National Audit Office

Financial Management in the Home Office

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 299 Session 2008-2009 | 22 May 2009

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LONDON: The Stationery Office
£14.35

Ordered by the
House of Commons
to be printed on 20 May 2009

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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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Comptroller and Auditor General
National Audit Office

19 May 2009

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SUMMARY

Scope of the NAO examination

1 The Home Office's stated purpose is "working together to protect the public". Protecting the public covers policing, crime reduction, counter terrorism, border control, and identity management. The Department delivers some front line services, such as immigration enforcement and the issuing of passports, directly through Executive Agencies. Other front line services, such as policing and crime reduction, are delivered through arms length partnership arrangements with other bodies, including six Non-Departmental Public Bodies and the 43 police forces in England and Wales.

2 For 2008-09, the Home Office has a gross budget of £11.8 billion. Around 71 per cent is passed on through grants to partner organisations, principally police authorities, which help deliver the Department's objectives. The remaining 29 per cent funds the Home Office's Executive Agencies which are the UK Border Agency (operating in shadow form until 31 March 2009)(£1.9 billion); the Identity and Passport Service (£0.5 billion) and the Criminal Records Bureau (£0.1 billion), plus its own running costs (£0.9 billion). The Department receives £1.4 billion in income, principally from fees and charges for public services.

3 Financial management is the system by which the resources of an organisation's business are directed and controlled to support the organisation's goals. Good financial management is an essential element of strong corporate governance. It forms part of the foundations of an organisation, underpinning service quality and improvement, and is the basis of accountability to stakeholders for the stewardship and use of resources. Effective financial management helps an organisation manage its budgets; allocate resources and make decisions supported by an understanding of the relationship between resource consumption and performance; and so deliver its services cost-effectively.

4 The Comptroller and Auditor General issued a disclaimed audit opinion on the Department's Resource Accounts for 2004-05. Following complications arising from the introduction of a new accounting system, the Department had failed to reconcile its cash records, was unable to provide an adequate audit trail to support accounting entries and, as a consequence, was unable to produce auditable Financial Statements. The Public Accounts Committee reported in July 2006 on the weaknesses in financial management at the Home Office that caused it to fail to produce proper accounts. The Committee recommended improvements in the Department's basic financial systems and processes, in the financial skills and capacity of staff and a greater emphasis on the corporate importance of financial management and accounting at senior levels of the Home Office. In response, the Home Office began a substantial programme of reform.

5 The Department initiated a programme of improvement more than two years ago, so this report examines:

- the Home Office's organisation and the progress made in delivering improvements in its financial management (Part 1);
- the recent financial performance of the Home Office (Part 2); and
- how far the Home Office has integrated good financial management into its business (Part 3).

Main findings

On the progress made in improving financial management

6 We found that the Home Office has made substantial improvements to its financial management since 2006. The Department recently commissioned IPF Ltd to independently moderate a self-assessment of its financial management. That review, conducted between July and November 2008, reinforces our findings. It concluded that "the Home Office has made huge strides within the past four years in improving the strength of financial management from what was a patently low base. Indeed we would be of the view that the Home Office is extremely well placed in meeting the Treasury and Head of the Accountancy Profession's aspirations in respect of financial management standards". While significant progress has been made, the Department recognises that there is still more to do to meet its aims for the financial management of its business, and the Treasury's ambition to embed "world class" financial management across central government. In order to meet this objective, the Department is in the process of refreshing its Finance Improvement Strategy.

On recent financial performance

Managing against budgets

7 The Home Office reported in its Autumn Performance Report 2008 that it met all of its Public Service Agreement targets for 2004 to 2007, exceeded its targets for efficiency savings, and did so within budget.

8 Over the five years to 31 March 2008, the Department has controlled its resource consumption effectively, managing it consistently between 96 and 100 per cent of the limits approved by Parliament. Over the same period, the Department has consistently underspent against its annual capital budgets, in one year by as much as 25 per cent, giving rise to a cumulative underspend of £725 million. The Department is improving its use of capital budgets and, in 2007-08, reduced the in-year underspend to £48 million (6 per cent) from £330 million in 2006-07 (25 per cent). The Department has not used its accumulated capital reserve, which has since been capped by the Treasury in the funding settlement covering 2008-09 to 2010-2011 at a maximum of £292 million.

9 In 2007, the National Audit Office reviewed the Home Office's data systems which it uses to measure performance against its Public Service Agreements. We found that three of the Home Office's data systems were fit for purpose, while the remaining seven were broadly appropriate but needed strengthening. Whilst we have not reviewed the Department's Comprehensive Spending Review 2004 efficiency savings outturn in full, in our review in February 2007, we considered £1,377 million of the Department's reported savings and assessed 32 per cent (£445 million) as fairly representing the efficiencies made and 68 per cent (£932 million) as representing efficiencies but raising some measurement issues. We have not yet reviewed the data systems underpinning the Department's more recent Public Service Agreement targets, nor the value for money savings under the Comprehensive Spending Review 2007. We will review each of these in due course.

Understanding links between resources and performance

10 The extent of the Department's understanding of its delivery costs varies across the range of activities and objectives for which it is responsible. The Department understands the direct costs of delivering specific services, such as issuing passports, relatively well, as the components of the service can often be individually costed. The Department examines in less depth the costs of activities which have less clearly defined outputs or activities which are delivered through partner bodies.

11 The Department does not yet, but is taking steps to more fully understand the impact of funding decisions on performance outcomes. At a national level, increases in funding for priority outcomes, such as reducing crime, have been accompanied by improved performance, but the causal links have not been established firmly. Similarly, the Department does not yet have a full understanding of how local variations in resourcing impact on outcomes. Establishing the links between the use of resources and delivery outcomes is undoubtedly challenging, because of the complex range of factors that impact on outcomes, and remains a challenge across the public sector. To assist in addressing this challenge, the Home Office is undertaking a project entitled "Matching Resource to Priorities". Complexity is greater where delivery is devolved to partner organisations. In 2008-09, over £8 billion will go in grants to delivery partners, including £5.4 billion to police forces through the main police grant. The forces are operationally independent and make spending decisions based on local priorities. The Home Office is improving its tools for monitoring devolved funding and is developing its understanding of the links between resource consumption and performance.

Charging for services

12 Accurate cost modelling for chargeable services remains a challenge in some areas. The Department is required to charge for some of the services it provides. It is allowed to make a surplus on some services to foreign nationals, but generally, like other government departments, where UK citizens pay for services, such as passports and criminal record checks, the Home Office is required to set fees and charges only to levels that cover the costs of providing the service. We found, however, that owing to changes in costs in 2007-08, fees charged for the provision of passports and criminal record checks gave rise to unplanned surpluses of £12 million and £10 million respectively. The main reason for the Criminal Records Bureau surplus was a favourable HM Revenue and Customs ruling on VAT, while at the Identity and Passport Service the principal factor was the delay to the roll-out of the Interview Office Network.

On managing the Home Office's business

13 We considered how far the Home Office has integrated five widely accepted aspects of good financial management into its business: financial governance and leadership; financial planning; financial decision making; financial monitoring and forecasting; and financial and operational reporting. Our findings are set out below.

Financial governance and leadership

14 An improved financial management culture is in place at the top of the Home Office. Strong, visible leadership from the top, focusing on risk management and improving the financial capability of senior managers, has improved the financial management culture at the top of the Department. The appointment of a qualified accountant to the Board in 2005 emphasised the corporate importance of finance. This appointment, together with the leadership of the Permanent Secretary, has been an important factor behind the Department's improvements to its financial management. Regular Operating Reviews of each business area, examining all aspects of performance including finance, led by the Permanent Secretary, have enhanced senior level accountability. The Department also took the initiative in expanding the scope of the existing internal audit programme to assess whether basic financial procedures were being followed.

15 This improved financial management culture, however, is not yet embedded throughout the organisation. Review work carried out by the Department's internal audit team during the last year found that there is significant scope for improvement in compliance with core financial management policies and procedures across a range of areas, including budget management, fixed asset and inventory management, the handling of pay and allowances and the use of procurement cards. The Home Office has over 24,000 employees and instilling lasting cultural change on this scale will, of course, take time. The ongoing support of senior management will also be important to continue promoting and embedding the Department's financial management improvement agenda throughout the business.

16 The recruitment and retention of key finance staff have been difficult at the Home Office, in common with much of the public sector. To enhance financial expertise and capacity, over the last 2 years, the Home Office has increased the number of professionally qualified finance staff in core finance roles. The Department is also piloting membership of a well established Government Finance Profession graduate trainee accountant scheme to develop a cadre of in-house finance professionals. Although trainees will be able to fill some gaps immediately, it will take time for the scheme to supply candidates capable of filling senior vacancies: some five years for manager grades, where external recruitment is most difficult. The Department recognises the need to develop staff with both professional finance skills and the acumen to use these skills to add value to the Department in areas where a generalist may be less well equipped to do so.

Financial planning

17 The Department has improved its financial planning and budgeting, but short term funding settlements are still affecting the delivery of objectives. Although its single largest element of funding, the distribution of grants to police authorities, has been on a multi-year basis since 2006-07, other recipients of grants from the Home Office rely on short term agreements, typically single year settlements underpinned by longer term indicative budgets. Single year funding agreements for local Crime and Disorder Reduction Partnerships meant that the Partnerships largely used these funds to help manage the consequences of violent crime, rather than tackling its root causes. Internally, budgets are now being delegated in advance of the financial year to all business areas and it is important that they are cascaded swiftly thereafter. For example, although all Non-Departmental Public Bodies were given indicative three year budget settlements, two major Non-Departmental Public Bodies told us that earlier firm annual budget delegation would help timely business planning.

18 New Home Office bodies have taken some time to establish their financial management on a firm footing. In recent years, the Home Office has set up important new business areas and bodies: the Office for Security and Counter Terrorism; the Serious Organised Crime Agency; the National Policing Improvement Agency; and the Independent Safeguarding Authority. Getting new organisations up and running effectively is challenging. We found instances where local financial management capacity was insufficient to deal with the initial challenges these bodies faced.

Financial decision making

19 Submissions to decision-makers for important policy and operational decisions are usually supported by appropriate financial analyses. The Department has put appropriate governance structures in place to monitor and provide advice to the business on the quality and completeness of financial information provided to decision makers.

Financial monitoring and forecasting

20 The quality of the Department's financial monitoring and forecasting has improved and its key financial systems are capable of supporting the Home Office's business needs, but staff find them difficult to use. Working round the systems reduces compliance, causes errors and hinders the production of timely, good quality financial information. To mitigate the risk of management receiving inaccurate information, finance staff need to spend substantial time making sure that financial data is reliable. The monthly Finance Report is therefore provided to the Board 16 to 20 working days after the month end, compared to the Treasury target of 10 days. The Department has plans in hand to address these issues and, in December 2008, completed the first phase of its Central Finance Process Improvement Review.

Financial and operational reporting

21 The Home Office has improved the accuracy and reliability of financial information reported internally and externally. We found that the Department has improved in-year budget management and reallocated resources to areas experiencing budgetary pressure or deemed to be high priority through its mid year review process. The Department's delivery of its Resource Accounts for 2007-08 with an unqualified audit opinion, before Parliament's summer recess, was an important symbol of the progress it has made.

Financial Management Conclusion

22 The Home Office has substantially improved its financial management, including its overall financial governance, its financial planning, budgeting, monitoring, forecasting and reporting, and its arrangements to support financial decision making. However, the Department has not reached the stage of maturity at which good financial management is part of "business as usual" operations. Continued effort and emphasis is required to consolidate the improvement which has been achieved, and to deliver the further improvements in financial management that will assist the Department in maximising the value for money it delivers to citizens and non-citizens alike. In particular, the importance of good financial management and financial management skills is not yet fully apprehended throughout the Department; the strategic management of its large capital programme has not been responsive enough to avoid large underspends; the Department does not have enough information on the relationship between resource requirements and outcomes; and financial management arrangements have not been sufficiently resilient in supporting organisational change. The Department recognises these issues and is updating its Finance Improvement Strategy accordingly. The following recommendations are intended to improve financial management across the Department.

