



Home Office

# Trust Statement 2017-18

(For the year ended 31 March 2018)







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(For the year ended 31 March 2018)

Presented to the House of Commons pursuant to section 2(3) of the Exchequer and Audit Departments Act 1921

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HC 1832

*This is part of a series of departmental publications which, along with the Annual Report and Accounts 2017-18, the Main Estimates 2017-18 and the document Public Expenditure: Statistical Analyses 2017, present the Government's outturn for 2017-18 and planned expenditure for 2018-19*

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# Section 1: Introduction to the Trust Statement

## Accounting Officer's Foreword to the Trust Statement

I am pleased to present the Foreword to the Home Office Trust Statement, the first such statement produced by the Department.

This Statement provides an account of how the Department has collected revenues, which by statute or convention, are due to the Consolidated Fund<sup>1</sup> where the Department undertakes the collection of such revenues acting as agent rather than principal. The legislative requirement is set out in the Exchequer and Audit Departments Act 1921.

We fully acknowledge our responsibility to administer these revenues efficiently and fairly, and to pursue the amounts due so as to minimise the loss of revenue to the Exchequer where debt cannot be collected.

Recent improvements to our debt collection processes are delivering early success, which is encouraging. We are working with the cross-government debt management teams to further tighten the process and improve collection rates.

Sir Philip Rutnam  
Accounting Officer  
14 December 2018

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<sup>1</sup> The Consolidated Fund is the central account administered by HM Treasury, which receives the proceeds of taxation and makes issues to fund Supply Services.

## Scope of the Trust Statement

An Accounts direction, issued by HM Treasury on 26 March 2018 requires the Home Office to prepare a Trust Statement for the financial year ended 31 March 2018.

The Trust Statement must report the revenue and other income collected by the Department and payable into the Consolidated Fund.

For the Home Office, this revenue comprises consular fees associated with the issuing of passports and visas as well as fines for breaches of the immigration law:

### **Immigration charges**

**Immigration Skills Charge:** The Immigration Skills Charge Regulation 2017 came into force in April 2017 and requires persons licenced by the Secretary of State to assign certificates of sponsorship to skilled workers to pay a charge (the Immigration Skills Charge) to the Secretary of State. The charge was put in place to encourage employers to recruit more talent from the UK labour market rather than relying on workers from abroad.

The amount of the charge depends on the size of the organisation, if the sponsor is a small or charitable organisation, the charge is at a lower rate. The amount of the charge also varies depending on the period of employment, with set rates of charge applying for the period of perspective employment ranging from 12 months or less and up to 60 months. A refund of all or part of the charge may be made where, for example, a worker leaves their job early, is refused a visa, or withdraws their application.

The Department, as part of its Visa process, collects the Immigration Skills Charge, which is payable by persons if they are sponsoring applications for a visa to work in the UK for 6 months or more under a Tier 2 visa for skilled workers, either as a General visa or as an Intra-company Transfer visa.

Operational costs incurred by the Department in the collection of this charge, as agreed with HM Treasury, are also attributed to and reported on the Trust Statement.

**Immigration Health Surcharge:** The Immigration Health Surcharge was introduced by the government in 2015 intended to fund healthcare from the National Health Service that migrants requiring a UK Visa will have access to. HM Treasury have directed that the revenue received for the collection of the Immigration Health Surcharge is reported in the Home Office Annual Report and Accounts and not in the Trust Statement.

### **Consular fees**

Consular fees are an element of UK passport fees relating to consular protection services provided by the Foreign and Commonwealth Office (FCO) worldwide. These fees are not retained by the Home Office and are remitted to HM Treasury as Consolidated Fund Extra Receipts.

The part of the UK passport fee for these consular services are £15.62 per adult standard passport, £4.28 per child passport and £23.18 per jumbo passport (for passports issued both in the UK and overseas).

### **Civil penalties**

There are a range of Civil Penalties levied by the Home Office that when collected are payable into the Consolidated Fund. These are principally:

- Civil and Immigration penalties levied where investigations establish that individuals have been found to be working in breach of employment restrictions.
- Civil penalties are levied where investigations establish that landlords have let a property to a person unqualified to rent in breach of the Immigration Act 2014.
- Under Section 40 of the Immigration and Asylum Act 1999, carriers are liable to charges if they carry a passenger to the UK who is not properly documented.

The Trust Statement is prepared in compliance with all relevant accounting and disclosure requirements given in Managing Public Money and other guidance issued by HM Treasury. This includes the Government Financial Reporting Manual and the principles underlying it as well as International Financial Reporting Standards as adapted or interpreted for the public sector.

The 2017-18 Home Office Annual Report and Accounts contain restated statements for 2016-17, excluding those transactions and balances which now appear on the Trust Statement.

Sir Philip Rutnam  
Accounting Officer  
14 December 2018



## Section 2: Our Performance

This Trust Statement shows that net revenues for the Consolidated Fund has increased from £106 million in 2016-17 to £160 million in 2017-18. The introduction of the new Immigration Skills Charge revenue stream of £91 million is the main reason for the change but the accounts also show that revenue from Civil Penalties fell by £13 million.

