

**FINAL AUDIT REPORT**

**ON**

**SECTION 81 GRANT PAYMENTS**

**IN THE**

**ASYLUM AND APPEALS POLICY DIRECTORATE**

**March, 2002**

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## **MANAGEMENT SUMMARY**

### **INTRODUCTION**

1. We have carried out a review of grant payments, made under s81 of the Immigration and Asylum Act 1999, to the Immigration and Advisory Service (IAS), the Refugee Legal Centre (RLC) and the Law Centre (Northern Ireland) LCNI in accordance with the agreed audit plan for 2001/2002. The total grant approved for 2000/2001 was £15,441,577 of which £ 8,254,429 was allocated to IAS, £ 7,131,078 to RLC and £56,070 to LCNI. This report sets out our findings and recommendations

### **OBJECTIVE AND SCOPE**

2. Our objective was to provide an assurance on the adequacy and effectiveness of the systems in place for ensuring that the Home Office, through AAPD, effectively supports the IAS, RLC and LCNI in relation to grant allocation, payment, monitoring and evaluation processes.
3. We reviewed the adequacy and effectiveness of procedures and controls relating to fund allocation, monitoring of grant payments and compliance with grant conditions. We also reviewed grant application and approval procedures and the approval and processing of grant payments. The agreed detailed scope and objective is included in Appendix 2

## KEY FINDINGS

4. The basis of allocation of the total grant funding does not appear to be adequately defined. At the moment allocation is mainly based on the funding levels of the previous year and in response to the bids submitted by the grantees. AAPD would therefore provisionally allocate the total amount of grant on this basis. Where the bid submitted is higher than the provisional allocation AAPD would negotiate a reduction of the bid with the grantee. It appears to us that this basis of allocation could lead to uncertainty for the grantee and make forward planning difficult for them. We have recommended that AAPD should continually review its procedures for allocation of grants and the approval of bids with a view to minimising the risk of causing the grantee uncertainty which could lead to poor planning and consequently poor service delivery.
5. In addition, the bids were not approved until late in the financial year. The grant conditions clearly state that bids and forward plans for the forthcoming financial year must be submitted no later than by the end of January preceding the relevant financial year. AAPD procedures require bids to be invited by November preceding. However, this requirement is not currently being met. We note, however, that AAPD is committed to ensuring that bids are submitted and approved on a timely basis.
6. It appears to us that AAPD does not currently take adequate steps to ensure that grantees account for and repay underspends in excess of 2% of their grant allocation. The NAO reported that an underspend in excess of 2% by grant recipients in respect of 1998/99 was not recovered in 1999/2000. We saw no evidence that this underspend was recovered in 2000/2001. In addition, AAPD have not yet been able to obtain details of the level of any underspend in respect of 1999/2000 and 2000/2001. Non recovery of excess underspend would lead to overpayment of grant-in-aid. We have recommended that AAPD requires the grantees to include details of their underspend as part of their periodic reports and year end reports to AAPD.
7. We discovered that new bank details were set up for the payment of grants to IAS Oakington on the basis of an unsigned and unauthorised instruction from IAS. This is a major lapse in control that could lead to grants being paid to someone not entitled to receive it. We note, however, that the instruction was faxed to AAPD as a result of a telephone conversation the grantee had with AAPD staff relating to it. AAPD therefore considered the unsigned instruction to be adequate. However, AAPD must ensure that, in future, changes to grantees' bank details are made only on the basis of a properly authorised instruction followed by a phone call by AAPD to confirm the instruction.
8. We discovered some coding errors. Payments to the RLC in April, 2000 in respect of the first grant instalment of £660,838 (pay) and £227,187 (non-pay) were erroneously entered in BASS under cost centre codes for grant payments to IAS. Similarly, the April instalments of £7,906 (pay) and £8,363 (non pay) and the July instalment of £7,905 (pay) and £5,362 (non pay) to the Law Center (Northern Ireland ) were incorrectly entered in BASS under IAS cost centre codes for grant payments. The occurrence of coding errors would lead to the production of incorrect figures for budget monitoring purposes. Such errors must be corrected as soon as they are discovered.