Recommendations

23 Against the above background we recommend as follows:

a **The Home Office has made substantial improvements to its financial management in recent years, but has not reached the stage of maturity at which good financial management is part of "business as usual" operations**. Following on from this report and that of IPF Ltd, the Department should now set out a clear aspiration for its desired standard of financial management. To achieve this aspiration, the Department should set out an updated action plan to address the areas of improvement that are needed.

b **Newly established Home Office business areas and bodies have taken some time to establish their financial management on a firm footing**. The Department should identify how it can provide better financial management support to new bodies at inception and during their early years.

c **The Department has consistently underspent against its capital budgets, generating a cumulative underspend of £725 million over the last five years**. It should identify its capital expenditure priorities, and underpin its capital programme with robust project management and budgets that are taut yet realistic. The Department should also put arrangements in place to improve individual project deliveries so that it can identify and release funds that are no longer required so that they may be deployed elsewhere on the same timescale.

d **The forecasting of some costs remains challenging for the Department in areas where fees for services are required to be set to break-even levels, such as passports and criminal record checks. Demand and cost modelling may become more challenging in the uncertain financial environment**. The Department should carry out further analysis of forecast demand and costs for these services to improve their ability to set fees at levels that will more closely meet break-even targets.

e **Management of funding to partners has improved but short term funding settlements are still affecting the delivery of objectives**. Within the existing annuality restrictions, to help improve value for money, the Department could provide longer term stability of funding and increase lead times when delegating budgets to delivery partners.

f **The Department has increased the number of professionally qualified finance staff it employs and is rolling out programmes to enhance and build financial skills and capacity more widely, but it will be some time before the benefits are realised**. The Department should improve succession planning and recruitment to bridge the skills gap. The Department should evaluate the benefits derived from its finance professionalism programmes and use the results of this assessment to accurately match its financial management capacity levels to its specific business needs.

PART ONE

Managing the Home Office

Introduction and organisation

1.1 In May 2007, with a newly restated purpose of "working together to protect the public", the Home Office was re-shaped, taking on responsibility for leading the government-wide strategy to counter terrorism in the UK, alongside its existing responsibilities, including policing and crime reduction in England and Wales, and UK-wide responsibility for border and immigration and identity management. At the same time, responsibility for prisons, probation, criminal law and sentencing moved to the new Ministry of Justice. The issues the Department tackles are of fundamental concern to the public, giving rise to one of the most challenging remits in central government. Consequently, the Department often operates under an intense spotlight of public and Parliamentary scrutiny.

1.2 **Figure 1 overleaf** summarises the way in which the Department is organised to deliver, including the gross funding flows and accountability arrangements. As with many government departments, the strategic centre of the Home Office is chiefly responsible for policy making and programme management. Frontline services are delivered through the Department's Executive Agencies: the UK Identity and Passport Service; the Criminal Records Bureau; and the UK Border Agency, as well as a variety of arms length delivery partners. These include Executive Non-Departmental Public Bodies, such as the Serious Organised Crime Agency and the National Policing Improvement Agency, police forces in England and Wales and a variety of other local partnerships.

1.3 For 2008-09 the Home Office has a gross budget of £11.8 billion and expects to receive £1.4 billion income. Of this, 71 per cent will be paid out in grants to partner organisations, principally Police Authorities, which all contribute to delivering against the related Departmental objectives. The remaining 29 per cent will be retained and spent by the Department and its Executive Agencies.

The objectives of the Home Office

1.4 The Department's public service aims are captured by its Public Service Agreements and Departmental Strategic Objectives.

Public Service Agreements

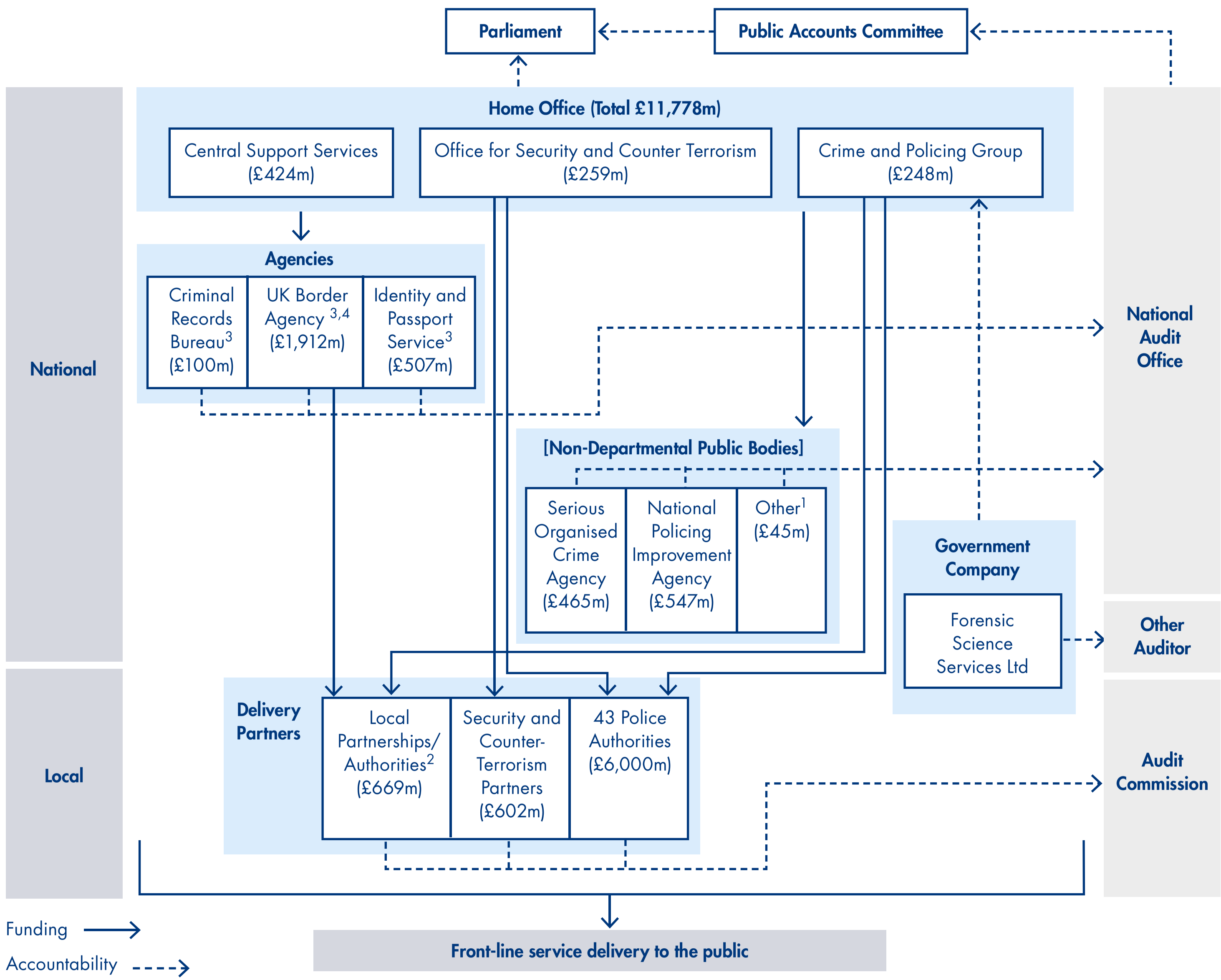
- **Reduce the risk to the UK and its interests overseas from international terrorism.**
- **Reduce the harm caused by alcohol and drugs.**
- **Make communities safer.**
- **Ensure controlled, fair migration that protects the public and contributes to economic growth.**
- **Deliver a more effective, transparent and responsive Criminal Justice System for victims and the public (led jointly with the Attorney General and the Secretary of State for Justice).**

Departmental Strategic Objectives

- **Help people feel secure in their homes and local communities.**
- **Protect the public from terrorism.**
- **Cut crime, especially violent crime, and crime related to drugs and alcohol.**
- **Lead visible, responsive, and accountable policing.**
- **Secure our borders, and control migration for the benefit of our country.**
- **Support the efficient and effective delivery of justice.**
- **Safeguard people's identity and the privileges of citizenship**.

1.5 Full details of each Departmental Strategic Objective and how these link to the Department's Public Service Agreements are listed at Appendix 1.

1 Gross funding voted by Parliament for 2008-09 and the financial accountability framework for the Home Office and its delivery partners



Source: National Audit Office

NOTES

1 Other Non-Departmental Public Bodies include the Office of the Immigration Service Commissioner, the Independent Safeguarding Authority, the Security Industry Authority and the Independent Police Complaints Commission.

2 Funding received by Local Partnerships/Authorities includes Crime Reduction and Drugs Grants, grants for border and immigration activity and Area Based Grants.

3 The gross budgets for the Criminal Records Bureau, UK Border Agency and Identity and Passport Service are part funded by income raised and retained totalling £1,153 million.

4 Until 31 March 2009 the UK Border Agency operated with shadow Agency status.

Funding by objective

1.6 Under the Comprehensive Spending Review 2007, the Department's budget settlement allowed for increases in budget to cover inflation and to fund increased counter terrorism activity, but required all other initiatives to be managed within existing funding. We have analysed the changes in revenue and capital budgets over the period 2006-07 to 2010-11 and our analysis is set out at **Figure 2 overleaf**.

1.7 Figure 2 illustrates how the Department has prioritised visible policing, border security and protection from terrorism by focussing revenue budgets in these three areas. The increase in central services budgets for 2008-09 to 2010-11 reflects contingency budgets held centrally and not yet allocated to delivery areas. The Department has a number of major capital projects underway, such as the eBorders programme, identity cards and the Intercept Modernisation Programme, and the trends in capital spending reflect the projected timetables for the delivery of the Department's capital programmes. In its Departmental Report 2008, the Home Office reported that £100m of capital budget remained unallocated.

Corporate governance arrangements

1.8 The Permanent Secretary, Sir David Normington, is the Home Office's Accounting Officer and is accountable to Ministers for the Department's performance, organisation and delivery, and to Parliament for the efficiency and effectiveness of the Department's expenditure. The Home Office Board, chaired by the Permanent Secretary, comprises the heads of the main delivery groups, major Executive Agencies and corporate functions, as well as two Non-Executive Directors. It is the main official-level decision-making body for the Home Office for six core functions: strategy; performance review and management; investment and resource allocation; improving capability; managing risk; and communications and managing reputation. There are also six formal Standing Committees of the Home Office that support the Board in these functions: Group Investment Board; Group Information Systems and Technology Board; Strategic Policy Network; Audit Committee; the Value for Money Board; and the Health and Safety Committee.

Recent history of financial management reform in the Department

1.9 In 2005 and 2006, the Department experienced high profile failures which exposed weaknesses in the systems of management, such as the breakdown in the system for managing foreign national prisoners; the publication of the 2004-05 Departmental Resource Accounts, which were disclaimed by the Comptroller and Auditor General; and a critical Capability Review[1]. In their report[2] in July 2006, the Public Accounts Committee identified weaknesses in leadership, communication, systems and processes which contributed to the failures. We have set out the Department's response to the Public Accounts Committee recommendations in respect of the Department's failure to produce proper accounts at Appendix 2. The Department has made good progress in addressing all the Committee's recommendations.