The expenditure that the Home Office is allowed to set-off against the revenues were £57 million in 2017-18 compared to £32 million in 2016-17.

Managing the policies and processes that minimise the need to impose civil and immigration penalties is a key part of the Home Office's remit. Examples of this work during 2017-18 included:

- **Implementing legislation.** Completing the roll out of the Immigration Act 2014 and Immigration Act 2016 measures, including: right to rent checks and related landlord powers; alcohol licensing; powers to close bank accounts; enhanced search and seizure and offence measures; and asylum support measures.
- **Delivering effective immigration status checks.** Supporting employers and service providers in undertaking checks through delivering digital checking services, engaging with employer groups and promoting data sharing. Extending Biometric Residence Permit and National Insurance Number alignment to new work-enabled categories.
- **Broadening work across Government to reduce opportunities to live in the UK illegally.** Developing a cross-Government approach to prevent illegal migrants remitting money overseas through money service businesses. Continuing joint work with the Department of Health to better regulate access to the National Health Service, including reviewing the Immigration Health Surcharge levels in the light of evidence for change submitted by Department of Health. And actions to exclude illegal migrants from the electoral roll.

Sir Philip Rutnam  
Accounting Officer  
14 December 2018

## Section 3: Our controls and governance

### Statement of Accounting Officer's Responsibilities

Under the Exchequer and Audit Departments Act 1921, HM Treasury has directed the Home Office to prepare, for each financial year, a Trust Statement (“the Statement”) in the form and on the basis set out in the Accounts Direction. The Statement is to be prepared on an accruals basis and must give a true and fair view of the state of affairs of the duties, fees and taxes, and of the collection of fines and penalties and of the related expenditure and cash flows for the financial year.

In preparing the Statement, the Accounting Officer is required to comply with the requirements of the [Government Financial Reporting Manual \(FReM\)](#) and in particular to:

- observe the Accounts Direction issued by Treasury, including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- have taken all steps that ought to have been taken to make himself aware of any relevant audit information and to establish that the entity’s auditors are aware of that information, and that they are not aware of any relevant information of which the entity’s auditors are unaware of;
- state whether applicable accounting standards, as set out in the FReM have been followed, and disclose and explain any material departures in the accounts;
- prepare the Statement on a going concern basis; and
- confirm that the Statement, as a whole, is fair, balanced and understandable and take personal responsibility for the Statement and the judgments required for determining that it is fair, balanced and understandable;

HM Treasury has appointed the Permanent Secretary of the Department as Accounting Officer of the Home Office.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department are set out in [Managing Public Money](#) published by HM Treasury.

### Auditors

The Statement is audited by the Comptroller and Auditor General under the Exchequer and Audit Departments Act 1921. The notional fee for this audit service is £95,000. No non-audit work was carried out by the auditors.

So far as I am aware, there is no relevant information of which the auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Sir Philip Rutnam  
Accounting Officer  
14 December 2018

## Governance Statement

As the Accounting Officer, I am responsible for ensuring there is an effective process in place for monitoring and reporting governance issues during the year. I am supported by Directors General and Directors who have delegated financial and risk management authority appropriate to their responsibilities.

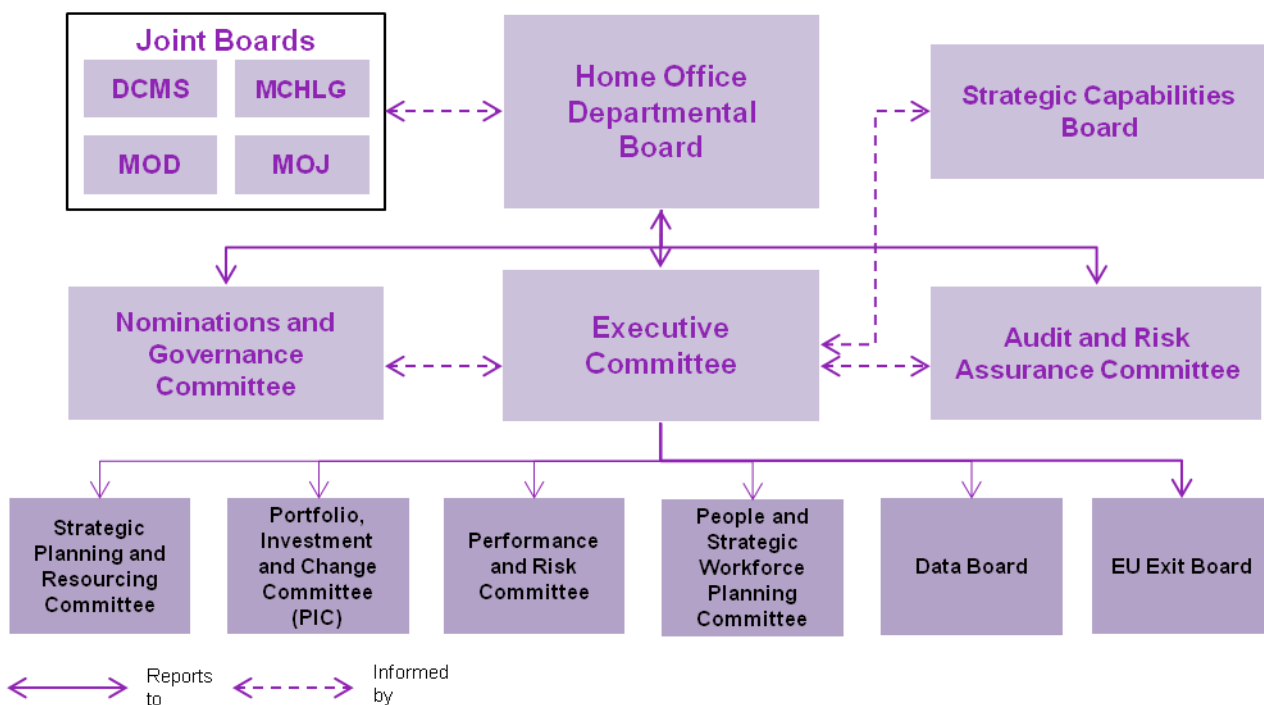
The Home Office operates and follows the principles of good governance in accordance with HM Treasury guidance. To prepare this Governance Statement I am provided with feedback and assurance from across the Department. This includes completion of annual Director General Assurance Statements, which summarises the objectives, controls and risks within each Director General’s operations and also provides an assessment of the level of assurance within business processes.