9. We note that the same codes for pay and non pay costs are used for RLC main offices and its Oakington office. This is not consistent with the accounting for IAS costs which have separate cost centres for their Oakington and non-Oakington costs. We have recommended that a separate cost centre code is set up in BASS for RLC (Oakington) costs as that will not only ensure consistency of accounting treatment with RLC but also provide more relevant information for monitoring the RLC (Oakington) budget
10. The Refugee Legal Centre (RLC) did not always comply with grant conditions. They decided not to recover overpayment of salaries of £114,860 to their week end staff at the Oakington centre without informing the Home Office. The overpayment occurred because of lapses in RLC's financial systems. The lack of consultation with the AAPD is in contravention of the grant conditions (para 21 (d)) which requires Home Office agreement before losses are written-off. We note that AAPD have now proposed not to take any action against RLC or to invoke any financial penalty, subject to the approval of the Finance and Services Directorate (FSD). We have recommended that AAPD should take steps to obtain assurances from RLC that they have implemented the recommendations made by their auditors, in order to minimise the risk of overpayment of salaries in the future.
11. RLC decided to buy two photocopiers costing £11,742 plus VAT and £7,146 plus VAT without prior agreement of AAPD and without placing the contracts on a competitive basis as required by the grant conditions. RLC expressed regret that they did not follow the correct procedures and explained that that was because they needed to act quickly because the existing copiers were breaking down and the situation had reached a crisis point. They subsequently received retrospective approval from AAPD and we are satisfied that AAPD pointed out the breach of the grant conditions to them at the time and that they did so forcefully. However, the retrospective approval was not given by the head of the section which is more appropriate. The failure of grantees to comply with grant conditions increases the risk that grants may not be used for the purpose intended by the Home Office.
12. Our Recommended Actions for improvements are listed in the Detailed Findings at Appendix 1

## AUDIT CONCLUSION AND OPINION

13. The method of allocation of funding needs to be improved with a view to providing grantees with greater certainty over the level of funding they can expect. The monitoring of the level of underspend by grantees is inadequate and must be improved in order to minimise the risk of overpayment of grants. We are satisfied that grant payable were paid to grantees in an efficient and timely manner. However, the authorisation process in AAPD for setting up new payee bank details in BASS is inadequately controlled and, if not improved, could lead to grants being paid to someone not entitled to receive it. AAPD must endeavour to send a clear message to its grantees that it expects them to comply with their grant conditions otherwise there is a significant risk that grants will not be used for the purposes intended by the Home Office.
14. However, we conclude that, on the whole, the system put in place by management to ensure that the Home Office, through AAPD, effectively supports IAS, RLC and LCNI with respect to funding under s81 of the Immigration and Asylum Act 1999 is adequately controlled. We have made a number of recommendations which, if implemented, will lead to improvement in the current systems.

**APPENDIX 1  
DETAILED FINDINGS**

**Audit: Grant Methodology and Payment in the Asylum and Appeals Policy Directorate**

**Date: October, 2001**

Category	Findings	Risk	Recommended Action
1	<p><b><u>ALLOCATION OF TOTAL GRANTS BY AAPD</u></b></p> <p>At the moment allocation is mainly based on the funding levels of the previous year and in response to the bids submitted by the grantees. AAPD would therefore provisionally allocate the total pot of grant on this basis. Where the bid submitted is higher than the provisional allocation AAPD would negotiate a reduction of the bid with the grantee. It appears to us that this basis of allocation could lead to uncertainty for the grantee and make forward planning difficult for them.</p> <p>In addition the negotiation process including the evaluation of the revised bid take months to complete and the bids are therefore not approved until late in the financial year to which the grant relates. The grant conditions clearly state that bids and forward plans for the forthcoming financial year must be submitted no later than by the end of January preceeding.</p>	<p>Risk of causing the grantee uncertainty which could lead to poor planning and consequently poor service delivery.</p>	<p>1. AAPD should continually review its procedures for allocation of grants and the approval of bids with a view to minimising the risk of causing the grantee uncertainty which could lead to poor planning and consequently poor service delivery.</p>