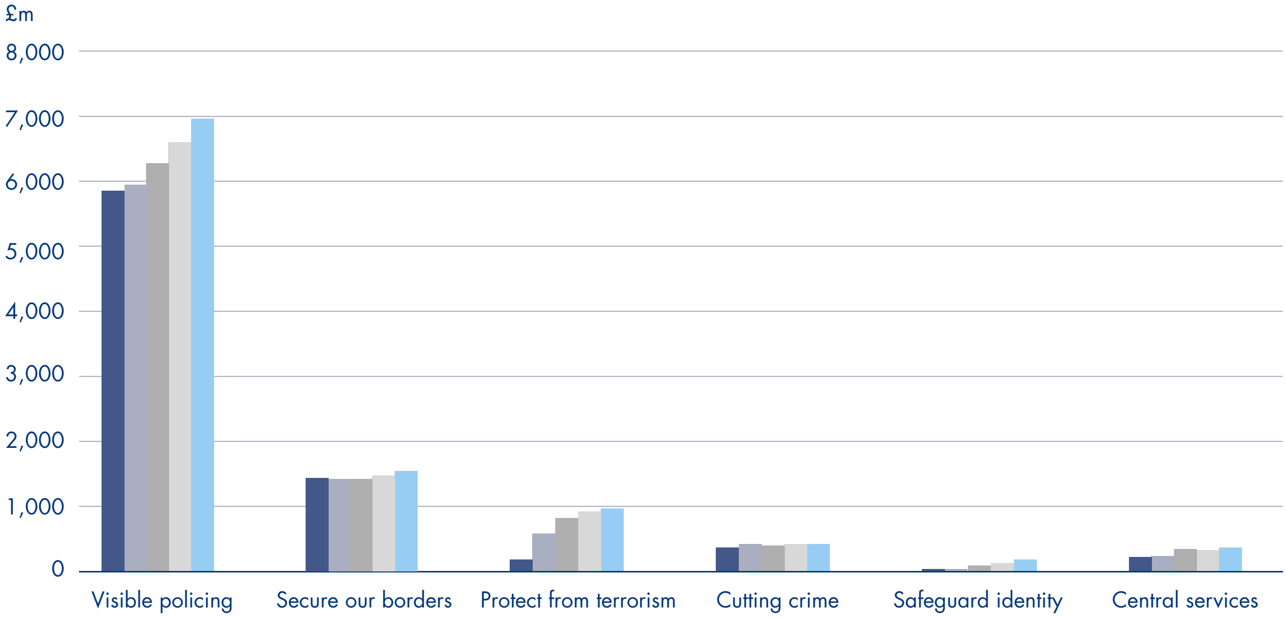
1.10 In 2006, the then Home Secretary and the present Permanent Secretary, both of whom were recently appointed at the time, launched the Department's Reform Action Plan. The plan set out a fundamental reform programme, designed to transform the culture, skills, systems, processes and data of the Department. In support of the priorities of the Reform Action Plan, the Department developed a Finance Improvement Strategy, encompassing targeted improvements to financial management, with an initial focus on improvements to the accounts production process and financial reporting obligations. A timeline of events mapping the Department's progress is set out at **Figure 3 on page 13**.

1.11 In the summer of 2008, the Department initiated a self-assessment using the CIPFA Financial Management Model[3], which was independently moderated by IPF Ltd[4], to identify the scope for further improvements in financial management. Overall the review found that "the Home Office has made huge strides within the past four years in improving the strength of financial management from what was a patently low base. Indeed we would be of the view that the Home Office is extremely well placed in meeting the Treasury and Head of the Accountancy Profession's aspirations in respect of financial management standards." The Department intends to use the findings of that review, alongside the findings of this review, as a baseline of financial management capacity against which to plan future action for improvement.

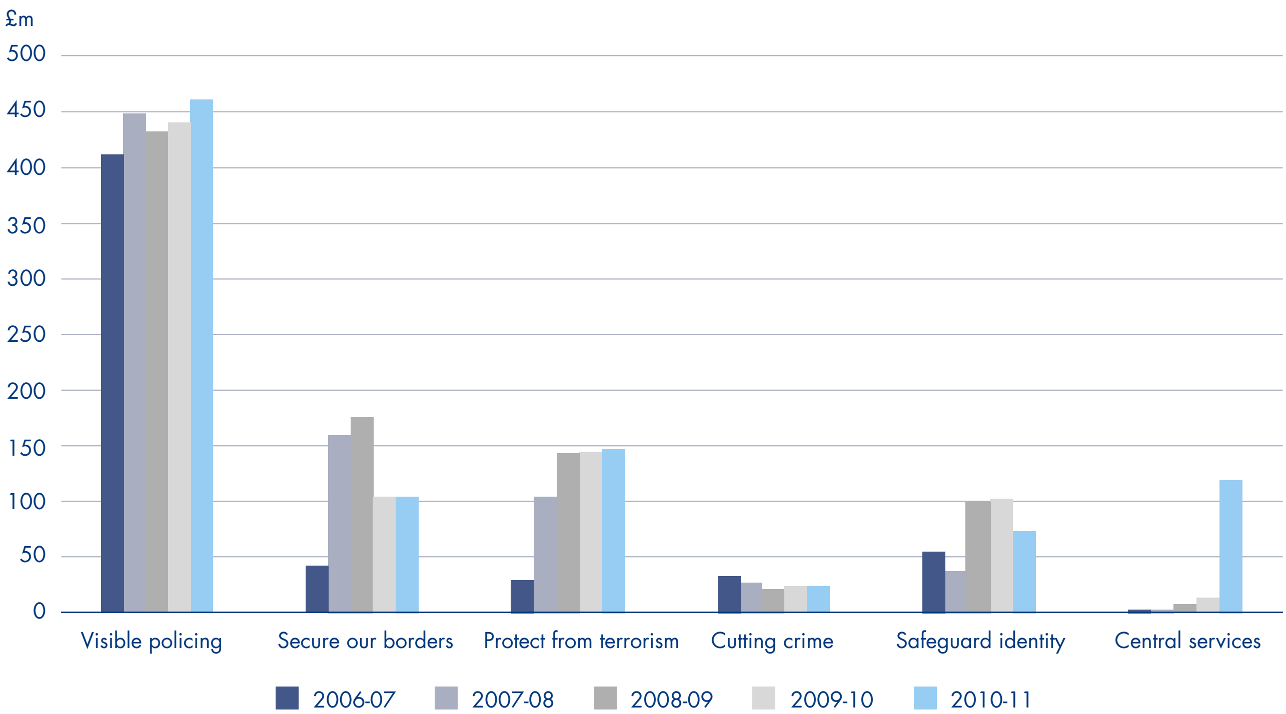
1 Civil Service Capability Review of the Home Office, July 2006: http://www.civilservice.gov.uk/documents/capability/pdf/Capability_Review_HO.pdf
2 Public Accounts Committee Report: Home Office Resource Accounts 2004-05 and follow-up on Returning failed asylum applicants (HC1079): http://www.publications.parliament.uk/pa/cm200506/cmselect/cmpubacc/1079/1079.pdf
3 http://www.cipfa.org.uk/panels/financial_management/fm_model.cfm
4 IPF Ltd is the management support services company of the Chartered Institute of Public Finance and Accountancy (CIPFA).

2 The Department has prioritised visible policing, border security and protection from terrorism within future revenue and capital budgets

Revenue spending by objective 2006-07 to 2010-11 adjusted to 2008-09 prices



Capital spending by objective 2006-07 to 2010-11 adjusted to 2008-09 prices



Source: NAO analysis of Home Office Departmental Report 2008

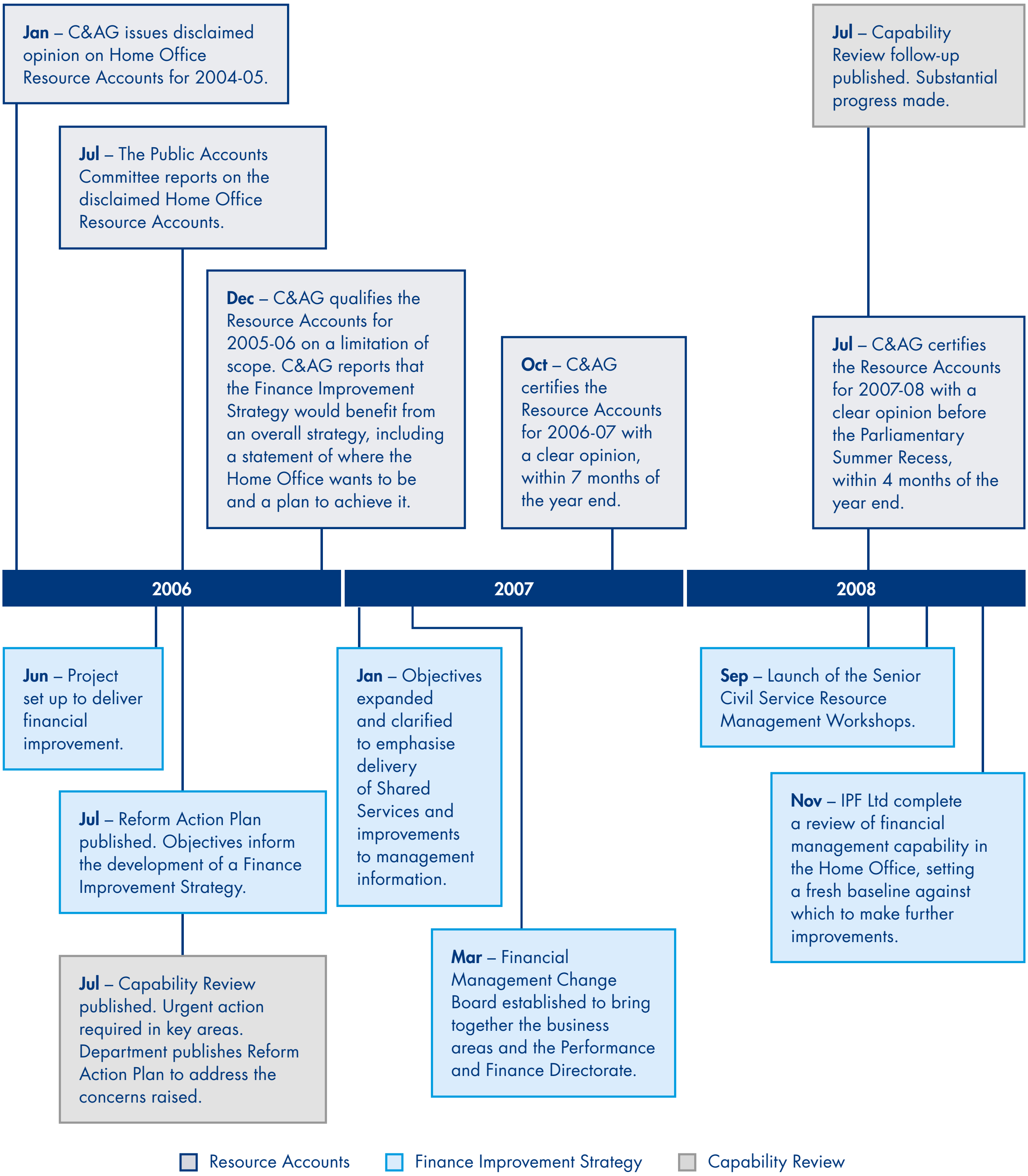
NOTES

1 Departmental Expenditure Limit by objective adjusted to consistent price basis using the GDP deflator.

2 Figures for 2006-07 to 2007-08 are based on outturn. Figures for 2008-09 onwards are budgets.

3 Figures for central services include the Departmental Unallocated Provision from 2008-09 onwards.

3 Key milestones in financial improvement



Source: National Audit Office

In seeking to deliver world class financial management the Treasury aims to:

- promote improvements in the effectiveness of financial management and finance professionalism in Government;
- implement reporting frameworks that build on best practice and deliver efficient and effective integrated reporting mechanisms for Government financial data; and
- promote excellent accountability in the use of public funds through setting standards of governance, risk management and internal control.

Source: http://www.hm-treasury.gov.uk/psr_financial_management_index.htm

1.12 We found that the Department has made significant progress under its Reform Action Plan and Finance Improvement Strategy. There is, however, more for the Department to do if it is to achieve optimal standards of financial management in line with the Treasury's financial management aspirations for central government, embed present improvements throughout the Department, and maintain momentum so that the Department continues to build on the successes to date.

PART TWO

Financial performance in the Home Office

Introduction

2.1 In this Part, we consider the financial performance of the Home Office. The financial performance of the Department impacts taxpayers through its use of resources to deliver its objective of protecting the public, and through the services it provides to the public and for which it charges a fee. The Department's financial performance also impacts on its partners and suppliers.

Use of resources to deliver objectives

2.2 The Department must manage its finances according to the authority and limits delegated to it by Parliament. In addition, the Treasury imposes budgetary control on behalf of Parliament within the approved levels set by Parliament.