### How we are governed

During 2017-18, the Home Office evaluated its governance and board structure and introduced changes to support more effective management of the Department, enhance collective decision making and improve the effectiveness of its systems of internal control, risk management and accountability.

This Governance Statement sets out how our Executive Committee and its supporting governance structures work and how they have performed for the year 1 April 2017 to 31 March 2018 and up to the date of approval of the Trust Statement.

The Departmental Board oversees the work of the Department. This year the Department reorganised its sub-committees which provide layers of control, scrutiny and assurance to ensure that the Department has been achieving its aims and objectives in line with an appropriate level of control. The following table sets out the structure of the top-level committees that operate in the Department and the chair of each committee.



### Assurance

The Department relies on assurance from multiple sources, consistent with good practice. Assurance activity is structured around three lines of defence, ranging from front line operational assurance (first line of defence) to independent assurance such as Internal Audit (third line of defence):

- Front-line and business operational areas: The Department has established assurance arrangements over how well objectives are being met and risks managed. These include monthly management reporting, risk registers, reports on the routine system controls, the Director General annual assurance returns and other management information; and
- Management oversight and expert review: Separate from the work of those responsible for delivery, this includes investment approval work undertaken by the Department's Investment committee, analytical assurance, as well as work undertaken by other enablers functions (e.g. Human Resources) and the departmental security teams; and
- Independent and objective assurance: This includes the work of internal audit and independent specialists; and
- External reviews: This covers external and independent assurance commissioned by bodies outside the organisation. These include reviews by the National Audit Office and parliamentary select committees. These reviews are usually conducted after a project or event and are a particularly valuable source of learning for the organisation.

The Assurance and Governance Unit oversees assurance and risk across the Department. The Unit has developed a simplified management assurance framework, which will be launched in 2018-19. The simplified framework sets out the common principles and standard assurance activities that the Department expects to be in place, and how these should be assessed and reported. It aims to embed good assurance practice and to facilitate organisational learning.

The Home Office has a process for ensuring that all business-critical models are subject to proportionate quality assurance, and that risks and limitations are communicated and acknowledged by the users of the modelled outputs. The Department's register of business-critical models is updated annually.

Revenue required to be forwarded to HM Treasury as Consolidated Fund Extra Receipts (CFERs) sits outside the Department's budget allocation and therefore does not form part of Parliamentary control totals. Nonetheless, the budgetary control process provides assurance over the revenue streams and associated expenditure.

### **Independent assurance**

The Department is subject to independent oversight including the reviews conducted by the Government Internal Audit Agency and the work of the National Audit Office (including Value for Money), which include the audit report for the Annual Report and Accounts and this Trust Statement.

### **The Board's assessment of its compliance with the Cabinet Office Code of Corporate Governance**

There were a number of changes to the membership of the Departmental Board during the year at Official and Ministerial level, most notably a new Permanent Secretary in April 2017 and three new Ministers who joined the Home Office Ministerial team throughout the year (June 2017, November 2017 and January 2018). Three Departmental Boards were held all of which were reasonably well attended and had the right diversity of attendance to facilitate good quality discussions. A new Home Secretary took up post in May 2018.

The Board agendas covered several topic areas including performance against Government priorities, key risks and budget challenges.

The meetings were focused, board papers were of high quality, supporting quality discussions and challenge was encouraged. Agendas were relevant and set appropriately to focus Board scrutiny and consideration. The logistics of meetings and communications were well managed with effective support from the Board Secretariat.

The team of five Non-Executive Directors (NEDs) at the Home Office offer significant contributions to the running of the Department.