<p>1</p> <p>1</p>	<p><b><u>UNDERSPEND</u></b></p> <p>The grant conditions specify that grantees may carry over, from one year to the next, underspend of up to 2% of the authorised grant in aid. Any underspend above the 2 % must be deducted from the following year's grant. The National Audit Office (NAO) reported that an underspend in excess of 2% by grant recipients in respect of 1998/99 was not recovered in 1999/2000. Management responded that they will ensure such underspend are recovered. However, we saw no evidence that action had been taken to recover the underpspend.</p> <p>In addition, AAPD have not yet been able to obtain details of the level of underspend in respect of year 1999/2000 and 2000/2001. AAPD is aware of the need to recover underspends, but needs to be more proactive in monitoring it.</p>	<p>Overpayment of grant-in-aid if underspend above 2% of the authorised grant in aid is not deducted from the following year's grant.</p>	<p>2. AAPD makes it a requirement for the grantees to include details of their underspend in their periodic and year end reports to AAPD so that the level of underspend can be checked.</p> <p>3. AAPD take steps to determine the precise level of underspend, if any, for each grantee in respect of 1998/99 to 2000/2001 and make adjustments to grant-in-aid as necessary.</p>
<p>1</p>	<p><b><u>CHANGE OF GRANTEES' BANK DETAILS</u></b></p> <p>New bank details was set up for the payment of grants to IAS Oakington on the basis of an unsigned and unauthorised instruction from IAS. We note, however, that the instruction was faxed to AAPD as a result of a telephone conversation the grantee had with AAPD staff relating to it. AAPD therefore considered the unsigned instruction to be adequate.</p>	<p>Grant Payments might be made to the wrong person</p>	<p>4. AAPD must ensure that changes to grantees' bank details are made only on the basis of a properly authorised instruction and a phone call by AAPD to confirm the instruction.</p>

2			5. AAPD's guidance notes for staff be updated to include the above recommendation.
2	<p><b><u>COST CENTRE CODES</u></b></p> <p><b>Coding errors</b></p> <p>We discovered the following coding errors:  Payments to the RLC in April, 2000 in respect of the first grant instalment of £66,0838 (pay) and £227,187 (non-pay) were entered in BASS under cost centre T944 and T943 respectively instead of cost centre T942 and T941 for pay and non pay respectively. Codes T943 and T944 relate to grant payments to IAS.</p> <p>Similarly, the April instalments of £7,906 (pay) and £8,363 (non pay) and the July instalment of £7,905 (pay) and £5,362 (non pay) to the Law Center (Northern Ireland ) were incorrectly entered in BASS under cost centre T944 and T943 respectively instead of cost centre T880 and T881 for pay and non pay respectively.</p>	Incorrect figures produced by BASS for budget monitoring purposes.	6. That the coding errors are corrected in BASS by use of journals without delay.