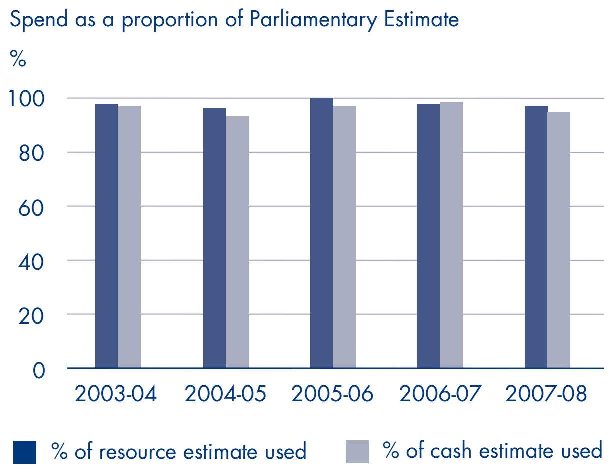
2.3 The Department reported in its Autumn Performance Report 2008[5] that it had met all of its Public Service Agreement targets under the Comprehensive Spending Review 2004 and that it had exceeded its efficiency targets. At the same time, the Department kept its spending within its approved budgets.

2.4 The National Audit Office is responsible for validating the data systems underpinning the Department's reporting of its performance against its Public Service Agreements. In 2007, we reported on the results of our work to validate the data systems used to measure performance under the Comprehensive Spending Review 2004[6]. We found that three systems were fit for purpose while seven systems were broadly appropriate but needed strengthening. Whilst we have not reviewed the Department's Comprehensive Spending Review 2004 efficiency savings outturn, in our review in February 2007 we considered £1,377 million of the Department's reported savings under this target. We assessed 32 per cent (£445 million) as fairly representing the efficiencies made and 68 per cent (£932 million) as representing efficiencies but raising some measurement issues. The National Audit Office has not yet reviewed the data systems underpinning the Department's more recent Public Service Agreement targets, nor the value for money savings under the Comprehensive Spending Review 2007. We will review each of these in due course.

Management of financial resources

2.5 In the last five years, the Department has used between 96 and 100 per cent of the resource, and 93 and 100 per cent of the cash voted annually to it by Parliament, thus effectively controlling resource consumption within the limits set **(Figure 4)**. In 2007-08, the Department used 97 per cent of the available resource voted by Parliament, a variance of £318 million. The variance principally arose in areas of new or expanded activity including the Office

4 The Department has managed within the resources provided by Parliament for each of the last 5 years



Source: National Audit Office analysis of Home Office Resource Accounts

5 Home Office Autumn Performance Report 2008: http://www.homeoffice.gsi.gov.uk/hot_item_2.asp?item_id=5226&T=Autumn%20Performance%20Report
6 Fourth Validation Compendium Report; HC 22 Session 2007-2008.

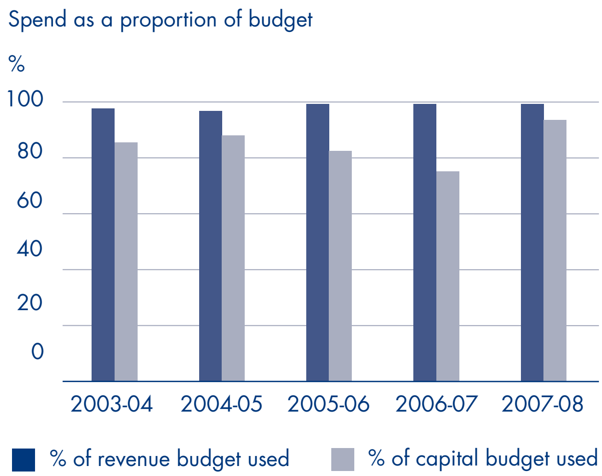
for Security and Counter Terrorism (£74 million), a newly created Directorate; the National Policing Improvement Agency (£148 million), a new Non-Departmental Public Body; and the Identity and Passport Service (£23 million), because of slippage in the roll-out of the Interview Office Network. This pattern illustrates the challenge faced by the Department in delivering new projects and activities to expected timetables, particularly when delivery bodies are newly established.

2.6 In practice, the Department manages its resources against the budgetary control totals set by the Treasury **(Figure 5)** and, if successful in doing so, will manage its resources within the limits voted by Parliament. In recent years, the Department has been effective at managing revenue expenditure closely to budget (1.1 per cent or less underspent in the last three years). Over the same period, the Department has consistently underspent against its capital budget by larger proportions, up to 25 per cent, although it reduced the underspend on capital to within 7 per cent (£48 million) of the capital budget for 2007-08.

2.7 Government Departments may, with the permission of the Treasury, use unspent funds carried forward into the next year through the system of End Year Flexibility[7]. As a result of the underspends detailed above, the Department's cumulative End Year Flexibility stock (capital and resource) has increased from £85 million at April 2003 to £982 million at April 2008 and includes accumulated unspent capital of £725 million, equivalent to 95 per cent of the Department's capital budget for 2007-08, the preceding year **(Figure 6)**. As part of the Comprehensive Spending Review settlement for 2008-09 to 2010-11, however, the Treasury capped the Department's access to the End Year Flexibility capital stock to a maximum of £292 million. The Home Office have plans in place to utilise this stock by 2010-11 and are budgeting on their assumption that no further access to underspends arising in 2008-09 and beyond will be permitted.

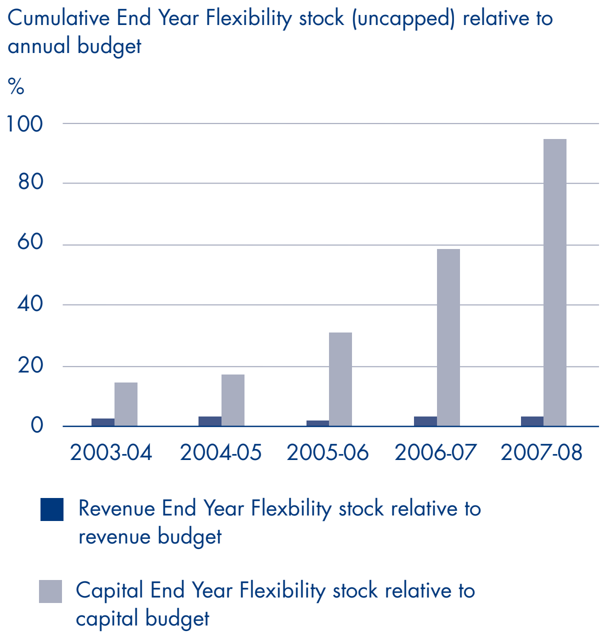
2.8 The Department has a significant capital programme planned and in-progress. This includes the National Identity Scheme, the Impact project to develop the Police National Database, the Intercept Modernisation Programme and projects to improve border security.

5 The Department has repeatedly underspent against its capital budget



Source: National Audit Office analysis of Public Expenditure White Papers 2004-2008

6 The cumulative capital underspend had reached 95 per cent of the capital budget by 2007-08



Source: NAO analysis of Public Expenditure Outturn White Papers 2004-2008

7 End Year Flexibility is a mechanism to allow unspent provision in one year to be carried forward to the next to encourage good financial management.

2.9 Taken together, the year on year capital underspends and the build up of End Year Flexibility stock indicate that the Department's capital budgets and delivery timetables have been optimistic. The Department's cumulative capital underspend is consistent with a marked upward trend in the aggregate underspend in respect of capital expenditure across central government between 2002-03 and 2006-07.

Funding and impact on performance

2.10 The Department's financial management is set within a delivery model which includes policy formulation and direct delivery of services by the Department and its Agencies, but also devolves responsibility to delivery partners, including 43 police forces, to contribute to the Department's objectives. Understanding the links between the costs and relative benefits of programmes and activities and how these relate to the Department's objectives is integral to making informed decisions and delivering the best public services given the funding available. However, the Department has less influence over the financial management of its delivery partners because of the varied local accountability frameworks that apply to them.

2.11 In 2008-09 the Home Office will pay out over £8 billion of its budget, often at fixed levels, in grants to delivery-partner organisations, devolving to varying degrees the responsibility for how or on what the money is spent. For example, the Department will pay out £5.4 billion (46 per cent of its budget) to local police authorities, calculated under the formula used to allocate the main police grant. Police forces are constitutionally independent from the Home Office, make decisions based on local priorities and are accountable to, although operationally independent from, local Police Authorities.

2.12 The importance of preserving the operational independence of local police forces and Police Authorities means that the tools available to the Home Office to signpost priorities for police activity and to incentivise delivery of national objectives are limited, and the statutory powers of the Home Secretary are restricted to intervention to address underperformance. Equally, the level at which the Home Office understands the cost of delivering police objectives and outcomes and the impact of resource allocation decisions is limited.

The statutory powers of the Home Secretary include:

- **requiring a Police Authority to call upon a Chief Constable (or Metropolitan Police Commissioner or Deputy) to retire or resign;**
- **requiring a Police Authority to suspend a Chief Constable (or Metropolitan Police Commissioner or Deputy) pending removal if it is considered necessary for the maintenance of public confidence in the force in question;**
- **mandating collaboration or merger; and**
- **where a Police force or Authority is failing to discharge its functions, directing the force or the Authority to take measures to remedy that failure, including requiring the submission of an action plan to the Home Secretary.**

2.13 The Home Office uses other mechanisms to support the police and provide accountability to Parliament for the delivery of its Public Service Agreements and Departmental Strategic Objectives, which include to "make communities safer". In 2007, the Department set up the National Policing Improvement Agency with the objective of building capability in police forces to deliver policing more effectively and so achieve more of what the public wants from the service. The National Policing Improvement Agency is funded by the Department and had a budget of £547 million in 2008-09. Its role, as set out by the Department, covers productivity as well as performance and capability and includes the procurement and oversight of major national police IT infrastructure, such as the Airwave system for police radios, and the management of national databases, such as the Police National Computer.

2.14 The Department also influences police activity at a national level through its role on the National Policing Board. The Board is chaired by the Home Secretary and includes representatives from: the Association of Chief Police Officers, which leads and coordinates the direction and development of the police service; the Association of Police Authorities, which represents Police Authorities nationally; the National Policing Improvement Agency; and HM Chief Inspector of Constabulary.

2.15 Separately from the main police grant, the Department pays out a large number of discretionary grants. For example, in 2008-09 £198 million is available for activities linked to crime reduction and drugs, to bodies including local partnerships. The grant conditions imposed allow the Department to prioritise certain activities such as reducing violent crime. Grants to local partnerships are often paid through regional government offices which are designed to devolve authority and reduce administrative burden. However, one consequence is that there is a risk that accountability and visibility to the Department of the local activity may again be limited.

2.16 The Department will need to continue to develop its understanding of the links between resources deployed through its partners and the outcomes achieved. Greater understanding of the interaction between resource and outcomes will allow it to make good decisions during future funding negotiations and maximise the value achieved from the available resources.

Monitoring the performance of the police

2.17 The Home Office is reshaping the ways in which the performance of police forces is monitored. Between 2004-05 and 2007-08, performance has been measured through the Police Performance Assessment Framework, with results for all police forces published annually. Within the framework were measures of the proportion of expenditure on front line policing and the achievement of efficiency savings. Separate assessments of the use of resources by Police Authorities have been made by the Audit Commission and published[8]. Our analysis of the Audit Commission's assessments for 2007-08 found that all police forces were performing at least adequately in their use of resources, with 67 per cent performing well but only 28 per cent performing strongly, indicating that there is still scope for improvement.

2.18 In July 2008, the Department published the Policing Green Paper: *From the neighbourhood to the national: policing our communities together*[9].The Green Paper, which is subject to consultation, proposes to reduce the number of top down targets set by the Department and replaces them with a single target to improve public confidence, signalling a move to more local accountability for policing. This regime would be supported by expanded roles for HM Inspectorate of Constabulary and the National Policing Improvement Agency. HM Inspectorate of Constabulary will be responsible for exposing underperformance in local police forces and ensuring that it is tackled, encompassing the policing and professional aspects of performance. The National Policing Improvement Agency will be responsible for providing or commissioning support for the police forces to enable them to respond to the findings of the Inspectorate.

