

Part 2 Analysis BELB

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Part 2 BELB Analysis

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A Consultants' 1998 Reports on Financial Management

A.1 Introduction

A.1.1 DENI in consultation with all 5 Boards sought consultancy support from Deloitte & Touche to strengthen the financial management arrangements in ELBs in 1998. This involved a review and making recommendations to improve management, presentation and accessibility of the information and consistency of presentation and classification of expenditure across the Boards¹. Specific reference was made to taking account of the transfer from cash to accruals accounting and the implications of Resource Budgeting.

A.1.2 The Conclusions and Recommendations of the SEELB and BELB Reports were investigated for pointers to action which may have a bearing on the current Inquiry. Action was recommended to be taken in under 12 months. The main relevant aspects are summarised below. Where weaknesses were found, and recommendations were similar for both Boards, this is indicated in the headings below, although the footnote references may be to the report on only one Board.

A.1.3 The review reported and made recommendations on the effectiveness of existing management information systems and procedures for:-

- determining priorities,
- estimating the financial and non financial resource requirements of services,
- allocation of resources to budget areas,
- budgetary control and monitoring,
- monitoring and review of performance against objectives, and
- ensuring staff structures and deployment and arrangements for managing administrative expenditure are effective and appropriate.

A.2 Delegation to CFO SEELB & BELB

A.2.1 Having noted that the Chief Finance Officer (CFO) was currently undertaking some of the day to day aspects of the Chief Executive's (CE) financial duties as Accounting officer the report recommended that the CE ensure these responsibilities be clearly defined and confirmed in writing.

A.3 Budgetary Control; SEELB & BELB

A.3.1 Resource allocation should be driven by the aims and objectives of the organisation and each business unit should identify the resources required

¹ Review of Strategic and Financial Management, BELB Deloitte & Touche 21 July 1998

to deliver objectives². This would effect a bottom-up approach to resource allocation.

A.3.2 Where budget management was defined as one of the responsibilities of a post, these should be spelled out in the job description and agreed by the employee. Clear documentation on the roles and responsibilities of budget holders should be produced³. Additionally training may be required to ensure employees have adequate competencies.

A.3.3 A bottom-up approach to budget preparation should be developed and reconciled to the Finance Department driven allocations based on DENI allocation letters.

A.4 Managing Expenditure; SEELB & BELB

A.4.1 The specification for a new management information system under the Accruals Accounting Project should ensure that both accruals and commitment information are also available⁴. This should let budget holders be aware of the total funds committed out of their budget at any time, not just payments made.

A.4.2 Existing procedures were noted as leaving reports unavailable until the next mid month. It was recommended that the timeliness of reporting be considered in developing the new system with a delay of no more than 2 or 3 days after month end⁵. Preference for on-line access by all budget holders was stated.

A.4.3 Provision for exception reporting to focus the budget manager's attention on significant items was recommended⁶.

A.4.4 Both Boards were also asked to change their system whereby a Board officer(s) was a member of the Board's Audit Committee⁷ to make them wholly member appointees.

A.5 Authorisation of Expenditure; BELB

A.5.1 The consultants recommended a system of delegated levels of authority be introduced whereby approval limits are attached to staff grade levels as appropriate⁸.

² Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p89

³ Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p90

⁴ Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p91

⁵ Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p91

⁶ Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p92

⁷ Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p93

⁸ Review of Strategic and Financial Management, BELB Deloitte & Touche 21 July 1998

B Miscellaneous

B.1 Departmental Allocations

B.1.1 The DE allocation letter to BELB stressed that within the two distinct recurrent allocations it was for the Board to set the quantum of the individual budgets (in accruals terms) for each element of the Schools, Headquarters and Miscellaneous Services, and for the various components of the Youth Service and Community Relations provision. Appendix A of the letter allocated £163.5m direct to schools; a further £4.17m additions to Schools budget; 14 Earmarked funds (ranging from £20k to £2.4m) totalling some £7.3m; and 5 Executive Programme Funds (ranging from £50k to £446k) totalling £0.9m. Notional allocations for premature retirement came to £1.62m.

B.2 Annual Accounts

B.2.1 The format of the annual accounts is determined by DE. Those for 2000/01 to 2003/04, the period since resource accounting was introduced, were examined. The 2002/03 and 2003/04 accounts have not yet been audited.