2	<p><b>RLC cost centre code</b></p> <p>We note that the same codes for pay and non pay costs are used for RLC main offices and its Oakington office. This is not consistent with the accounting for IAS costs which have separate cost centres for their Oakington and non-Oakington costs</p>	<p>Lack of consistency given that a separate codes is used for the IAS Oakington costs.</p>	<p>7. That a separate cost centre code is set up in BASS for RLC (Oakington) costs. That will not only ensure consistency of accounting treatment with RLC but also provide more relevant information for monitoring the RLC (Oakington) budget</p>
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2	<p><b><u>NON COMPLIANCE WITH GRANT CONDITIONS</u></b></p> <p><u>Refugee Legal Centre (RLC)</u></p> <p><b>Overpayment of salary at Oakington</b></p> <p>The Refugee Legal Centre (RLC) overpaid salaries to their staff at the Oakington centre. The total amount overpaid over the period April, 2000 to November, 2000 was £114,860. The overpayment related to staff working at weekends.</p> <p>RLC appointed their auditors to carry out an investigation of the salary overpayment. They reported to RLC on 21 December, 2000 and RLC forwarded the report to AAPD on 8 March, 2001. The report highlighted several weaknesses including lack of budgetary control, the inadequacy of the employment contracts and lack of proper review of the payroll by the Financial Controller. The report made several recommendations on payroll generally and on minimising the risk of overpayment in particular.</p> <p>RLC decided, without consulting AAPD, that they would not</p>	<p>The risk of recurrence of financial loss in RLC due to weaknesses in financial management systems will remain unless AAPD ensures that. RLC implements the recommendations made by their auditors.</p>	<p>8. AAPD takes steps to obtain assurances that RLC has implemented the recommendations made by their auditors.</p> <p>9. AAPD takes steps to ensure that RLC complies with all grant conditions especially the requirement to obtain AAPD's agreement before writing off losses.</p> <p>10. We recommend that an aid memoir in the form of a simple checklist is used to monitor grantees' compliance with grant conditions. The checklist will include, in outline, the main grant conditions to be</p>
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2	<p>seek to recover the overpayment from staff even though they appeared to have received legal advice that it is possible to recover the overpayment. The lack of consultation with the AAPD is in contravention of the grant conditions (para 21 (d)) which requires Home Office agreement before losses are written-off.</p> <p>We note that AAPD have now proposed not to take any action against RLC or to invoke any financial penalty subject to FSD's agreement. However, AAPD must seek assurances from RLC that they have implemented the recommendations made by their auditors.</p> <p><u>PHOTOCOPIERS</u></p> <p>RLC decided to buy two photocopiers costing £11742 plus VAT and £7146 plus VAT without prior agreement of AAPD and without placing the contracts on a competitive basis as required by the grant conditions.</p>		<p>monitored. It will be kept on the grantee's file and completed periodically. At the year end the checklist will be signed by a senior official confirming compliance or non-compliance with grant conditions.</p>
2	<p>The grant condition clearly requires that:-</p> <ul style="list-style-type: none"> <li>• The prior agreement of the Home Office must be sought before entering into any contracts for goods or services in excess of £10,000 if the purchase is to be funded wholly or partly from the grant-in aid and</li> <li>• Contracts should be placed on a competitive basis unless there were convincing reasons to the contrary.</li> </ul> <p>RLC informed AAPD of the purchase and then sought retrospective approval. RLC expressed regret that they did not follow the correct procedures and explained that that was</p>	<p>Grant not spent in accordance with the intentions of the Home Office because grantees do not comply with conditions and value for money is not ensured.</p>	<p>11. The approval by AAPD for capital items to be purchased by grantees be given by the head of the section in future.</p>

	<p>because they needed to act quickly because the existing copiers were breaking down and the situation had reached a crisis point. They gave assurances that such a situation will not happen again. AAPD gave the retrospective approval on the basis of these explanations and assurances.</p> <p>We are satisfied that AAPD pointed out the breach of the grant conditions to the grantee at the time and that they did so forcefully. However, the retrospective approval was not given by the head of the section which would be more appropriate.</p> <p><b><u>IMMIGRATION ADVISORY SERVICE (IAS) – Recommendations for improvement by BDO Stoy Hayward.</u></b></p> <p>In 1999 the Immigration and Nationality Directorate commissioned an audit of the Managerial and financial management of the IAS. The audit was carried out by BDO Stoy Hayward. The auditors made several recommendations with regard to IAS’s Management systems, Financial management systems and the procedures to follow in respect of consulting</p>		
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2	<p>assignments.</p> <p>We note that IAS did a follow up in 1999 on the report to determine whether the recommendations would be implemented. We also note that, in response to the follow up, IAS produced an Action Plan for implementation of the recommendations. However, AAPD is not yet satisfied that all the recommendations have been implemented as planned.</p>	<p>If AAPD does not ensure that IAS fully implements recommendations then the risk of financial loss due to weaknesses in Management systems and financial management systems will remain.</p>	<p>12. AAPD takes steps to ensure that all outstanding recommendations are implemented in full and then to ensure that an assessment is made of the adequacy of the current systems overall.</p>
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**KEY:**

Category 1: Weakness in control ,which, if not rectified immediately, exposes the organisation/systems to a high probability that the objectives will not be met.