The Departmental Board has added value with interactive debate and thematic discussions on key issues and has made good use of, and benefited from, the external expertise NEDs provide at and outside the Board environment.

The Department conducted a short Board effectiveness evaluation for 2017–18 on the content, structure and membership of the Departmental Board. The conclusions of the evaluation were predominantly positive. Overall, the evaluation concluded that Departmental Board performance was satisfactory and held good discussions on key risks for the Department.

### **Principal system and controls**

The main Home Office financial system, Adelphi, is used to account for all transactions including those relating to duties, fees and taxes, and of the collection of fines and penalties and of the related expenditure and cash flows. For these transactions, Adelphi is supported by dedicated systems:

- an Application system for processing Passport applications and for collecting the associated fees.
- a Visa Application system for processing all Visa applications and for collecting the associated fees.

Both dedicated systems operate under a comprehensive framework. The main features of which are:

- Segregation of duties and controlled system access.
- Standard operating procedures for all key processes.
- Monthly and quarterly verification of all system control totals.
- Verification of cash balances by completion of daily, monthly and quarterly reconciliations.

### **Fraud, bribery and whistleblowing**

The Home Office revised the 'Whistleblowing and Raising a Concern' policy and procedure in November 2015 which accepted all the principles of the model policy recommended by Cabinet Office. In consultation with Civil Service Employee Policy this has been adapted in terms of operational procedure to improve access for staff wishing to raise a Whistleblowing concern and utilise existing structures to improve upon reporting of concerns to help ensure effective compliance with Cabinet Office requirements.

The Home Office Whistleblowing policy allows staff to raise legitimate issues of public interest via their manager, a confidential central reporting hotline and email address and through a network of Nominated Officers embedded within Director General commands. This is complimented by a Board-level Senior Responsible Officer.

The Home Office Professional Standards Unit provides an independent team of investigators, separate from business areas, to investigate thoroughly concerns that are raised. This in turn has led to improvements in Departmental procedures and new safeguards.

To support the policy, regular awareness campaigns are undertaken with positive reinforcement encouraging staff to feel safe to challenge and feel safe to report any concern.

The Home Office champions counter fraud at Board level, with the Second Permanent Secretary leading on the insider threat and fraud across the Border, Immigration and Citizenship system along with a Senior Director in the Capabilities and Resources Directorate leading on countering financial, commercial and insider fraud across the Home Office.

The Home Office has a counter fraud strategy, policy and response plan which focuses on the insider threat. The wider counter fraud strategy is delivered through a range of other strategies and guidance which cover

discrete areas of work - e.g. commercial activity or frontline delivery - these are governed, for example, by the direction of Ministers, control strategies and operating mandates.

Fraud risk is covered in the normal Home Office risk assessment process. The Home Office also carries out fraud risk assessments as part of the introduction of new policies and programmes.

The Home Office completes the Cabinet Office required action plan and metrics. This year the Department is focused on building a new finance system with improved controls around expenses to make it easier to spot unusual activity and therefore highlight potential insider fraud early on. In addition, action plans regarding insider threat are included in business level control strategies and in a central control strategy. Regarding countering fraud at a local, national and global level, key actions are included in a wide range of corporate and business level business plans and in operational control strategies.

The Home Office has a robust system for reporting fraud - both in terms of insider or external fraud. There are dedicated teams of investigators trained to PIP (Professionalising Investigations Programme) 2 responsible for investigating fraud perpetrated against the Home Office by insiders and the wider Border, Immigration and Citizenship system.

The system has not uncovered any significant or systematic fraud.

All staff have access to fraud awareness training, this is mandated in some higher risk areas of the Home Office. In addition, the Home Office carries out a range of fraud awareness events including a fraud awareness week each year.

## Risk management

Risk management is part of everything the Home Office does, from how the Department manages its programmes and its money, to how the Department develops policy and works with its arm's-length bodies. In addition, the Home Office welcomes the input and insight from both its internal audit function and the oversight of other regulators as a key component in identifying and managing risks. In particular last year, the National Audit Office delivered several Value for Money reports which have been a helpful source of knowledge and information that has enabled the Department to improve its management controls and oversight.

## Top level risks in 2017-18 and key mitigating factors

The nature of the Department's business means that it has to manage a wide range of risks. The following table sets out the top-level risk that affected the Department in 2017-18, which has a direct bearing on the transactions reported in this Trust Statement.

Principal risks	What are we doing about them?
The volume of immigration is too great	<ul style="list-style-type: none"><li>We have continued to build and manage an immigration system that meets the economic and social needs of the UK, including by reducing net migration to sustainable levels. We will continue to take steps to ensure that Britain is able to attract the brightest and the best.</li><li>We are developing options for controlling immigration post-leaving the EU. We are leading work across Government, including transitional arrangements for EU nationals already in the UK and the Common Travel Area with the Republic of Ireland.</li></ul>



The EU Settlement Scheme is the new application system to grant status to the 3.5 million EU citizens and their family members resident in the UK. We are building a streamlined, user-friendly application system that will confirm identity, UK residency and check criminal history. User representatives are helping design the scheme through our user groups and user testing by individual volunteers.

