Dear Chair,

I am pleased to follow up my appearance before your Committee, of 3 December 2018, at which I gave evidence regarding the Ministry of Defence’s Equipment Plan 2018-28. Your Committee made a number of recommendations in its report, which involved asking for a progress report on the development of financial skills and performance metrics for the Department.

The following detail was included in the Department’s 2018/19 Annual Report and Accounts and sets out the current position as well as the direction of travel. We already have some targets in place (described below), but we will add and refine these in the next stage of the work we have underway as part of the Finance Functional Leadership Programme. This will allow us to assess the progress made on the transformation journey which is likely to take three to five years. As these metrics evolve, we will also remain aligned with the cross-government work expected in this area later in 2019. The intent is to measure our performance against accepted best-practice, for example Global Design Principles.

In 2019/20 we will monitor performance in the following areas: Forecasting; Costings; Upskilling; Assurance; and, Financial Accounting:

- Improving forecasting accuracy is a key strand of the Financial Management Improvement Plan and a priority area for improvement. Monitoring is being introduced using best practice from the cross-government Finance Function and includes the metrics we are required to report to HM Treasury. In 2018/19, accuracy of Top Level Budget area forecasts at AP06 where tracked against outturn, with a target of ±1%. Monthly cash forecasting accuracy was also tracked, which should be within +/- 5%. During 2019/20 we will continue to place a focus on forecast accuracy as an area of priority and will be trialling additional metrics during the year. As well as metrics monitoring improvements in forecasting accuracy, we are developing our approach to financial risk management. This is forming part of our monthly review process and involves considering potential mitigating actions throughout the process.
The Cost Assurance and Analysis Service (CAAS) provides a level of assurance through their Independent Cost Estimates which indicate an improvement in project costings, however there remain good reasons why the two are different. We intend to reduce the gap between the CAAS estimates and programme estimates each year. Our focus is on the work already underway in the Delivery Organisations to improve processes, skills and tools and Departmentally we will monitor the forecasting accuracy KPIs being tracked at Board level.

There has already been some progress in upskilling finance professionals within the Department. We will continue to monitor the proportion of staff with a finance qualification within the profession; we are currently at 41% and our target is 60%. This will include monitoring the development programmes which support progress in this area, such as the Corporate Accountancy Training Scheme. This has seen a significant increase in the number of staff participating over the last year (from 28 at the end of 2017/18 to 87 at the end of 2018/19). In due course, we will consider how to best monitor staff undertaking foundation level training which could be used to monitor progress in the level of financial awareness across the wider Department.

We monitor the performance of a number of Departmental controls through the Internal Control and Assurance Framework (ICAF). The ICAF is supported by quarterly self-assessment reporting by TLBs, which is subject to independent review by Defence Internal Audit on a sample basis. We already monitor the delivery of actions following internal audits and will consider how this might contribute to the performance metrics in due course. I am looking to achieve substantial assurance across the Finance Function within 5 years.

We already work with the NAO to understand the audit findings. As part of monitoring our Financial Accounting performance, we use the significant audit findings found by the NAO and the work being done to address the issues raised. We also monitor the value and number of audit adjustments post Departmental closure and the number of account qualifications. We are working towards reducing the number of errors identified by the NAO in the financial accounts, by number and value.

This information will be updated annually as part of the Department’s Annual Report and Accounts.

Yours sincerely,

Catherine Little