2.19 In March 2009, the Home Office announced a single national target for police to increase public confidence by 15 percentage points so crime and anti-social behaviour issues that matter to people and police forces locally are being addressed. This target, together with other such initiatives, is likely to change the role of the Department with a shift from a centralised system of performance management. The proposals will allow the Department to agree the inspection programme and criteria to which police forces are subjected. The Department will also continue to sponsor the National Policing Improvement Agency, which remains accountable to the Home Secretary. It is too early to comment on whether the proposals included in the Policing Green Paper will assist the Department in its role of delivering on its Public Service Agreements using the funding it receives.

2.20 The Home Office is seeking to improve its tools for monitoring devolved funding and understanding the links between cost and performance and has established that, at a national level, increases in funding for Departmental priorities, such as reducing crime, have been accompanied by improved performance. However, in July 2007, the Home Affairs Select Committee produced a report[10] on the use of resources by the police. The Committee concluded that the significant reductions achieved in crime levels do not seem to have been directly related to the significant increase in police resources. While the Department has a relatively good understanding of the links between resource inputs and associated outputs in relation to some services it provides, including immigration and passports, for more devolved activities, like many other Departments, the Home Office does not yet understand how local variations in resourcing impact on outcomes, and has commissioned work on "Matching Resource to Priorities" with the aim of improving the basis on which decisions are made for funding allocations.

8 http://police.homeoffice.gov.uk/performance-and-measurement/performance-assessment/assessments-2007-2008.
9 From the neighbourhood to the national: policing our communities together (Cm 7448).
10 Home Affairs Select Committee Fourth Report of the Session 2006-07: Police Funding.

Relations with partners

2.21 The actions of the Department, in the form of the mechanisms for funding and the support it provides, impact on its partners. In turn, this affects the ability of its partners to contribute to the Department's objectives.

Funding settlements for delivery partners

2.22 The management of grant payments to local delivery partners impacts on the effectiveness of their contribution to the delivery of the Department's objectives. Short term funding settlements have previously affected the ability of the Department and its partners to deliver its objectives. The Comptroller and Auditor General noted in his report on reducing the risk of violent crime[11] that single year funding agreements were preventing local Crime and Disorder Reduction Partnerships from planning strategically. This resulted in resources being used on measures that address the consequences of violent crime, rather than the root causes.

Establishment of new Home Office bodies

2.23 The Home Office provides funding to Non-Departmental Public Bodies and other delivery partners who contribute to the overall delivery of the Department's objectives.

2.24 Since 2005, the Department has established three new Non-Departmental Public Bodies: the Serious Organised Crime Agency in 2006; the National Policing Improvement Agency in 2007; and the Independent Safeguarding Authority in 2008. Getting new organisations up and running effectively is challenging. While the Department has and actively continues to provide valued support, it has taken some time for these new bodies to establish robust financial systems, processes and controls. We found instances where local financial management capacity was insufficient to deal with the initial challenges these bodies faced. For example, in September 2008, the National Policing Improvement Agency remained heavily reliant on bought-in consultants and temporary staff to cover 40 per cent of finance posts[12]. The Agency's management has a plan in place to improve in-house capacity.

Relations with customers

2.25 As well as supporting the 43 police forces and its other delivery partners, the Department provides a number of services to the public directly, through its Executive Agencies.

Fees and charges for services

2.26 The Department raises income from fees charged for the provision of certain services to citizens of the UK and foreign nationals. The three main sources of income in 2007-08 were derived from issuing passports (£329 million) and providing criminal record disclosures (£88 million) to UK citizens, and through issuing work permits and processing applications for leave to remain for foreign nationals (£233 million).

2.27 Fees generated from services provided to UK citizens are charged with the objective of recovering the cost of providing the service, to break even. For some visa, immigration and nationality services it provides to foreign nationals, in cases where it can demonstrate that the benefits associated with a successful application warrant the additional charge, the fee may be set to generate a surplus. It also uses these additional monies to cross-subsidise some other fees which are set below cost, often to reflect broader government objectives (for example the Prime Ministers' initiative to attract foreign students to come to the UK to study). For all fees charged, the Treasury approves the level of the fee, which is then formally authorised by Parliament through a Statutory Instrument. The Department may not vary the fee charged, except through approval of a new Statutory Instrument. The Department's forecasts and financial models must be robust so that realistic fees are set and the break even (or surplus) objective is achieved.

2.28 Income received from these services can be volatile, as it relies on external demand, which may be affected by the uncertain economic climate. The Home Office, therefore, needs to have effective demand models to project future activity levels. In the last five years, the Department has generated a cumulative net surplus from all the services for which it charges a fee of £74 million,

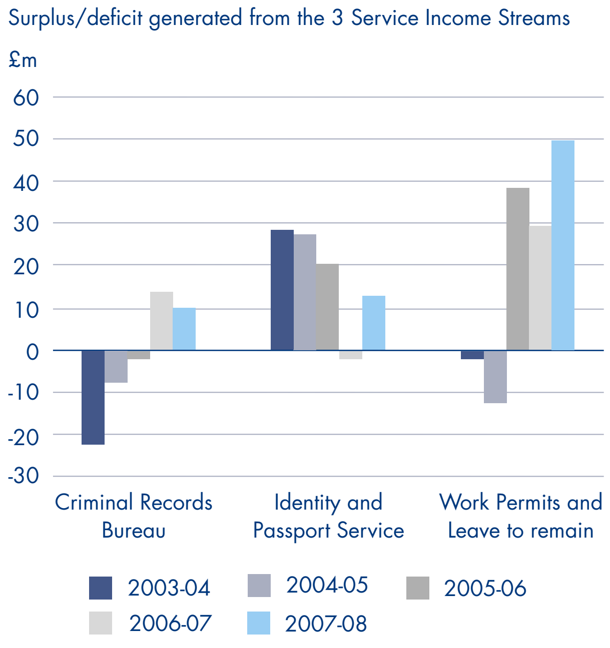
11 Report by the Comptroller and Auditor General, *Reducing the risk of violent crime* (HC 241, Session 2007-08).
12 NAO analysis of Home Office return to the Treasury, September 2008.

including cumulative net surpluses of £87 million from passport fees, £102 million from issuing work permits and from processing applications for leave to remain. These have been offset by a net cumulative loss of £9 million on criminal record disclosures and £115 million for immigration detention cost recoveries. **Figure 7** illustrates the year-on-year surpluses or deficits made for the three principal income streams. Accurate demand modelling and forecasting of some costs remains a challenge, since services which had an objective to break even have generated a significant cumulative net surplus.

Payment of creditors

2.29 For 2007-08 the Department reported that it paid 85 per cent of creditors within the target, at that time, of 30 days. Subsequently in 2008-09, performance for the year fell to 80 per cent, although it was as low as 65 per cent in July, rising back up to 94 per cent for February 2009. On 8 October 2008, the Prime Minister announced that Government departments should pay small and medium sized businesses within 10 days. In response, the Treasury has reduced the target for payment of all trade suppliers to 10 days, from 30 days. In complying with this requirement, the Department will need to sustain and build on recent performance improvements.

7 The Department has generated a net surplus from its main service income streams for each of the last 5 years



Source: Home Office Resource Accounts

PART THREE

Developing financial management in the Home Office

Introduction

3.1 Good financial management helps an organisation manage its budgets; manage the financial risks to the organisation; allocate resources and make decisions supported by an understanding of the relationship between costs and performance; and deliver its services cost effectively. Good financial management is, therefore, key in supporting the Department in meeting its responsibilities for protecting the public, while also delivering value for money.

3.2 Financial management by the Department is complicated by the need to rely on a range of organisations, often far removed from it through complex chains of accountability. The degree of direct influence which the Department can exercise once it has allocated funds is variable. The principles of sound financial management still apply, however, in that the Department has to forecast and budget for future expenditure requirements, monitor how funds are used, and be confident that appropriate standards of financial stewardship are followed throughout the sector for which it has responsibility. This Part of the report assesses the financial management capacity of the Department against five criteria: financial governance and leadership; financial planning; financial decision making; financial monitoring and forecasting; financial and operational reporting.

Financial governance and leadership

3.3 The quality of financial governance and leadership within an organisation, 'the tone from the top', is fundamental to staff taking financial management seriously. Sound financial governance also depends on well developed internal control and risk management, and staff having appropriate financial management skills and expertise.

Leadership

3.4 The need for improved financial management has been supported by strong leadership and a sustained message, reinforcing its importance at the Home Office, from the Permanent Secretary and senior staff within the Department.

The importance of good financial management is supported by a clear message from the Permanent Secretary

"I have a very simple view. My whole focus in the Home Office is to ensure that we deliver the agreed outcomes on time and on budget – with maximum efficiency and effectiveness. Those outcomes are about public protection; reducing crime and the fear of crime, controlling migration, protecting the UK against the terrorist threat, safeguarding identity and so on. I expect everyone in the Home Office to be focussed on these tasks, to be motivated to achieve them and to play their part making delivery possible.

To achieve this I need to be sure of three things in relation to financial management:

- that we are spending the right amount of resources on the right things to achieve our objectives;
- that we (and our agents) are constantly looking to get more from any given level of resource – committed not simply to spending money but to maximising the output from any spend; and
- that at any given point, we can account for what we are spending, including its appropriateness and propriety."

Source: Home Office Permanent Secretary, Sir David Normington, Government Finance Professionals Conference, November 2008

3.5 In a survey of Home Office staff with involvement in finance (see Appendix 3: Methodology), 86 per cent of staff fully or partly supported the statement that "the Board set the tone that finance matters". This finding is supported by our own assessment of the feedback coming from the Senior Managers in the Department.

3.6 In recent years, with encouragement from the Permanent Secretary and the Audit Committee, the Audit and Assurance Unit in the Home Office has increased its focus on compliance, covering the Department's core systems and processes, and has developed a comprehensive set of compliance indicators to measure improvement. The Department has done so to establish a base understanding of the extent of compliance with policies and procedures so that it can focus effort on areas where improvements are most needed. The results of the compliance audit programme showed that there was significant scope for improvement across the core processes assessed, including budget management, fixed asset and inventory management, the handling of pay and allowances and the use of procurement cards. Compliance with financial management policies and procedures, therefore, has some way to go before it can be considered to be embedded throughout the organisation. The Audit and Assurance Unit at the Department have since undertaken considerable work with policy owners to ensure that senior managers clearly understand their responsibilities in respect of compliance. This work is supported by an active and ongoing communications strategy promoting the importance of compliance. Management's focus on compliance improvement continues to flush out matters which the Department is keen to resolve.

Professionalisation of finance staff

3.7 The Department appointed a professionally qualified accountant to the position of Director General, Financial and Commercial in 2005, in advance of the 2007 deadline set by the Treasury. The role is a Board level appointment.

3.8 The Department has also increased the number of professionally qualified finance staff, particularly in senior finance roles. There are five finance directors within the Department, the overall finance director and one for each of the four principal business areas. Of the finance directors, four are professionally qualified, and the fifth is in the process of qualifying under an accelerated programme at Warwick University. Additionally, the Heads of Finance for each of the four principal business areas are professionally qualified.

3.9 Across the Department and its principal Agencies and Non-Departmental Public Bodies, 18 per cent of finance staff are professionally qualified, rising to 31 per cent of finance staff involved in decision support[13], with many more working towards financial qualification at a professional or lower level, linked to their aspirations and the demands of their role.

Recruitment and succession planning

3.10 In common with other Departments, recruiting and retaining finance professionals remains difficult, although this problem may reduce under prevailing economic conditions. Where appointments have been made, the Department makes significant use of external recruitment, as there are insufficient internal candidates progressing through the Department and an historical lack of succession planning to fill key finance posts.