We recognise the scale of the challenge and work is well underway to build a new digital application system for UK status, with new processes, technology, rules and support for applicants.

We have been clear that settled status applications will not be refused on minor technicalities. We are embracing a cultural change where the focus will be on helping EU citizens through the application process to successful conclusion.

## **Ministerial Direction**

No Ministerial Directions were sought during 2017-18.

## **Update from Chief Internal Auditor (CIA)**

The Government Internal Audit Agency (GIAA) has conducted a wide range of work across the Home Office and summaries of internal audit reports are seen and reviewed by the Department's Audit and Risk Assurance Committee. Each year, the CIA is required to express an opinion on the adequacy of the Department's governance, risk management and control arrangements. This year he decided to offer the Accounting Officer limited assurance on the overall arrangements. He concluded that although the Department is effective in managing demanding and highly pressurised situations, it could make improvements in fulfilling the routine tasks that are pivotal to the success of operational and strategic delivery.

He noted that the Department must seek to work more collaboratively if it intends to modify the assumptions and norms that are embedded across the department. There are many examples of silo working which contribute to the differences in how people respond and behave in relation to issues they face. The process of addressing these cultural challenges must be driven from the top of the organisation to ensure that the required cultural shift is achievable.

He concluded that the Home Office's capacity and capability is likely to be put under significant pressure by Brexit. The Department will need to manage delivery of complex programmes of work across commands to successfully achieve desired outcomes. This, as well as putting right the wrongs faced by some of the Windrush generation, provide a backdrop for the Department's immediate future.

## **Conclusion & Compliance with Code of Good Practice**

Government policy on departmental governance is outlined in Corporate Governance in Central Departments: Code of Good Practice. This Code operates on a 'comply or explain' basis, whereby departments are asked to disclose any element of the Code with which they are not fully compliant, explaining their rationale and any alternative measures which have been put in place to meet the objectives of the Code.

The Home Office meets the provisions outlined in the Code through the operation of its Departmental Board, with one exception - the Chief Internal Auditor (CIA) does not receive an invitation to attend the Departmental Board. However, the CIA does have the facility to provide updates and briefings to the ExCo as well as routine sight of the Board agendas and papers. Additionally, the CIA also has a programme of one to one sessions with me as Permanent Secretary.

The Departmental Board has oversight of delivery of the Department's priorities. Through its operation, it sets the Department's risk appetite and ensures appropriate controls are in place to manage risk; has oversight of the performance of the Department's sponsored bodies; reviews financial management; and ensures the Department has the capacity to deliver against current and future needs.

Our corporate governance arrangements have been reviewed during the year through a comprehensive Governance Review. An organisation of the Home Office's size and complexity will always have multiple risks to manage at any one time, but I am satisfied that the governance arrangements that were in place throughout 2017-18 have been sufficient to continue managing risks effectively.

The production of the Trust Statement has required significant work to reach the required position this year, however, we continue to make good progress in improving our control frameworks and in introducing further measures to ensure effective controls operate consistently across the Home Office. Over the year ahead, we will extend our reviews and assessments of risk and controls to further assure our strong focus on efficiency and governance.

**Sir Philip Rutnam**  
Accounting Officer  
14 December 2018



## Section 4: External Scrutiny

### The Certificate and Report of the Comptroller and Auditor General to the House of Commons

#### Opinion on financial statements

I have audited the financial statements of Home Office Trust Statement for the year ended 31 March 2018 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the Home Office Trust Statement gives a true and fair view of the state of affairs as at 31 March 2018 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

#### Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

#### Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Home Office Trust Statement in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the Accounting Officer for the audit of the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

#### Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Home Office Trust Statement's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Home Office Trust Statement's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises information included in the Foreword to the Trust Statement, Performance and Controls and Governance sections, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **Opinion on other matters**

In my opinion, the information given in the Accounting Officer's Foreword to the Trust Statement, Performance and Controls and Governance sections for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## **Report**

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**  
18 December 2018

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## Section 5: Our income and expenditure

### Statement of Revenue, Other Income and Expenditure for the year ended 31 March 2018

	Notes	2017/18 £000	2016/17 £000
<b>Levies and similar revenue</b>			
Immigration Skills Charge	2.1	91,372	-
<b>Total levies and similar revenue</b>		<b>91,372</b>	<b>-</b>
<b>Fines and penalties</b>			
Civil Penalties	2.2	31,820	44,805
Immigration Penalties	2.2	3,920	3,713
<b>Total fines and penalties</b>		<b>35,740</b>	<b>48,518</b>
<b>Other income</b>			
Duties and Fees	2.3	89,715	89,655
<b>Total other income</b>		<b>89,715</b>	<b>89,655</b>
<b>Total revenue and other income</b>		<b>216,827</b>	<b>138,173</b>
<b>Expenditure</b>			
Discounts		2,903	3,752
Credit losses – Debts written off	3.2	34,491	22,032
Element retained		17,000	6,000
Costs of Collection		2,280	-
Administration Costs		89	-
<b>Total Expenditure</b>		<b>56,763</b>	<b>31,784</b>
<b>Net revenue for the Consolidated Fund</b>	5	<b>160,064</b>	<b>106,389</b>

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 23 to 29 form part of this statement.