B.2.2 The annual accounts from 2000/01 to 2003/04 show a cumulative Income and Expenditure deficit of £12.565m transferred to reserves over the four years. The School Reserve stood at £1.54m at 31 March 2001 but fell to a deficit of £0.8m at 31 March 2004. The Grant Reserve had been a deficit of £0.62m at 31 March 2001 but rose to a surplus of £0.52m at 31 March 2004. The provision for Liabilities and Charges did not alter much from 2002/03 to 2003/04 when it stood at £6.9m. Creditors and Debtors, which unlike the SEELB apparently included amounts related to PFI projects, were high at some £30m each in 2001/02 and 2002/03. The creditors amount falling due at 31 March 2004 rose to £35.9m which was £4.6m greater than the level of debtors.

B.2.3 The BELB unaudited annual accounts for 2003/04 showed a deficit on income and expenditure of £5.66m. Under Funding commitment it showed £3.03m as End Year Flexibility at 31 March 2003 from DENI to be added to the Board's spending limit for 2003/04. A zero figure is given for end March 2004.

Note 23 on the 2003/04 accounts indicates that there was an increase in accruals of some £5.01m, in deferred income of some £1.3m, and in creditors of some £0.2m over the position in 2002/03 with a fall in debtors of £1.71m and in prepayments and accrued income of £0.52m.

B.3 Resource Allocation Plans

B.3.1 DE specifies the format of the Resource Allocation Plan (RAP) for all Boards. Following receipt of the Department's allocation the Board must

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submit an Initial RAP before the start of the financial year. Revised Plans are required in mid- year and a final one in March of the current year. These all follow the same format. In the main allocation letters from 15 February 2001, DENI⁹ required the RAP to show details of spending plans on an accruals basis across the relevant divisions and sub divisions of service, together with an estimate of the overall cash funding requirement.

B.3.2 Resource Allocation Plans from 2001/02 to 2004/05 were examined.

B.3.3 Section 1 gives the total planned expenditure, recurrent and capital separately, for a number of service sub divisions¹⁰. The first stage of the latter is the aggregate for 3 DENI funded Services, Schools, Other and Youth. The next column breaks the main headings down with 7 divisions for schools, 1 for Other and 2 for Youth Services.

B.3.4 The final subdivision indicates how the three main schools' divisions have been allocated to Allocated Schools Budget, Centre Items and Other Related Expenditure. Sub-divisions for the remainder separate into various work items. The end result is the planned expenditure by 27 subdivisions for Schools, 8 for Other and 8 for Youth Services. In 2001/02 totals were given as accrued expenditure and subsequently were further divided into recurrent and capital.

B.3.5 Certain expenditure is not included, for example for Premature Retirement Costs.

B.3.6 The Planned expenditure totals in the Initial 2003/04 RAP at £185.9m equalled the cash funding required. The revised figure in the Final 2003/04 Section 1 prepared on 30 March 2004 was £213.4m with an equal amount listed as cash funding requirement.

B.3.7 A further supplementary analysis¹¹ is required as Section 1A. This gives a matrix of planned expenditure by 6 types of school (one being "School Sectors") for the various subdivisions. The recurrent portion of the final 2003/04 RAP showed Aggregated Schools Budget (ASB) of £106.1m; plus £16.6m centre items and £16.2m both allocated among the various schools categories. There were then 6 services (four further subdivided into core and maintenance) in Education Management and Support services (EM&SS); 4 works and IT and 5 sub divisions under "Five Board Services". The section 1A then identifies expenditure in 24 sub division categories which is Earmarked, and another 11 which come from Executive Programme Funds.

B.3.8 The final RAP Section 1A is checked across to the Departmental allocations. The interim and final 2003/04 sections 1A, which list the main expenditure on schools, gave no EYF for 2002/03, nor did the initial RAP.

B.3.9 Over the years the RAPs appear to give net expenditure planned to be the same as the Departmental allocations. There has been no specific allowance for End of Year Flexibilities, or allocations received but not spent, even for earmarked funds.

⁹ DENI letters of 15 February 2001, 18 January 2003 and 20 February 2004.

¹⁰ BELB Resource Allocation Plan 2003/04 Section 1

¹¹ BELB Resource Allocation Plan 2003/04 Section 1A

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B.3.10 The Service categories listed in the monthly financial reports to the Board do not agree, except for Pre-primary, Primary and Special Schools, with the RAP section 1 or 1A items.