3.11 The Office for Security and Counter Terrorism, a new directorate of the Home Office, was established in July 2007. In its early months, financial management in the directorate was inadequate, leading to deficiencies in the management of grants paid out by the Directorate and inaccuracies in the management accounting information. During this time several key finance posts remained vacant, up to six months after the establishment of the Directorate. The delays in recruitment were, in part, caused by the stringent security vetting procedures required for this Directorate. Financial management in the Directorate has since improved and continues to do so, although the Department has itself identified that a lack of financial competence and awareness remains a risk, and has implemented a targeted action plan to address this risk more fully during 2009.

3.12 The Department recognises the need to develop staff with both professional finance skills and the acumen to use these skills to add value to the Department in areas where a generalist may be less well equipped to do so. The Department is now reintroducing a graduate training scheme to nurture home-grown talent, but this will take upwards of five years to deliver the benefits at Grade 7-Manager level and beyond, where the recruitment difficulties are most acute. The Department plans to recruit seventeen trainees to its scheme in the first instance, but it is not yet clear if recruitment at this level is appropriate to meet the Department's needs in the longer term, or whether the benefits derived through the scheme will justify its continuation at planned or expanded levels.

13 NAO analysis of Home Office return to the Treasury, September 2008.

Training in financial management

3.13 All Departments have been challenged to develop the finance capability and capacity of their staff through the Treasury's *Professional Skills for Government Agenda*. In response, the Department has developed in-house financial management training for its Senior Civil Servants. The Department made targeted assessments of the financial management competency requirements of Senior Civil Servants and budget holders to tailor the training to the specific needs of the Department. The new training consists of 6 workshops covering: risk management; planning to succeed; resource management for delivery; data analysis for senior leaders; transforming organisational performance; and value for money. The pilot workshops were completed in October 2008, and initial feedback shows that the courses have been well received. The Department is increasing the suite to eleven in order to cover the Senior Civil Servants' Core Skills. Members of the Senior Civil Service are encouraged to take at least two workshops in a full year.

3.14 The Department also provides training for budget holders and finance practitioners. Between 2006-07 and 2007-08, 378 budget holders and 222 finance practitioners have completed these training courses. Systems-based training has recently been improved with the roll-out of Shared Business Services but only limited systems-based training has previously been available to staff in lower grades despite their responsibility for handling day to day transactions through the financial systems. Expanding the training portfolio to address this training need is likely to assist the Department's ability to embed sound financial management, along with the recognition of its importance, at all levels within the business. The Department has recently allocated budget for further training and plans to roll out financial management training for its middle-managers and develop training for more junior staff in 2009-10. The Department is looking to provide a full suite of training courses available to all staff with finance responsibilities by 2010-11.

Accountability for finance

3.15 The Department has set out a Departmental Finance Framework which sets out the principles and responsibilities underpinning financial management.

Departmental Finance Framework

1 Purpose

To ensure propriety, financial discipline, and financial management of the Department's resources for the benefit of Ministers and the public.

2 Principles

- Financial management is performed by all staff who will follow financial processes rigorously and seek necessary approvals in a disciplined way.
- All finance staff in the Department will form part of a single community and will behave corporately, building trust across boundaries.
- All staff will follow financial processes rigorously.
- Delegations will be earned. Spending will be freely managed within authorities delegated to the delivery group and agency Directors General/Chief Executives.
- There will be transparent sharing of information and regular reporting of plans and outturns, performance and risks with clear explanations.
- We will work together to enable the Home Office to prioritise spending and produce financial allocations, and pursue value for money in the delivery of all business activity.
- Staff will continually raise their professional skills and develop professionally.

Source: Home Office (http://www.homeoffice.gov.uk/documents/ho-departmental-frame?view=Binary)

3.16 The Home Office Board is supported by a programme of Operating Reviews with each of the principal business areas of the Department. Performance and finance information are considered together as part of these reviews. The frequency of the reviews is determined according to the significance and risk associated with each business area.

"Operating Reviews try to do the whole job: they look at performance, expenditure, other resources and risk together in a single scorecard. They are part of how we set about improving the way in which senior managers achieve performance with resources. I am trying to embed a culture of performance review that can then be driven forward throughout the business."

Sir David Normington, Permanent Secretary, Home Office, 2008

3.17 The Operating Reviews are chaired by the Permanent Secretary, who is supported at each Review by the Director General, Financial and Commercial. The Reviews are a fundamental part of the Departmental control framework, and are designed to meet the three objectives of:

- providing the Permanent Secretary with assurance over how the organisation is run;
- holding directorates to account for performance; and
- assisting in problem solving within the organisation.

3.18 The agenda for each Operating Review is set by the Permanent Secretary in consultation with the Directorate/ Agency and focuses on key operational and management issues. Reporting packs are provided in advance by the Directorates and the Permanent Secretary uses these in holding managers to account. The reporting packs are tailored according to the nature and size of each Directorate/Agency. We found that the quality of reporting packs was generally good although the quality varied, reflecting the financial maturity of different areas within the Department.

Operating Review considers income shortfall in the UK Border Agency

In September 2008, the UK Border Agency Operating Review considered a forecast shortfall in income arising from changes in the external environment and a reduction in demand for visas. The Operating Review considered the reliability of the forecast information and the action in hand by UK Border Agency to manage the shortfall.

Risk management

3.19 In July 2007, the Home Office Board agreed a formal risk management policy. Risk management capability is supported by regular in-house risk management training workshops. The Department has developed a risk management maturity-assessment framework that has been rolled out across the Department **(Figure 8)**. We consider this framework to be in line with good practice. One year on, the Home Office has made good progress towards meeting its target of achieving maturity level 3, as measured through a quarterly self-assessment exercise, which is quality assured by the Audit and Assurance Unit.

Financial planning

3.20 The Department manages very large sums of money, including major projects and programmes delivered centrally and grants paid out to delivery partners. The Department must, therefore, plan its future expenditure accurately, whilst maintaining some flexibility to respond to changing priorities.

The planning horizon

3.21 The Department is improving its financial planning processes and starting to look beyond the current settlement period. The planning horizon of the Department is driven by the the Treasury funding framework under which it operates. Funding, linked to Public Service Agreements and Departmental Strategic Objectives (Appendix 1), is agreed for three year periods. For the Comprehensive Spending Review 2007, the Department took an early settlement in March 2006, which gave the Department greater financial stability as it allowed more time to plan the allocation of resources.

8 The Home Office Board has targeted risk management maturity level 3 within its Risk Management Framework

Risk Management Maturity Level	
Level 1 – Awareness	Staff, managers and leaders know how to identify, assess, address, monitor and report risk in a consistent, structured manner, in line with Home Office guidance.
Level 2 – Basic Understanding	Real ownership of risk exists for actions.
Level 3 – Application	Management at all levels in the organisation have a clear level of understanding of how risk should be managed at the Home Office and they act in accordance with this.
Level 4 – Embedding	Management at all levels have visibility of the work they oversee and have the skills to interpret and challenge what they see in order to expose risk.
Level 5 – Expert	Key staff are aware of the need to manage risks with partners and have the skills and knowledge needed to manage these risks.

Source: Home Office Risk Management Framework

3.22 The Department is in the second year of its current three year funding settlement. For the first time, individual directorates, business areas, Agencies, and Non-Departmental Public Bodies of the Home Office have agreed indicative three year budget settlements internally, permitting forward planning at a devolved level. The stability provided is allowing the strategic centre in the Home Office to make improvements to the in-year business planning processes, take a more proactive approach to planning beyond the end of the current spending review period, and consider the pressures which the Department will face from 2011-12 onwards.

3.23 Outside of the Comprehensive Spending Review regime, longer term planning is required for certain major projects and initiatives, including the delivery of the National Identity Scheme, security for the 2012 Olympics and the Intercept Modernisation Programme. Investment decisions for major programmes are approved through the Group Investment Board, a sub-committee of the main Board (see paragraph 3.31). Programmes are managed by their Senior Responsible Owner. Independent assurance is provided through a range of means, including reporting of information to the main Board, Office of Government Commerce Gateway reviews, the work of the Audit and Assurance Unit, and consideration through the Group Investment Board and Operating Reviews.

Planning systems

3.24 The Department has improved its planning systems and the process for in-year resource re-allocation. The process adopted for 2009-10 provides a framework and timetable for completion of the area plans. Areas were asked to submit plans based on the funding settlement previously agreed for the three years to 2010-11. The timetable allowed for agreement of the plans and delegation letters to be issued in February 2009, in advance of the new financial year. The two Non-Departmental Public Bodies we spoke to said that earlier firm budget delegation would aid timely business planning.

3.25 The Department has improved the process for the reallocation of resource in year. In year planning focuses on a mid-year review managed by the Resources and Planning Unit. In 2008-09 the mid-year review identified revenue underspends which had been forecast and, with the approval of the Home Secretary and the Board, the Department reallocated them to cover pressures elsewhere in the business, including a shortfall in income for the UK Border Agency due to a fall in demand.

Finance for decision making

3.26 The Departmental Board needs to consider the value for money achieved by allocating resources to different activities. It also needs to have a thorough understanding of the financial implications of policies, programmes and activities.

3.27 Two key ways in which the Home Office manages decisions on future investments and resourcing commitments are:

- Ministerial approval of Departmental submissions; and
- consideration of major projects and programmes by the Group Investment Board.

We found that policy and operational decision makers are generally provided with sufficient financial analysis to inform their decisions.

3.28 The Home Office has issued internal guidance on the required content of Ministerial submissions, including the requirement to detail all financial considerations and to clear all new resource implications with the Permanent Secretary. The Permanent Secretary wrote to all Board members in February 2008 to reiterate the requirement that all Ministerial submissions which have a funding related element, need to be approved by either the Director of Performance and Finance or the Head of the Resources and Planning Unit.

3.29 The Resources and Planning Unit, is responsible for ensuring that all submissions contain the appropriate financial consideration. The Resources and Planning Unit provided us with evidence of their involvement in monitoring submissions and improving their financial content. The evidence included examples of where they consulted with the policy area early in the process, reviewed draft submissions before they were put to the Minister, and withdrew submissions for revision where they did not adequately detail the financial considerations of the proposal.

3.30 We reviewed the submissions sent to the Home Secretary during October 2008 to assess the completeness of financial analysis in Ministerial submissions. In our sample, we identified 17 submissions with financial implications. We found that all submissions with major financial considerations were adequately supported. We identified three occasions where the Resources and Planning Unit had not had sight of the proposals and the financial considerations were not adequately addressed. In each of these cases, however, we considered the financial considerations to be of low value and significance in the context of the overall proposal.

3.31 The Group Investment Board, a sub-committee of the Home Office Board chaired by the Director General, Financial and Commercial, is responsible for approving major project investment decisions (see **Figure 9** for more detail on the definition of a major project). A project will typically come before the Group Investment Board on three occasions: to present the Strategic Outline Business Case; to present the Outline Business Case in advance of commencing procurement; and to present the Full Business Case in advance of any contract award to an external party. Projects requiring approval from the Group Investment Board also report progress to the Group Investment Board's secretariat, the Programme and Project Management Support Unit, and regular reports are given to the Home Office Board.

3.32 Our report[14], in November 2007, on the cancellation of Bicester accommodation centre in June 2005 identified a number of shortcomings in the investment approvals process. It also identified a number of areas where the Department has made changes to the approvals process, and to the role of the Group Investment Board since the Bicester project began. We spoke to Senior Responsible Officers, Project Directors and Project Managers for two projects within the Home Office's portfolio of major projects requiring approval from the Group Investment Board, and reviewed associated approval documents. They told us that the Group Investment Board and its reviewers, drawn from commercial, finance and policy specialisms, as well as the secretariat, take an increasingly constructive approach and provide an appropriate level of challenge. Project managers reported that the secretariat plays an important role in helping the project team through the review process and, as the Department's Centre of Excellence, provide help and advice on programme and project management. The Home Office is working to improve its management of investment as a whole, rather than as a series of separate projects. This aim is achieved, for example, through identification of dependencies between projects and integration of the numerous sources of assurance and monitoring.

Financial monitoring and forecasting

3.33 The Department needs to have good quality financial monitoring systems to verify that its resources are being spent as intended and so that it understands its financial position at any time. It should monitor and review the costs of its key activities and assure itself that financial performance to date and forecast financial outturn for the year are in line with plans and consistent with operational performance.