## Statement of Financial Position as at 31 March 2018

	Notes	2017/18 £000	2016/17 £000
<b>Receivables falling due after more than one year</b>			
Current assets Receivables	3.1	4,323	38,682
Cash and cash equivalents		67,132	114,962
<b>Total current assets</b>		<b>71,455</b>	<b>153,644</b>
<b>Current liabilities</b>			
Payables	4	1,429	-
Deferred revenue and other income	4	7,458	-
<b>Total current liabilities</b>		<b>8,887</b>	<b>-</b>
<b>Net current assets</b>		<b>62,568</b>	<b>153,644</b>
<b>Total net assets</b>		<b>62,568</b>	<b>153,644</b>
<b>Represented by:</b>			
<b>Balance on Consolidated Fund Account</b>	5	<b>62,568</b>	<b>153,644</b>

The notes at pages 23 to 29 form part of this statement.

**Sir Philip Rutnam**  
Accounting Officer  
14 December 2018

## Statement of Cash Flows for the year ended 31 March 2018

	Notes	2017/18 £000	2016/17 £000
<b>Net cash flow from operating activities</b>		203,310	84,833
Cash paid to the Consolidated Fund	5	(251,140)	(61,476)
<b>Increase/(decrease) in cash in this period</b>		<b>(47,830)</b>	<b>23,357</b>
<b>Notes to the Cash Flow Statement</b>			
<b>A: Reconciliation of net cash flow to movement in net funds</b>			
Net revenue for the Consolidated Fund		160,064	106,389
(Increase)/decrease in Assets		34,359	(21,556)
Less: non cash movement through receivables		-	-
Increase/(decrease) in liabilities		8,887	-
Increase/(decrease) in provisions for liabilities		-	-
<b>Net cash flow from operating activities</b>		<b>203,310</b>	<b>84,833</b>
<b>B: Analysis of changes in net funds</b>			
Increase/(decrease) in cash in this period		(47,830)	23,357
Net funds at 1st April (Net Cash at Bank)		114,962	91,605
<b>Net funds at 31st March (Closing Balance)</b>		<b>67,132</b>	<b>114,962</b>
The following balances as at 31 March were held at:			
Government Banking Services		67,132	114,962
<b>Total Cash Balances</b>		<b>67,132</b>	<b>114,962</b>

The notes at pages 23 to 29 form part of this statement.

## Notes to the Trust Statement

### 1. Statement of Accounting Policies

#### 1.1 Basis of accounting

The Trust Statement is prepared in accordance with:

- the 2017-18 Financial Reporting Manual (FReM) issued by HM Treasury, in particular Chapter 8.2 which deals with Consolidated Fund revenue and Trust Statements. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.
- the 2017-18 accounts direction issued by HM Treasury on 26 March 2018 under 2(3) of the Exchequer and Audit Departments Act 1921.

The particular policies adopted in the Trust Statement are described below. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The income and associated expenditure contained in these statements are those flows of funds which Home Office handles on behalf of the Consolidated Fund and where it is acting as agent rather than as principal.

The financial information contained in the statements and in the notes is rounded to the nearest £000

#### 1.2 Changes in accounting policy and disclosures

Changes in accounting policies - There have been no changes in accounting policies for the period ended 31 March 2018.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2017 and not early adopted:

- IFRS 15 Revenue from Contracts with Customers – In our assessment the revenue recognition policy for Trust Statement transactions are not expected to change and the impact of this is not expected to have a material impact on future Home Office Trust Statements.
- IFRS 9 Financial Instruments – the impact of this standard will need to be assessed given that the guidance suggests a shorter period before that presently used to assess whether debts are doubtful.
- IFRS 16 Leases – the introduction of this standard will have no impact on the information reported as there are no leases reported in this statement

#### 1.3 Accounting convention

The Trust Statement has been prepared under the historical cost convention.

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates (see note 1.6). It also requires management to exercise its judgement in the process of applying the accounting policies.

The income and associated expenditure recognised in these statements reflect those flows of funds which the Home Office receives and surrenders, in its capacity as agent, on behalf of the Consolidated Fund and other entities. As directed by HM Treasury, the income and associated expenditure relating to the Immigration Health Surcharge continues to be reported in the Home Office Resource Accounts even though these funds are also received by the Home Office and surrendered, in its capacity as agent, on behalf of the Consolidated Fund.

## **1.4 Revenue recognition**

Levies and penalties are measured in accordance with IAS 18. They are measured at the fair value of amounts received or receivable net of repayments. Revenue is recognised when:

- An event to which a levy or similar charge has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the chargeable event will flow to the Exchequer.
- A penalty is validly imposed and an obligation to pay arises.

## **1.5 Receivables**

Receivables are shown net of impairments in accordance with the requirements of IAS 39.