Category 2- Weakness in control ,which , if not rectified as soon as possible, exposes the organisation/systems to a probability that the objectives will not be met.

## AUDIT OF GRANTS PAID BY AAPD

### OBJECTIVES AND SCOPE STATEMENT

#### SYSTEM OBJECTIVE

1. To exercise on behalf of the Home Secretary, his responsibilities for funding organisations that receive funding under S81 of the Immigration and Asylum Act 1999, in England and Wales.

#### AUDIT OBJECTIVE

2. To evaluate the adequacy and the effectiveness of the arrangements, procedures and controls put in place by management to ensure:-
3. That the Home Office primarily through AAPD effectively supports the IAS, RLC and Northern Ireland Law Centre with respect to the grant allocation, payment, monitoring and evaluation processes

This review will assist management in responding to two recommendations made by the NAO in their 1999/2000 Management Letter.

#### SCOPE

- 3 The audit will review the adequacy and effectiveness of procedures and controls in the following areas: -
  - a) Strategy management
    - i. AAPD structure and processes for fund allocation, management and control;
    - ii. Management: availability and use of management information for monitoring grant payments,
    - iii. Monitoring compliance with grant conditions, Home Office aims and SDA targets.
  - b) Grants
    - i. Approving the allocation of grants;
    - ii. Application procedures
    - iii. Grant approval procedures
    - iv. The approval and processing of payments onto the financial system, including amendment of standing data on the payment system (i.e. control over payee details), access to payments system, and; the receipt of the grant by the designated payee only;
    - v. Adequacy of written instructions to staff processing grant applications and payments;
    - vi. Validating payments of grants;
    - vii. The adequacy of management reporting;
    - viii. Accounting for grant payments by recipients;
    - ix. Procedures to confirm grants have been used for the purposes intended;

- x. The processes for identifying and assessing the results of the audits carried out by external auditors and the degree of reliance placed on their work when approving final payments.

**METHOD**

- 4. The review of the Grants paid by AAPD will follow a systems based approach whereby systems are identified and documented and controls are evaluated and tested and then a report produced highlighting weaknesses and making appropriate recommendations.

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**AUDIT AND ASSURANCE UNIT AIMS**

**The aim of Audit and Assurance Unit is to provide an assurance to the Accounting Officer on the adequacy, reliability and effectiveness of the Department's internal control system.**

**Audit and Assurance Unit also aims to help managers improve their efficiency and effectiveness by reporting on the internal control system for which they have responsibility.**

**Audit and Assurance Unit  
September, 2001**

## RECOMMENDED ACTION &amp; IMPLEMENTATION PLAN

Audit: Section 81 Grant Payments in the Asylum and Appeals Policy Directorate

Date: January, 2002

Recommended Action Ref.	Category (see Key)	Recommended Action	Accepted/ Rejected	Management Response	Implementation Target Date
1	1	AAPD should continually review its procedures for allocation of grants and the approval of bids with a view to minimising the risk of causing the grantee uncertainty which could lead to poor planning and consequently poor service delivery.	Accepted	The importance of this will be reflected in a revision of our guidance notes that will be put to AAU for comment. However, while AAPD is in full agreement with the sentiment of the recommended action, it may not be possible in practice to advise grantees of their allocations in reasonable time owing to factors beyond our control. For example, we will not know whether there is to be any increase in the overall S81 budget allocation for 2002-03 until July 2002 at the earliest. We are therefore unable to assist grantees beyond maintaining good communications with them and ensuring they're kept informed of any developments.	With immediate effect