Quality, accuracy and timeliness of financial information

3.34 The processes for capturing financial information on a monthly basis are managed centrally. Monitoring information reported to the Board includes expenditure against budget-to-date and forecast expenditure against the annual budget.

9 Scope of the Group Investment Board

All major projects and programmes are monitored by the Group Investment Board, a sub-Committee of the Home Office Board. A major project is one which meets one or more of the following criteria:

1 It has been classified as mission critical to delivery of public service agreement or other key delivery priorities.

2 It is high risk, as measured by the Office of Government Commerce risk potential assessment.

3 Project costs are projected to be at or above one of the following thresholds:

- i For projects focused mainly on acquisition of a major asset or assets, such as a building project, an initial procurement cost of £40 million funded from the departmental capital budget.
- ii For private finance initiative projects (on or off balance sheet), a public sector comparator of £40 million.
- iii For projects focused mainly on procurement of a stream of services (such as a contract for IT services), a projected cumulative total contract value of £40 million over the life of the contract, funded from the revenue budget. For example, projected annual contract costs of £5 million a year over 10 years would give a cumulative total value of £50 million.

4 The project is novel or contentious.

Source: Home Office

14 Report by the Comptroller and Auditor General, *The cancellation of Bicester Accommodation Centre* (HC 19, Session 2007-2008).

3.35 The Department has not issued central guidance for all business areas on how to forecast spending levels. Forecasts submitted by business areas are subject to challenge to improve the consistency and accuracy of the information presented to the Board. We reviewed the forecasts for months three to eleven of the 2007-08 financial year and compared them with the final spend for the year. **Figure 10** illustrates that from month 3 of the the 2007-08 financial year the forecasting was accurate to within three per cent for revenue expenditure, and within two per cent from month 6. However, forecasting of capital expenditure is less accurate. Capital expenditure was forecast to be more than 10 per cent higher than final outturn for the year until the final quarter (month 9). We noted in Part 2 that the Department consistently under spends against its capital budgets.

3.36 We compared the accuracy of the forecasting for the principal business areas and found significant variation. The new Office for Security and Counter Terrorism were appreciably less accurate in their forecasting in 2007-08 than the other business areas, reflecting the newness of the organisation and the rate of budget growth. We spoke to the Office for Security and Counter Terrorism Finance Team who highlighted insufficient financial capability following the setting up of the Directorate in July 2007. Financial management performance in the directorate was mixed, with some local monthly management information being produced on a cash rather than an accruals basis during 2007-08, and the newly established Office for Security and Counter Terrorism Finance Team did not have the business knowledge or capacity to rigorously challenge the monthly forecasts. Extensive recruitment during 2008-09 has now supplemented skills and capacity across the Directorate, with the aim of improving local financial management.

3.37 The production of the management accounts requires significant effort and intervention by finance specialists to enable accurate monthly information to be presented to the Board. In 2008-09, the Department has introduced a new monthly scrutiny process for finance: the Finance Performance Review. The Review brings together finance leads from across the Department to consider and arrive at a shared view of the Department's financial health. The Board Report is one product of the new Finance Performance Review process outlined above. The Director of Performance and Finance submits the Finance Report to the Home Office Board between 16 and 20 working days after the month end. The Treasury guideline for reporting is to provide the information within 10 days of the month end. As well as allowing earlier reporting, if the system data was "right first time" skilled finance staff would be free to focus on improving financial management, rather than adjusting financial information from the system.

3.38 The Accounting and Finance Unit have introduced a set of finance indicators to support improvements in explaining variances against budgeted expenditure and in forecasting. Business areas are now scored on whether their explanations of variances are sufficiently clear and detailed, and on the subsequently established accuracy of their forecasts. Business areas indicated to us that they have used the scoring of variance explanations to challenge staff locally to improve their financial monitoring.

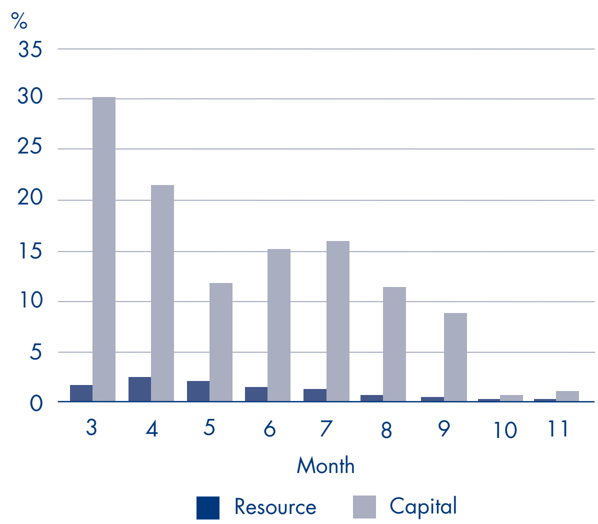
3.39 The Department initiated a finance process improvement project in December 2008. This project aims to streamline the core finance business processes. To date the Department have commissioned work to identify the processes requiring improvement and will be conducting more detailed reviews in the priority areas.

Financial and operational reporting

3.40 The Department needs to demonstrate to its stakeholders how it is spending its resources and what it is achieving. Internally, it is important that reports support management to make timely and sound decisions on the allocation of resources, and therefore should integrate financial and operational performance information.

10 The Department forecasts resource expenditure far more accurately than capital expenditure

Excess of forecast outturn over final outturn as a proportion of final outturn



Source: National Audit Office analysis of Department's management accounts 2007-08

External financial reporting

3.41 The Department signed off its Resource Accounts for 2007-08 on 15 July 2008, and laid its audited accounts before Parliament rose for its summer recess and in accordance with the Treasury's timetable for delivery of the annual financial statements. The Comptroller and Auditor General issued a clear opinion on the Accounts.

3.42 Although pre-recess accounts delivery is central government's standard target for financial reporting and is now met by the majority of departments, this was the first time that the Home Office had delivered unqualified Resource Accounts before the summer recess. This achievement represents a dramatic improvement in a short space of time for the Home Office following the disclaimed Resource Accounts in 2004-05. Continued improvement in the accounts production processes will, however, be necessary for pre-recess accounts delivery to become routine.

Costing of Strategic Objectives

3.43 The Department considers there to be a trade-off between financial accountability, which it has prioritised, versus costing its objectives which are often cross cutting and would require a different or duplicate financial reporting system. As a result, although the Department is functionally aligned to its objectives to some extent, it has not fully costed its Strategic Objectives. The Department's financial information is, however, fully aligned to its chain of accountability. The Department's systems are designed to hold staff to account for both operational delivery and resource consumption.

3.44 The Department recognises the importance of integrated finance and performance information. Reports detailing both finance and performance information are provided to the Board on a quarterly basis. These are supported by monthly stand-alone Finance Reports and Risk Reports. The monthly reports consider financial information, principally the forecast of total expenditure against budget and any action required by the Board to reallocate resources. We also considered within the section of this report on financial governance and leadership how the Permanent Secretary considers both finance and performance through regular Operating Reviews (paragraph 3.16).

3.45 Accountability for delivery against each of the Department's Public Service Agreements rests with a Senior Responsible Owner, who has a departmental budget but in many cases must also gain agreement from other departments to spending in pursuit of the Agreement. For example, crime reduction is dependent on education, employment and reducing re-offending which are all activities funded by other departments. The Home Office believes that the move to cross-departmental Public Service Agreements in the Comprehensive Spending Review 2007 has greatly assisted Senior Responsible Owners in this work, as departmental delivery (but not financial) contributions to Public Service Agreements were published in Delivery Agreements in October 2007.

Managing the Balance Sheet

3.46 The Departmental Balance Sheet is reviewed annually as part of the Department's consideration of the Resource Accounts, but Balance Sheet information is not currently considered by the Home Office Board or within the Operating Reviews. Although the Department has plans to introduce quarterly reviews, its view is that reviews are most useful as a means of improving the quality of the underlying accounting system data, rather than for active Balance Sheet management. This is likely to be the principal benefit, but we consider that the Department could do more to manage certain aspects of the Balance Sheet in-year, such as asset management and the identification of provisions and contingent liabilities.

3.47 The Home Office has considerable experience of notifying Parliament of contingent liabilities, usually on complex issues that mirror the diverse and often cutting-edge nature of its business. However, it has not always been able to produce complete and timely submissions. In recent years, the Department has been criticised by the Chairman of the Public Accounts Committee on more than one occasion for its failure: to notify the House in advance of accepting a liability; to comply fully with the Treasury guidance on the content and wording of departmental Minutes; and to plan its submissions so as to allow Parliament the full 14 sitting days notice before accepting a liability. In part, these shortcomings reflect the arm's length nature of much of the Department's business, as well as a lack of awareness amongst staff of Parliamentary reporting requirements. At the request of Ministers, the Department is working closely with the Treasury and the National Audit Office to improve the quality and timeliness of its departmental Minutes through early discussion of emerging issues and feedback on shortcomings in draft submissions. Strengthened financial management capability will help staff develop an improved understanding of the wider implications of business decisions. The Department is developing a module for the new Resource Management Workshops for Senior Civil Servants covering issues of regularity and propriety which should contribute to this improved understanding.

APPENDIX ONE

Home Office Departmental Strategic Objectives and Public Service Agreements

Departmental Strategic Objective	Measure
Helping people feel secure in their homes and local communities	Ultimately, the public will be the judge of our success in meeting this objective. We will continue to measure their confidence in our services. We will ensure, in doing so, that we recognise the diversity of communities and track the confidence of different communities in our work.
Cut crime, especially violent, drug and alcohol related crime	Two of the Public Service Agreements the Home Office leads on are related to this objective: ■ Reduce the harm caused by alcohol and drugs – which includes performance indicators such as; reducing the rate of drug-related offending; reducing the rate of alcohol-related offending; and decreasing the percentage of the public who perceive drug use or dealing, or drunk and rowdy behaviour, to be a problem in their area. ■ Make communities safer – which includes decreasing the level of the most serious crime; decreasing the level of serious acquisitive crime; improving public confidence in local agencies involved in tackling crime and anti-social behaviour; and decreasing the percentage of people perceiving anti-social behaviour as a problem.
Lead visible, responsive and accountable policing	The police contribute to many of our objectives and government Public Service Agreements. We track their performance through the Public Service Agreements and the wider Assessment of Policing and Community Safety Framework. This assesses their performance in tackling crime, public confidence and satisfaction, promoting safety, serious crime, and protection and organisational management.
Support the efficient and effective delivery of justice	We will support the Ministry of Justice, which has lead responsibility for the Justice Public Service Agreement – "deliver a more effective, transparent and responsive Criminal Justice System for victims and the public" – which includes measures to assess and track performance: ■ effectiveness and efficiency of the Criminal Justice System in bringing offences to justice; ■ public confidence in the fairness and effectiveness of the Criminal Justice System; ■ experience of the Criminal Justice System for victims and witnesses; ■ understanding and addressing race disproportionality at key stages in the Criminal Justice System; and ■ recovery of criminal assets.

Departmental Strategic Objective	Measure
Protect the public from terrorism	The Counter-Terrorism Public Service Agreement – whose aim is to "reduce the risk to the UK and its interests overseas from international terrorism" – includes measures we use to assess and track our performance against the high-level objectives set out above. While performance against the Public Service Agreement will not be publicly available for security reasons, significant aspects of police activity – particularly in working with partners to prevent violent extremism – will be reported on through the Assessment of Policing and Community Safety systems and Local Area Agreements.
Secure our borders and control migration for the benefit of our country	The Home Office leads the cross-government Public Service Agreements – "ensure controlled and fair migration that protects the public and contributes to economic growth". This is underpinned by five indicators that we will use to assess our performance: ■ deliver robust identity management systems at the UK border; ■ reduce the time to conclusion of asylum applications; ■ increase the number of removals year-on-year; ■ increase the removal of "harm" cases as a proportion of total cases removed; and ■ by the effective management of migration, reduce the vacancy rate in shortage occupations.
Safeguard people's identity and the privileges of citizenship	The performance objectives of the Identity and Passport Service are set out in its annual business plan and focus on public protection, value for money and customer service. We will continue to measure performance against key performance indicators such as achieving 95 per cent overall customer satisfaction per year.