Each class of debt has been assessed separately using performance reports to provide data concerning recoverability and the length of time it takes for debt to be repaid.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any market. Receivables are derecognised when the rights to receive cash flows from the assets have expired.

## **1.6 Critical accounting judgements and estimates**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

When preparing the Trust Statement, the Home Office makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

## **1.7 Impairment of debt and credit losses**

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the estimated future flow of repayments.

Debts are provided against where the amounts have been outstanding for more than 180 days.

The fair value of receivables is dependent on ongoing collection rates. The current year's impairment has been calculated based on a review of specific high value receivables combined with a collective assessment for all other debt. The collective impairment assessment is based on an analysis of past collection history.

## **1.8 Miscellaneous CFER Income**

In accordance with Managing Public Money, HM Treasury has powers to direct that income included in a departmental Estimate and approved by Parliament may be retained and used by the department. This is undertaken by applying this income against specific costs (resource or capital) within that Estimate. Where the Home Office receives income outside that authority, the cash must be surrendered to the Consolidated Fund as extra receipts (CFER).



Miscellaneous CFER income reported on the Trust Statement are funds outside that detailed in the Estimate and therefore must be surrendered. Miscellaneous CFER income are normally one off ad hoc receipts as well as cheque payments issued by the Home Office that are not cashed within 2 years.

## **1.9 Cash**

All income, except for that relating to civil penalties, is recorded at the same time as cash is received. For civil penalties, the determination of cash received is calculated by the increase or decrease in the Receivable balance, adjusted by the in year income. Expenses incurred in the production of the Trust Statement are deemed paid in cash. Surrendering of Consolidated Fund Receipts to HM Treasury are made in cash at regular intervals throughout the year.

## **1.10 Trust Statement Expenses**

### **Discounts**

The amount of a penalty imposed can be reduced by 30% where payment is received in full within 21 days. There are also circumstances where the Penalty imposed is reduced on appeal. The amount paid into the Consolidated Fund is net of any fast payment discount and net of any reduction decision made on appeal.

### **Costs of Collection**

The Home Office is allowed to recoup costs relating to the operation and reporting of the Trust Statement. These costs include bank charges relating to the payment handling charges associated with collecting the Immigration Skills Charge and recharge of cost of staff involved directly in producing the Trust Statement and supporting the associated audit. Payment handling charges associated with the Immigration Skills Charge is estimated based on the proportional split between the Visa sponsorship fee and the Immigration Skills Charge. Recharge of staff costs relate to staff involved in administering the Immigration Skills Charge and those involved in preparing the Trust Statement.

## **1.11 Retained Income**

As part of Spending Review 2015, Home Office, in a letter from HM Treasury dated 20 January 2016, were given a budgetary settlement which included the ability to retain up to £17m of civil penalty income in each year from 2016/17 to 2019/20. In 2017/18, £17m (2016/17 £6m) was retained.

## **1.12 Deferred Income**

A cash component for the Immigration Skills Charge is received as part of the sponsorship visa application being lodged. The revenue for the Immigration Skills Charge is deferred until a decision is made regarding the outcome of the visa application. At this point, a transfer is made from deferred income to earned income, or alternatively, a refund is given to the applicant.

## 2. Revenue and other income

### 2.1 Levies and similar revenues

The Immigration Skills Charge (ISC) was introduced in April 2017 as a result of changes under the Immigration Act, 2016. The ISC levies employers who employ migrants in skilled areas and is collected as part of the Tier 2 visa applications. This income is not retained by the Home Office and is remitted to HM Treasury as Consolidated Fund Extra Receipts.

	2017/18 £000	2016/17 £000
Immigration Skills Charge	91,372	-

The ISC is levied as part of the process to apply for Tier 2 visas and accounted for as deferred income until the visa application has been properly considered by the Home Office. If that consideration determines that the visa application is declined, the ISC levy is refunded and removed from deferred income. If the consideration approves the visa application, the income is recognised as earned.

### 2.2 Fines and Penalties

Civil and Immigration penalties are levied on business who employ those who do not have the permission to enter or remain in the UK. Immigration penalties are levied on individuals who enter or remain illegally in the UK. The Department is not permitted to retain this income without HM Treasury approval. In 2017-18, HM Treasury allowed the Department to retain £17 million of this income (£6 million in 2016-17), the remaining income is surrendered to the Consolidated Fund.

	2017/18 £000	2016/17 £000
Civil Penalties	31,820	44,805
Immigration Penalties	3,920	3,713
<b>Total Fines and Penalties</b>	<b>35,740</b>	<b>48,518</b>

As penalties are often levied sometime after the offence, this note gives an alternative perspective on trend.

### 2.3 Other Income

Consular fees are an element of passport fees relating to consular protection services provided by the Foreign and Commonwealth Office (FCO) worldwide. These fees are not retained by the Home Office and are remitted to HM Treasury as Consolidated Fund Extra Receipts.

