement of particular performance targets is necessary; for example, where it is sought by the responsible Minister, where the achievement of targets affects the pay of Agency staff or where, in the light of the Citizens Charter, non-financial targets are of particular importance. The nature and timing of this

validation work will be a matter for consultation between the Chief Executive and all the parties concerned. It could, for instance, come from the parent Department's own internal auditors or from outside independent examination, either by a professional firm of accountants or consultants or by the National- Audit Office (NAO).

5. Any validation of this type undertaken by the NAO should be covered by a specific contract and the NAO will charge an appropriate fee. Departments or Agencies considering employing the NAO for this purpose will wish to bear in mind the NAO's special status and their powers to report to the House of Commons. The NAO cannot guarantee that they would not in any circumstances report to the House of Commons findings from validation work. They have, however, stated that they cannot envisage any likely situation in which an Agency would run an extra risk of a report to the House of Commons as a result of the NAO's doing this work.

Certification Audit

6. In the particular case of an Agency's key corporate financial targets* the NAO has a formal locus where it is carrying out a certification audit under statutory powers. Where an Agency is a trading fund the NAO's certification responsibilities (under Section 4(6) of the Government Trading Funds Act 1973) begin as soon as the trading fund is established. In the case of other Agencies the NAO will be responsible for the certification audit as soon as the Agency is able to produce auditable accounts and the Treasury has issued a direction under Section 5 of the Exchequer and Audit Departments Act 1921 as amended by Section 3 of the Government Trading Funds Act 1990.

7. A note to the Agency's annual accounts will report performance against the key corporate financial targets. This information, which is contained in or derivable from the audited accounts, will be covered directly by the audit certificate. The audit certificate will not cover performance against other targets such as those concerning quality of service and efficiency; for example, unit costs where performance is derived in part from non-financial information. It is however the duty of the auditor to consider the reporting of all financial

* Key corporate financial targets are defined in the Treasury guidance paper "Next Steps Agencies: Annual Reports and Accounts".

information to satisfy himself that there is no inconsistency with the financial statements and to ensure that the credibility of the financial statements is not undermined.

8. The NAO may also need to audit specific measures other than the key corporate financial targets as part of their certification audit. Examples are where non-financial data are included in the notes to the accounts in accordance with an Accounts Direction applying the requirements of the Companies Acts; or where items material to the accounts, such as performance bonuses, are conditional on the achievement of non—financial targets. Where NAO is not the external validator and such data have already been validated by another external consultant, the NAO will rely as far as possible for the purpose of their certification audit on internal controls and the external validation. They may however need to carry out some inspection themselves of the relevant records, and such reliance may involve discussions between the NAO and the external validators, provided that the Agency agrees.

9. The NAO has formal powers to carry out examinations into the economy, efficiency and effectiveness with which an Agency has used its resources in discharging its functions. How these powers are used is a matter for the NAO to decide and their enquiries may include an examination of targets set and of the reporting of performance. However, the NAO will take full account of any work carried out by Agencies or departments themselves, or by their consultants, when examining value for money issues with a view to avoiding any unnecessary duplication.

10. This note has been agreed with the NAO.

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