APPENDIX TWO

The Home Office response to the Public Accounts Committee's 60th Report of 2006 on the 2004-05 Resource Accounts

The Home Office formally responded to the Public Accounts Committee on the 2004-05 Resource Accounts through a Treasury Minute[15] in November 2006. The table below summarises the Home Office response detailed in the Treasury Minute, further action taken by the Home Office subsequently, and our assessment of the implementation of the response.

PAC Conclusions	Home Office Response	NAO Verification
(i) The Department failed to reconcile its in-house cash records with its bank statements and wrote off a difference of £3 million as administration costs without further investigation. To safeguard against fraud and financial mismanagement, the Home Office needs to reconcile cash at least monthly, investigate large or unusual entries, and not write off unexplained differences.	**Summary of response detailed in the Treasury Minute:** Cash reconciliation, in respect of the Home Office's Paymaster General account for 2004-05 and 2005-06 has been completed. The Home Office enlisted Ernst and Young to reconcile its commercial bank accounts. They completed the reconciliation to March 2006. Thereafter, the Home Office Accounts Team took over responsibility for this monthly exercise. **Update:** All cash reconciliations have been completed on a monthly basis since 2006-07. Processes are now embedded to ensure that any reconciling items are identified and resolved without the need for write off action. Any write offs that have been posted since April 2007 have arisen from cash discrepancies that occurred prior to April 2007. These processes have now been handed over to the Shared Service Centre and will be managed in accordance with the Shared Business Services Programme.	**Implemented** We reviewed the monthly cash reconciliations as part of the 2006-07 and 2007-08 accounts audit and found them to have been completed satisfactorily.
(ii) The Home Office's financial records did not provide an audit trail of original documentation, which could be clearly and easily linked to entries appearing in the accounting system. The Department cannot expect to meet even elementary standards of financial control unless it maintains all the necessary supporting documentation in readily accessible form.	**Summary of response detailed in the Treasury Minute:** The Department commissioned Ernst and Young to complete a review of the 2004-05 Resource Accounts process. Ernst and Young presented their findings to senior management in April 2006. Work has been done to implement recommendations made by the National Audit Office and Ernst and Young in the areas of debtors, creditors and fixed assets. A Financial Improvement Programme was put in place to strengthen Home Office's controls and processes for a robust audit trail. Filing systems for the accounting system were reviewed and procedures revised.	**Partially Implemented (work is ongoing)** The Home Office has made significant improvements to its record keeping, leading to a clear opinion on the Resource Accounts for 2007-08. The Home Office is continuing to work on improvements to its accounting systems, particularly around the handling of accruals, fixed assets and grants management, which we have continued to highlight as areas which would benefit from further improvement.

15 Treasury Minute on the Sixtieth Report from the Committee of Public Accounts 2005-2006 (Cm 6959).

PAC Conclusions	Home Office Response	NAO Verification
	Update: The Home Office published a fully updated Finance Manual on 1 April 2007 which sets out the processes to be followed. These include measures to ensure financial records are retained and filed in an auditable manner. With the introduction of these measures, document retrieval has improved and this has been recognised by the National Audit Office with the audit samples for the accounts in 2007-08. As a result of the Finance Improvement Strategy, the Home Office laid unqualified accounts for 2007-08 before the summer recess. Further improvement to finance processes is in hand to build on that achievement. The Shared Business Services Programme has led to a review of each and every Adelphi finance process and improvements made where these can be implemented with the move to a Shared Service Centre. The upgrade of the software to version 11.5.10 and the implementation of additional functionality such as Generic Service Requests, i-Expenses and greater interaction between the functional modules means that far greater use of the Oracle software is made than before. Training courses have been updated and the feedback received during Phase 3.1 of the Programme was considerably better than on previous courses with users feeling more confident in the use of the system.	
(iii) The Home Office did not fully understand how to use the functions of its new finance system and failed to mitigate the risks inherent in its implementation. Instead of reaping the promised benefits, including greater efficiency and control, and improved timeliness and quality of information, the Home Office lost even the tenuous grip on its finances, which previous outmoded systems had provided. It needs to produce a formal action plan in response to the Ernst and Young review, giving priority to the redesign of the financial management system and the simplification of business processes, and proper training of staff to understand the finance system they are expected to use.	**Summary of response detailed in the Treasury Minute:** The Home Office agreed to strengthen financial management, as part of its Finance Improvement Strategy. It observed that at all times it maintained tight budget discipline within the spending limits set by Parliament and the Treasury. The Home Office's initial Financial Improvement Programme comprised four phases. These were: consolidate; stabilise; sustain; and building excellence. **Update:** The Department is confident the first two stages are complete, sustain continues and building excellence is the objective of a refreshed Finance Improvement Strategy. Additional guidance and training has been provided to Finance staff. Finance and procurement instructions have been reviewed and updated and a new Finance Manual was formally launched in April 2007. The combination of the Financial Improvement Project in the Accounting and Finance Unit, the Shared Business Services Programme and the move to the National Offender Management Service Shared Service Centre have all led to a transformation in many finance processes and improved recording and reporting of finance transactions. This programme of transformation will continue. Further phases of the Shared Business Services Programme have been delivered successfully in February and April 2009. The Home Office has modernised its budget management training course and its training course for new accountants in the light of new training needs. As part of the expansion of Shared Services training courses for use of the Adelphi finance system have been substantially improved and are being rolled out.	**Partially implemented (work is ongoing)** The Department has made considerable progress in improving its finance processes through the implementation of its Finance Improvement Strategy, the move to Shared Services for finance processes and the revision of the Finance Manual. We have found that some finance processes remain cumbersome. This has been recognised by the Department who, in 2008-09, have commissioned a further project on finance process improvement.

PAC Conclusions

(iv) Failure [to produce auditable financial statements for 2004-05] reflects a lack of high-level attention to accounting requirements and a poor sense of their corporate importance. Achieving a clear audit opinion will depend not only on having enough qualified accounting staff, but will also require a strong corporate emphasis on the importance of accurate financial information, both to account for public funds and to manage resources effectively. Staff now need to be trained to understand the new [accounting] system, convinced that senior management are committed to making it work, and given the confidence to use the enhanced capability it provides.

Home Office Response

Summary of response detailed in the Treasury Minute:

The Home Office's Reform Plan was launched in July 2006. It made clear that the Home Secretary, Permanent Secretary and the Home Office Board placed the highest importance on effective finance systems.

The Home Office's Financial Improvement Plan included measures to strengthen its financial control framework and processes. A project management approach was introduced to secure accurate and timely accounts. The Home Office's aim was to reduce the qualification for the 2006-07 Resource Accounts and to have unqualified accounts, laid in accordance with the early closing timetable for 2007-08.

The financial accounting function has been relocated and there has been significant restructuring within the Accounting and Finance Unit.

The number of professionally qualified staff involved in accounts production has more than doubled, more are being recruited and a training programme is in place.

The accounts production process now includes a documented management review process prior to transmission to the National Audit Office for formal audit scrutiny. As part of this process, analytical reviews are undertaken to test the robustness of the figures, to identify and test anomalies and to bring forward solutions.

An Assurance Board was set up to provide systematic oversight of the improvement programme. The Board included representatives from the National Audit Office, the Treasury and the Audit and Risk Committee. The Audit and Risk Committee and the Permanent Secretary oversaw progress.

A senior advisor on financial management was recruited from the Treasury to help drive forward the wider financial management reforms.

Update:

The improvement of finance processes that enabled the Home Office to lay unqualified 2007-08 accounts before summer recess was very clearly led by the Permanent Secretary. He personally signalled that commitment to the Senior Civil Service by referring to the improvements made and needed in speeches at conferences and similar events.

New and improved corporate procedures include a monthly Finance and Performance Review meeting of Heads of Finance of all Home Office business areas to verify financial data and draw out implications before the monthly Finance Report that is discussed by the Home Office Board; and the regular Operating Reviews that the Permanent Secretary holds with each business area to review finance and performance.

The Home Office has introduced a series of half day workshops in resource management aimed primarily at non-financial managers in the Senior Civil Service in order to convey the necessary values and behaviours to improve resource management and use of data.

The Home Office has introduced a new training course on project finance and new monthly finance reporting processes for capital projects to improve finance reporting and forecasting by projects.

The Home Office intends to make further improvements in training.

NAO Verification

Implemented

The Department's Resource Accounts for 2007-08 were laid before Parliament before the summer recess, in accordance with the early closing timetable, and with a clear audit opinion.

This was supported by:

- relocating and strengthening the Accounting and Finance Unit;
- the work of the Assurance Board;
- recruitment of a senior advisor on financial management; and
- increased scrutiny by management of accounting information prior to it being presented for audit.

As part of our audit of the Resource Accounts in 2007-08 we found that:

- staff continuity and retention challenges persist and impact on the Department's ability to reinforce and enhance improvements in the accounts production process; and
- the Department continues to experience challenges in producing high quality draft accounts directly from its accounting system. There is scope to further enhance the management review process to identify and resolve issues prior to information being presented for audit.

APPENDIX THREE

Methodology

1 The National Audit Office developed its own toolkit for reviewing financial management from published methodologies, and this was used when undertaking the review. The approach followed the principles set out in the Audit Commission Discussion Paper World Class Financial Management published in 2005 and broadly accepted by the Treasury and other commentators. The toolkit identified a series of key statements on good financial management under the five main criteria of financial governance and leadership; financial planning; financial decision making; financial monitoring and forecasting; and financial and operational reporting.

2 In making our assessment, guided by the toolkit, we used the following methods:

- semi-structured interviews with officials of the Department;
- an analysis of data published by the Treasury on Home Office's Estimates; its annual budgets and expenditure since 2003-04 and an analysis of high level indicators of Home Office's management of financial performance;
- an analysis of departmental reports, Board meeting papers and minutes, guidance and reviews by external bodies, and previous National Audit Office research; and
- a review of the findings from a Home Office commissioned staff survey.

More detail is provided below.

Semi-structured interviews

3 Interviews were conducted with several members of senior management within the Home Office, the Agencies and main Non-Departmental Public Bodies. Similar themes were addressed in all interviews, with individual questions tailored to the specific body. The interviews took place between September and December 2008.

Analysis of the Treasury Data on Home Office budgets and outturn

4 We analysed data published by the Treasury regarding the Home Office's Estimates; its budgets and expenditure. The main sources were Supply Estimates and Resource Accounts for the years 2003-04 to 2008-09 inclusive. These publications detail the extent of and reasons for in-year adjustments to the original Estimates submitted by the Department, enabled analysis of over and under-spends against each of the annual expenditure limits, and enabled analysis of the timing of the laying of audited Annual Accounts.

An analysis of Departmental papers

5 We examined a selection of Departmental papers, Board meeting papers and minutes, guidance and reviews by external bodies, and previous National Audit Office research relating to the Home Office to identify best practice, future plans, and strategies.

Staff survey

6 In May 2008, the Department commissioned IPF Ltd to undertake a review of Financial Management at the Home Office. The Review deployed the CIPFA Financial Management Model which assessed the Home Office against the fundamentals of best practice in financial management within a public sector organisation. The Review took place between July and November 2008. A total of 337 participants were asked to provide responses to the IPF Survey, 64 per cent of those surveyed responded.

Printed in the UK for the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
6142588 05/09 7333

Design and Production by
NAO Marketing & Communications Team
DP Ref: 008736
This report has been printed on Consort Royal Silk and is produced from a combination of ECF (Elemental Chlorine Free) and TCF (Totally Chlorine Free) wood pulp that is fully recyclable and sourced from carefully managed and renewed commercial forests. The range is manufactured within a mill which is registered under the BS EN ISO 9001 accreditation, which provides the highest standard of quality assurance.

Financial Management in the Home Office

A report by the Comptroller and Auditor General

The Stationery Office

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ISBN 978-0-10-295500-2