	2017/18 £000	2016/17 £000
Consular Fees	85,506	85,103
Other	4,209	4,552
<b>Total Other Income</b>	<b>89,715</b>	<b>89,655</b>

The amount of the consular services element of the Passport fee is set within the Passport (fees) Regulations. The Consular services element is recognised in the same way and as part of the same process as the Passport fee income – recognised when services and goods are issued. The monies collected for Consular Services are paid over periodically via the Consolidated Fund not at the time of collecting each fee.

### 3. Receivables

#### 3.1 Amounts due at 31 March 2018

	2017/18 £000	2016/17 £000
Receivables at 31 March	96,312	108,059
<i>less</i> Debts written off	(11,686)	(11,879)
Receivable before Impairment	<b>84,626</b>	<b>96,180</b>
<i>less</i> Estimated impairments	(80,303)	(57,498)
<b>Receivables Net book value at 31 March</b>	<b>4,323</b>	<b>38,682</b>

Receivables represents the amount due from taxpayers and businesses where invoices or other demands for payment have been issued but not paid for at 31 March 2018, and also the amounts due from those on whom financial penalties have been imposed prior to 31 March 2018, but not paid at that date.

The impairment estimate has been determined based on our assessment of recoverability of debt. Where debts at the year-end date have been outstanding for more than 180 days they have been provided for.

Debts are only written off when the debtor is dissolved, bankrupt or in liquidation and the debt is deemed unrecoverable through any further means.

We recognise that Civil Penalty debts are hard to collect and for the 2017/18 reporting year, in assessing the provision we have based our view on the actual collection experience to the reporting date and our impairment estimation has been assessed based on the known position at 31 October 2018. This has resulted in a significant increase in the estimated impairment and a resulting decrease in the net book value of receivables. Our approach in future will be similarly based on assessing expected recoverability of debtor balances.

Receivables on the statement of financial position are reported after the deduction of the estimated value of Impairments.

#### 3.2 Credit Losses

	2017/18 £000	2016/17 £000
Debt written off	11,686	11,879
Increase in the value of impairments	22,805	10,153
<b>Total Credit Losses</b>	<b>34,491</b>	<b>22,032</b>

### 3.3 Change to Impairments

	2017/18 £000	2016/17 £000
Opening Provision Balance	57,498	47,345
Net increase in Provision	34,296	22,039
Provision utilisation	(11,491)	(11,886)
<b>Closing Provision Balance</b>	<b>80,303</b>	<b>57,498</b>

### 4. Payables and deferred revenue

	2017/18 £000	2016/17 £000
Payables	1,429	-
Deferred Income	7,458	-
<b>Total Payables and Deferred income at 31 March</b>	<b>8,887</b>	<b>-</b>

The Home Office Trust Statement records revenue for the Immigration Skills Charge as deferred until a decision is made regarding the outcome of the visa application. If a sponsorship visa is cancelled or declined, the Immigration Skills Charge is refunded to clients. Payables represents these refunds plus any other debts which are due but not yet paid.

### 5. Balance on the Consolidated Fund Account

	2017/18 £000	2016/17 £000
Opening Balance at 1 April	153,644	108,731
Net Revenue	160,064	106,389
Amount Paid to the consolidated fund	(251,140)	(61,476)
<b>Closing Balance at 31 March</b>	<b>62,568</b>	<b>153,644</b>

## **6. Financial Instruments**

On behalf of the Consolidated Fund and other parties, the Home Office is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, receivables and payables.

IFRS 7, 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the year in creating or changing risks an entity faces in the course of its operations. As the Home Office is acting as agent on behalf of the Consolidated Fund and other parties in licence fees, taxation and similar revenues and surrendering these funds when received, it cannot incur losses through the Trust Statement. Write-offs and impairment charges disclosed in the Income and Expenditure Statement reflect the non-recoverability of gross debt since its obligation to surrender financial penalties is limited to the amount it is able to collect in revenue. The Home Office, on behalf of the Consolidated Fund and other parties, has no requirement to borrow or invest surplus funds. As such, the Home Office, in its capacity as agent, is not exposed to the degrees of financial or market risk facing a business entity acting as principal.

## **7. Related-party transactions**

In relation to this Trust Statement, the Home Office has had transactions with HM Treasury and the Exchequer relating to payments made into the Consolidated Fund

Ministers' interests are declared and maintained through the Register of Members' Interests at the House of Commons and the Register of Lords' Interest at the House of Lords.

Board members and key senior management staff are subject to a standard annual interests' review, stating whether they, their spouses or close family members have been in a position of influence or control in organisations with which the Home Office has transactions. Further detail is included in the Home Office Annual Report and Accounts for 2017-18 – HC1136.

## **8. Events after the reporting period date**

In accordance with the requirements of IAS 10 Events After the Reporting Period, events are considered up to the date on which the accounts are authorised for issue.

The Rt Hon Sajid Javid MP was appointed Secretary of State for the Home Office on 30 April 2018, replacing the Rt Hon Amber Rudd.

The date the Accounts are authorised for issue is interpreted as the same date the Accounts are certified by the Comptroller and Auditor General.