B.3.11 Section 2 of the RAP gives planned outputs¹² for the year and follows a DENI proforma. Details are given by topics which do not readily match the Division of Service or the sub-divisions of sections 1 and 1A. There are many output indicators and few are, or can be, directly linked to the expenditure planned to achieve the targets.

B.3.12 The SEO said he did not see the DE initial allocation letter. Although new or adjusted bids would be made there was not a lot of detailed discussion on the allocation by service for the following year's budget and he could not recall additional monies being made available over the last two years in relation to bids made. Discussion was often with the CE or CFO rather than in SMT.

B.4 Accountability reviews

B.4.1 Within the financial year the Department meets the Chairman and Chief Executive of each Board to discuss general matters concerning Board business.

B.4.2 Minutes of BELB accountability reviews in 2003 and 2004 were investigated.

B.4.3 In November 2003 BELB confirmed they would remain within budget. Pressure from schools in deficit due to falling rolls, above average salaries for teachers and particularly Special Education Needs were mentioned.

B.4.4 At the accountability review¹³ of 28 June 2004, the Department was informed that, despite difficult circumstances, the 2003/04 accounts should be submitted on time. The requirement to incorporate Board accounts into the "Central Government Accounts/Whole of Government Accounts" was mentioned as an additional pressure to be managed within current resources. Schools in deficit were closely monitored and the Board was satisfied with the tight controls in place to follow through repayment plans. The Board had plans to contain expenditure within budget. A balanced RAP would be achieved by cutting ASB because of falling number of pupils and postponing planned maintenance. There would be redundancy and an examination of administrative costs.

¹² BELB Initial, Interim and Final Resource Allocation Plans 2003/04

¹³ BELB Accountability Review 28/6/2004

C BELB Finance Committee

C.1 Background

C.1.1 Minutes of the Finance Committee meetings from September 2000 to November 2004 (excluding February and September 2004) were examined. The CFO and DCFO normally attended but not the Chief Executive. The CAO generally attended. The variance analysis on monthly reports to the Committee were always discussed and a note appended of points raised. Copies of papers submitted to the Committee were not seen except where noted below.

C.1.2 The Board^A relied on the Finance Committee Chair to inform them of important issues and this happened. The Chair met the CFO frequently and before every meeting and was well satisfied with the service he received. The Board now feel more background information on issues would have helped to improve its decision taking. The timing of output from the oracle system apparently caused some difficulty with the date of meetings but the CFO got monitoring data to the Committee on time.

C.1.3 The Chair said the CFO spoke to the Finance Committee on a monthly basis and provided a prediction whether the Board was in a surplus or deficit position. A further supporting paper with some 20-30 headings was also provided. The Committee questioned both the % spend and the details in these reports.

C.1.4 The Finance Committee Chair recognizes^B the need to balance oversight without getting involved in detailed management. The approach of the CE and CFO was felt to leave the Board members too hands-off. The Board and Committee had considered the problems at a school in deficit but had not gone into the reasons where a large variance had been shown in a non-delegated service. The Chair was aware many important debates with financial implications took place in other Committees such as Education and Library. In debate, their emphasis was often on how to get further departmental funding rather than question how economies might be found. As a statutory body the Library Committee involved itself deeply in financial matters, both budgets and any issues that arise during the year. The bulk of the library budget comes from DCAL which allows no carry over of funds. The history of no trouble from the final accounts prepared by the staff gave the Committee assurance on forecasts by the CFO.

C.2 Year 2000/01

C.2.1 The 13 September 2000 Finance Committee meeting approved the 2000/01 revised recurrent scheme which had been copied to members. The CFO indicated this was the first report produced under the new AAP system and members noted the variance analysis and the estimated profile. The Senior Management Team (SMT) planned to reduce the overspend (later

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amended to underspend), which was in excess of £7m at year end, by allocating resources across the schools and other services. The financial implications of two factors affecting the AAP were discussed, as were additional costs of its implementation. The Chairperson was concerned that new projects were causing a heavy burden on officers and requested further consideration be given to this pressure.

C.2.2 The Committee were informed on 11 October 2000 that the exact surplus available for spending would not be known until the accounts were finalised at the end of October. The same meeting discussed a Five Board review to improve the quality and effectiveness of the service and in particular the needs of the special education sector on Home to School transport.