Recommended Action Ref.	Category (see Key)	Recommended Action	Accepted/ Rejected	Management Response	Implementation Target Date
2	1	AAPD makes it a requirement for the grantees to include details of their underspend in their periodic and year end reports to AAPD so that the level of underspend can be checked.	Accepted	We shall advise grantees within the next month that this information is required with their year end 2001-02 financial reports and for all periodic financial reports thereafter.	22 March 2002
3	1	AAPD take steps to determine the precise level of underspend, if any, for each grantee in respect of 1998/99 to 2000/2001 and make adjustments to grant-in-aid as necessary.	Accepted	Requests for this specific information were sent to the RLC and IAS on 25 September 2001. However, contrary to the NAO report, the subsequent responses from both organisations claim underspends of less than 2% for 1998/99. We will seek assistance from the AAU to resolve this.	Ongoing. AAU advice to be sought by 28 February 2002
4	1	AAPD must ensure that changes to grantees' bank details are made only on the basis of a properly authorised instruction and a phone call by AAPD to confirm the instruction.	Accepted	While we are happy to adopt the suggested procedure in future, we are disappointed that paragraph 7 of the key findings of this report refers to a "major lapse in control". Bearing in mind the fax providing bank details arrived immediately after advised given on the telephone that it would be sent, we do not accept there was any real risk of "grants being paid to someone not entitled to receive it" as the report suggests.	Forthwith

Recommended Action Ref.	Category (see Key)	Recommended Action	Accepted/ Rejected	Management Response	Implementation Target Date
5	2	AAPD's guidance notes for staff be updated to include the above recommendation.	Accepted	The guidance notes will be revised during the next month and referred to AAU for comment before being finalised.	22 March 2002
6	2	That the coding errors are corrected in BASS by use of journals without delay.	Accepted	Journal Vouchers have been completed.	Done
7	2	That a separate cost centre code is set up in BASS for RLC (Oakington) costs. That will not only ensure consistency of accounting treatment with RLC but also provide more relevant information for monitoring the RLC (Oakington) budget	Accepted	This will now be implemented so that there is direct monitoring of the RLC Oakington budget.	1 April 2002
8	2	AAPD takes steps to obtain assurances that RLC has implemented the recommendations made by their auditors.	Accepted	We have written to obtain further assurances that they have implemented, and continue to put into practice their auditors' recommendations to minimise the risk of overpayment of salaries.	Review by 15 March 2002
9	2	AAPD takes steps to ensure that RLC complies with all grant conditions especially the requirement to obtain AAPD's agreement before writing off losses.	Accepted	We have written to remind specifically of the requirement to obtain Home Office approval before writing off any losses in excess of £500. Also to request assurances that staff are aware of the necessity to comply with the agreed conditions of grant in aid.	Review by 15 March 2002

Recommended Action Ref.	Category (see Key)	Recommended Action	Accepted/ Rejected	Management Response	Implementation Target Date
10	2	We recommend that an aide memoir in the form of a simple checklist is used to monitor grantees' compliance with grant conditions. The checklist will include, in outline, the main grant conditions to be monitored. It will be kept on the grantee's file and completed periodically. At the year end the checklist will be signed by a senior official confirming compliance or non-compliance with grant conditions.	Accepted	An aide memoir will be drafted and included in the AAPD guidance notes for use from the new financial year	1 April 2002
11	2	The approval by AAPD for capital items to be purchased by grantees be given by the head of the section in future.	Accepted	We shall ensure that this requirement is reflected in the revision of our guidance notes.	22 March 2002
12	2	AAPD takes steps to ensure that all outstanding recommendations are implemented in full and then to ensure that an assessment is made of the adequacy of the current systems overall.	Accepted	We shall write to seek assurances that all VantagePoint recommendations have been implemented before the new financial year. We will then ensure an appropriate assessment of the adequacy of their systems is undertaken within the first half of 02-03.	1 April 2002 and 30 September respectively.

**KEY:**

Category 1: Weakness in control, which, if not rectified immediately, exposes the organisation/systems to a high probability that the objectives will not be met.

Category 2: Weakness in control, which, if not rectified as soon as possible, exposes the organisation/systems to a probability that the objectives will not be met.