C.2.3 The CFO informed the Committee on 8 November 2000 that the draft final accounts for 1999/2000 would first go to DENI for review of the impact of accruals accounting and then be put to the Committee in December. In discussion of variances overspend in HQ administration, library services and student awards were noted.

C.2.4 The variance analysis produced on 13 December 2000 was close to budget with underspend in the schools sector expected around £700k at year end. There was substantial discussion on the 1999/2000 annual accounts with the CFO referring to a number of accounting issues to be resolved with DENI. Aspects included deficit after charging notional costs; provision for future pension costs; accruals and provisions being charged for the first year (under accrual accounting) when income was still on a cash basis, which meant the recurrent reserves were in deficit at 31 March 2000 by £4.6m; and fixed assets excluded maintained schools.

C.2.5 The Committee were told on 10 January 2001 of a drop of 1.7% in pupil numbers which would impact on the funding the Board would receive. There was an overspend in special schools but underspends in the schools and Curriculum Advisory Support Services (CASS) budgets.

C.2.6 The CFO had estimated the costs of job evaluation in the library services for inclusion in the 1999/2000 accounts. He further reported to the 14 February 2001 meeting that DENI had removed the teacher pension provision from the accounts leaving the grant reserve to break even. After 9 months school underspend was £0.5m, but this was needed to balance schools in deficit.

C.2.7 The Committee meeting of 14 March 2001, to which all Board members had been specifically invited, discussed the 2001/02 Recurrent Financial Scheme. The proposals did not result in cuts in schools related services but reductions were needed in the youth service budget. The Scheme was approved. A further technical adjustment had been agreed by DENI in respect of opening accruals at 31 March 1999 and this left reserves at £6.2m.

C.2.8 From the variance report at end February 2001 the year end position in schools for 2000/01 would be about £3m surplus and the CFO said DENI was aware of the plan to fund the overspends in HQ administration and the library services out of this. The 14 April meeting was told that the accrual and provisional adjustments relating to the debtor had not yet been agreed.

C.3 Year 2001/02

C.3.1 There was further announcement of DENI decisions on debtor adjustments to the 1999/2000 account including job evaluation and pensions. The Committee meeting on 9 May 2001 started an examination of DE proposals for a common formula for funding schools. It also had a presentation from the CFO on the Finance department annual report 2000/2001.

C.3.2 At the 12 September 2001 meeting, the Committee was taken through the procedures regarding monitoring of the recurrent scheme for 2001/02. As well as summarising allocations from departments since the last return by purpose, the return included a matrix giving various services and money allocated in the first two rows. The allocation of the additional funds to services were then shown in the next columns of the matrix with the final column showing the totals then available for all services. There were 5 categories of schools plus a Curriculum reserve Support Fund and a Contingency Fund in the first sub-total. Next came a school related sub-total comprised of 10 services and finally a line for Youth. There was no mention at this meeting, or earlier ones for 2001/02, of a monitoring report of expenditure or revenue against budget.

C.3.3 A Five Board response to the N I Assembly Environment Committee on Home to School Transport was appended to the 17 October 2001 Minutes. Only on the impact of requiring no standing passengers, and some bus replacements, were estimates of cost given.

C.3.4 A variance analysis to end September 2001 was sent to the Committee for its 14 November 2001 meeting. Comment was made by the CFO that overspend for the current year would be covered by general surplus funds. The Committee noted that variances to end October, reported to the 12 December 2001 meeting, showed the library costs had been affected by the costs of job evaluation. It was stated that DCAL would correct this by a further allocation to the Board.

C.3.5 The CFO explained the underspend in the schools sector and the impact of the teachers threshold payments on the budget given in the variances analysis at end November at the 9 January 2002 meeting. The Committee noted an underspend in the Regional Training Unit.

C.3.6 The DENI allocation letter for the 2002/03 recurrent Financial Scheme and its appendices were tabled at the 13 February 2002 meeting. Proposals from the SMT were shown as requirements by Service. These were similar to those referred to above on the procedures explained at 12 September 2001 meeting. The first matrix table gave the baseline from the previous year, an addition for inflation and new or reduced commitments to provide a 2002/03 requirement. The next 25 columns gave the additional departmental funding by service to indicate how an overall total by service was reached. The grand total of £160.7m equalled the total resource allocation from DENI.

C.3.7 This suggests that the distribution by service was not necessarily what each considered was their requirement but had already been adjusted to equal the Departmental allocation. It appears a straight 2.5% was used for inflation in all services but schools also allowed for changes in the allocations per pupil numbers. Apart from the additional departmental funding, the only services to get a new commitment were special schools, HQ administration and CASS.

C.3.8 Considerable discussion on the Recurrent Scheme is noted in the February Committee Minutes. Members requested a number of points to be included in a letter to DENI concerning the size of its allocation to the Board. The Committee thanked the CFO for the presentation and concise reports which everyone could understand.

C.3.9 The Committee noted on 13 March 2002 that based on results to end January there would be surplus funds with overspend on CASS and underspends in the schools' sector and milk and meals. By the 10 April meeting the underspend represented under 2% of the budget and was a reduction on the level of the previous year.

C.4 Year 2002/03

C.4.1 The 8 May 2002 Committee meeting discussed the Finance Department 2001/02 Annual Report and its Business Plan for 2002/03. The Committee agreed the targets and dates in the latter. No variance reports appear to have been presented at the May, 12 June, 11 September or 16 October 2002 meetings. The latter was told that the recurrent expenditure analysis did not yet include carry forward funds from the last year of £6.6m.

C.4.2 Based on the Recurrent Expenditure analysis at the 13 November 2002 meeting the CFO expected overspend (?) at year end to be around £3m, which was within DENI guidelines. Officers were monitoring overspends in the special school sector and the HQ budget, with underspends in the schools services expected to increase towards year end. No comment is recorded on the variances reported to the 11 December 2002 or 8 January 2003 meetings. However the CFO expected the year end surplus to be £3m.

C.4.3 The Committee had considerable discussion on the Recurrent Scheme for 2003/04 at its 12 February 2003 meeting. Similar detailed information was presented as for the 2002/03 Scheme. The greater bulk of funding¹⁴ (£107m for 2003/04) was delegated to schools with many allocations earmarked or ring fenced (£4.5m for 2003/04) where there was little or no scope for Board action except to request additional funds. A further £12.5m was shown as Centre items, plus Related Expenditure of £15.5m in 2003/04, to be spread among the schools, leaving £2.5m for Five Board services and only £24.5m for 6 Board services, plus £6m for maintenance etc. in the Recurrent budget. The centre and other related schools items covered some £19.5m of Mandatory and Discretionary Exceptions from the Local

¹⁴ Initial RAP Section 1A for 2003/04

Management of Schools budgets,¹⁵ leaving another £18m for services outside the General Schools Budget.

C.4.4 In accordance with DENI instructions previously earmarked items of maintenance, job evaluation, special educational needs and Irish medium were incorporated into the block grant baseline. New commitments for the centre budget of £300k and miscellaneous services of £719k were added to the schools related budgets. Again the overall total at £171.6m equalled the DENI grant.

C.4.5 Allocations for 2003/04 for the library service from DCAL and for Youth from DE were discussed at the 12 March 2003 meeting. Serious concerns were expressed about the library allocations. The youth provision had been increased and this was thought to have been partly due to Board representations on Targeting Social Need. The Finance Department had produced a 2003/04 Business Plan, linked to the 2003/06 Corporate plan. The Committee approved the Plan and requested quarterly reports. A total of 24 targets were included in the Finance Business plan.

C.5 Year 2003/04

C.5.1 The CFO reported on the final Recurrent Scheme for 2002/03 at the 9 April 2003 meeting. A copy had been circulated and was approved apparently without discussion. As at end February the CFO expected an end year surplus of around £3m when accrual adjustments had been made. The Finance Department Annual report 2002/03 was presented to the April 2003 Committee. Under the target of management of accounts within 10 days, it records that December 2002 was completed by 13 January. No comment was included about other months.

C.5.2 There was no record of variances being available or discussed at the 14 May, 1 June or 10 September 2003 Committee meetings.

C.5.3 The CFO told the September 2003 meeting¹⁶ that he planned to wait for several months before considering allocating additional funds to schools that had lost money due to the capping mechanism. A meeting on 9 September 2003 had noted that the Board's reserve fund had been considerably reduced from 2002/03. Although the Committee had recommended a deputation to meet the Minister about the effects of the capping mechanism, the CFO preferred not to take action until proposals for LMS commonality had been announced.

C.5.4 The Committee approved a revised Scheme at the 10 September, 2003 meeting which allocated where additional funds received from DENI in recent weeks would be spent. This item is a regular monthly feature in the Minutes.

C.5.5 The DCFO reported to the 8 October 2003 Committee meeting that expenditure was high for that stage of the year but the budget would be monitored closely and reviews submitted to the committee. There was

¹⁵ Minute to Finance Committee 12 February 2003 Appendices.

¹⁶ BELB General Purposes and Finance Committee; Minutes 10/9/2003

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reference to a school with a serious deficit but it had agreed to live within its budget and submit a plan. There is no record of an analysis of variances by service, or other sub-division, being tabled for the members. New allocations from Departments were notified.

C.5.6 Members were informed on 12 November 2003 that a particular school deficit would not increase this year but there was no downward movement in its deficit in the next two years. Members expressed concern.

C.5.7 Revisions to the Scheme from further DENI allocations were approved. The CFO informed the Committee¹⁷ that there had been an overspend in three areas namely special schools, HQ and CASS. He also reported a £1m underspend across all services at the half year but was confident the year's outturn would be in line with budget. There is no record of any analysis of the budget outturn by service being presented to the Committee or of the magnitude of the overspends.

C.5.8 On 10 December the CFO reported a slight recurrent overspend compared to budget at end October 2003. All budgets were now revised on a monthly basis and it was expected the 2003/04 final expenditure figure would be close to budget. Reserves would be at a minimal level by March 2004.

C.5.9 At the 21 January 2004 Committee the CFO explained that the underspend at end December 2003 did not include accruals. He expected the year end position would be close to budget. The major area of overspend would be special schools which was a pressure on all Boards. CFO said the 2004/05 budget would be set at a realistic level.

C.5.10 Subsequent minutes suggest there was no Committee meeting in February 2004.

C.5.11 On 10 March 2004 the Committee authorised the CFO to investigate matters arising from a school in deficit. At that meeting the CFO referred to a paper detailing the variance analysis for recurrent payments up to 31 January 2004. He explained accruals had not been factored in but there is no record of the possible amounts involved. The CFO expected the year end position would be close to break even.

C.6 Year 2004/05

C.6.1 The savings plan from the school in deficit was expected to be with the CFO by 31 April 2004. The 21 April 2004 Committee meeting approved procedures, agreed with DENI, regarding the withdrawal of LMS delegation where the budget was not being managed within agreed limits.

C.6.2 A report on the Finance Department Business Plan 2003/04¹⁸ was tabled at the April Committee meeting. Among the achievements claimed were the "11i" upgrade implemented successfully in July 2003 within a strategic objective of raising the standard of the Board's financial systems. Another was a major exercise on budgetary control completed between November 2003 and March 2004 and the final surplus to be known at end

¹⁷ BELB General Purposes and Finance Committee; Minutes 12/11/2003

¹⁸ BELB General Purposes and Finance Committee; Minutes, 21/4/2004

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June 2004, but estimated at no more than £1m. These came under the strategic objective of managing the Board's budget effectively.

C.6.3 Action was taken by the Committee on 12 May 2004 for a sub-committee to implement the first stage of the scheme for suspension of LMS delegation regarding the school in deficit. It had not submitted a schedule of savings as requested by the Board.

C.6.4 A Business Plan 2004/05 for the Finance Department from the CFO was approved at the May 2004 meeting. Proposed action for the CFO and DCFO included:-

- To measure the effectiveness of Board services by co-ordinating performance measures for all departments by September 2004 (CFO),
- To be recognised as a quality employer by submitting department for formal IIP re-assessment by September 2004, (CFO)
- To develop full potential of all staff by producing a staff development plan by October 2004 and induct new management accountant during 2004 (DCFO)
- To satisfy governance and accountability requirements of members by producing Business Plan 2004/05 by May 2004 and Annual Report for 2003/04 by April 2004 (CFO),
- To ensue smooth transition to LMS commonality by representing Board's interests on review and implementation and conduct consultation if necessary (CFO),
- To maintain adequate level of funding for the Board by lobbying for the use of Noble indices to optimise TSN funding for Belfast (CFO),
- To provide an interface with external bodies by developing partnerships with PPP contractor and representing Board on Quartiers en Crise (CFO),
- To promote social inclusion, equality of opportunity and human rights by consolidating consultees comments on the second NTSN action plan and publish plan by March 2004. (CFO),
- To access external funding by producing a report on income generated to March 2004 by October 2004 and increase income by 5% for 2004/05. (DCFO),
- To manage Board's estate effectively in line with the plan agreed by SMT/SLT. (DCFO),
- To manage the Board's budget effectively by completing a comprehensive review of all major service by September 2004 and prioritise services to create reserve funding (CFO, DCFO, MA)

C.6.5 The CFO confirmed at the 9 June 2004 Committee meeting that the Board had funded the school in deficit appropriately. The CFO provided details of extra funding for earmarked initiatives and continuation of existing programmes which had been incorporated in a revised Recurrent Scheme.

C.6.6 On account of the Board's financial position, the Chairperson opened the 13 October meeting to all Board members. The minutes give the previous meeting as being on 9 June 2004. A paper was presented outlining recovery plans for identified schools with a budget deficit, while another focused on the forecast expenditure against budget for the delegated schools in 2004/05. The CE presented a paper on action to return the Board to an acceptable financial position. This was a containment strategy rather than a recovery plan. A full Board decision had been taken in September 2004 not to accept the document pending discussion with the Permanent Secretary of DE. A proposal to take no further action until after a meeting with the Permanent Secretary on 15 October 2004 failed and the Committee meeting then closed being non-quorate.

C.6.7 The 10 November 2004 Committee meeting asked the CAO to update members regarding the Board investigations and precautionary

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suspensions of officers. Discussions took place in committee and so are not reported except that members noted the 1998 Deloitte & Touche report, issues pertinent to the role of members in any future proceedings and the establishment of disciplinary and appeal panels. The acting CFO informed members that the revised containment plan had been submitted to DENI on 1 November 2004. There had been feedback and further clarification sought by the Department.

C.6.8 The Acting CFO reported on completed adjustments to the 2002/03 and 2003/04 accounts as a result of issues identified by Deloitte&Touche (in 2004). These increased the outturn deficit for 2002/03 from £315k to £2.14m, and for 2003/04 from £4.52m to £5.41m.

C.6.9 The Chairperson informed members on 8 December 2004 that whilst the Finance Committee had an oversight role with regard to Board finances, there was a need for each of the spending committees to be able to monitor their own budgets. The Committee agreed that a monthly spreadsheet be produced for each committee and an overall one for the Board. These reports were to clearly indicate committee and board financial positions.

C.6.10 There is no record of any mention or papers produced for the Finance Committee on what caused the problems with the 2003/04 final accounts. There is no record of any analysis of current or cumulative expenditure compared to budget having been put to the Board.

D BELB Audit Committee

D.1 Background

D.1.1 Minutes of the BELB Audit Committee from 19 September 2000 to 27 February 2004 were investigated. The CE was normally in attendance. Members of NIAO were often present in recent years. The Board relied on the Audit Committee to deal with significant matters. Both recognized the need to be sensitive about certain matters until the full facts were known and action determined.

D.1.2 The Board had not been informed of the main thrust of audit management letters or value for money reports. The Audit Committee^C met 2 or 3 times per year. It felt the quality of the information provided was high but recognized that they depended on the material provided by the staff. There were no conscious holes in the Internal Audit programme of work.

D.1.3 The Chair did not recall the 1998 Deloitte recommendations or those in the Central Management Support Unit (CMSU) report on Special Education Needs. Corporate governance training did not touch sufficiently on financial management matters. The Chair's view is that the Head of IA should be completely independent of the CE. He did not agree with the CE statement that risk management was fully embedded throughout the organization.

D.1.4 The Audit Committee were informed by the CFO on 19 September 2000 of areas where difficulties were being experienced in finalising the 1999/2000 Annual Accounts. These were common to all ELBs and were:-

- Valuation of assets,
- Accruals treatment of utilities,
- Accounting treatment for maintained schools, and
- Application of accounting policies.

D.1.5 NIAO gave a presentation on the work undertaken by themselves and the Public Accounts Committee of the NI Assembly on 2 March 2001. There was a detailed discussion with papers on Corporate Governance, Statement of Internal Financial Control 1999/2000, and Statements of Internal Control which would become part of the annual accounts requirements from 1999/2000.

D.1.6 In March 2001 the Chief Internal Auditor reported on, and gave details on, IA activities in recent months.. This became a common feature of Audit Committee business at most meetings. The Committee also kept a continuing close eye on staffing problems in the IA department.

D.1.7 On 18 October 2001, discussion on the Remit and Functions of an Audit Committee in relation to risk management and terms of reference of Internal Audit led to agreement by the Committee on both issues.

D.1.8 The main recommendations of a review by Deloitte & Touche on the internal audit function in all five Boards were reported to the Committee on 2 May 2002. An action plan had been adopted to implement all the

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recommendations of this report. Systems to be audited in 2002/03 were highlighted.

D.1.9 The Committee had a detailed discussion of the 2001/02 IA Annual report and the Activity report for 2002/03 on 25 November 2002. No significant issues had been identified. Members took a special interest in how audits with a low opinion were followed up and the CIA indicated action was monitored as part of the normal process.

D.1.10 On 16 January the Committee considered an anonymous complaint and the action by staff on its receipt. The expenditure involved had been subject to competition and standing orders had been adhered to in processing the matter. Members questioned the setting of estimates and contract procedures.

D.1.11 The contents of the NIAO management letter on the 2000/01 accounts was discussed by members on 29 May 2003. The DCFO advised that many of the issues had already been addressed and the Finance Department business plan covered the remainder. The Internal Audit Report 2002/03 was extensively discussed by the Committee in May. Copies of the Government Internal Audit Service Manual had been copied to members for their information. The head of IA advised that performance indicators were being developed on a five Board basis to permit benchmarking. No significant issues had been found by IA in 2002/03. In developing an Audit Plan 2003/04 the head of IA had ensured consultation with senior managers in the departments to identify, prioritise and direct risk based audits within each area.

D.1.12 The CFO stated¹⁹ that surplus funding to the Board was 50% less than the previous year. There were no serious matters identified on the 2001/02 or 2002/03 accounts. The Committee was informed of ongoing VFM studies. An audit plan for 2003/04 to 2005/06 was discussed and approved. Areas requiring annual audit had been identified. Members reviewed the executive summaries of audit reports carried out since April 2003 and discussed the findings and recommendations. There was discussion on a 2002/03 Fraud Report.

D.1.13 A comprehensive discussion was held at the 27 February 2004 meeting of the Committee on findings and action taken on Property Services reports. The Chairman asked for the identification of key areas of risk to be added to the agenda for future meetings.

D.1.14 No record of a meeting in June 2004 is presently available due to pressures arising from the 2003/04 account problems.

D.2 Internal audit

D.2.1 Internal Audit (IA) reports of 1994 and 1995 on HQ services were examined. The following paragraphs indicate some of the issues addressed which are relevant to this Inquiry. From 2003, IA reports required a management response to be given. Most of the earlier reports examined dealt

¹⁹ BELB Audit and Risk Management Committee minutes, 9/9/2003

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with compliance audits and, until 2002, were addressed to individual officials, and not to the Chief Executive, although reference was made to the purpose being to allow the CE to discharge his Accounting Officer duties. System based audits became more common from 1998.

D.2.2 A major review²⁰ of the compliance of BELB with GIAM standards was carried out in 2002. The HIA reported that all Priority 1 recommendations had been implemented^D and all other recommendations which were still relevant had also been implemented. The January 2003 Internal Audit Charter set out, inter alia, management responsibilities in relation to IA.

D.2.3 An audit needs assessment for a strategic plan covering 1999/2000 to 2003/04 identified most of the high risk areas being related to schools. Planning was for an increased amount of audit time to be spent and coverage of the various services appears to have been good over the period. The IA report for 1999/2000 noted that it was decided, following discussions with the accounting manager, to postpone an audit of “financial operations – budgets” pending introduction of the new accruals accounting system. No specific audit of this system has been done since October 1997 but certain aspects of budgetary control have been covered as part of other studies, see below, and 15 days have been set aside in 2004/05 linked to the three Departments (DE, DCAL and DEL) seeking information in different formats.

D.2.4 A review of the possibility of moving to six monthly, or even quarterly accrued accounts, was included in the detailed audit proposals for 2003/04 and 2005/06. IA were advised that DENI had indicated this should be developed as it would enhance the accounting information to the Board.

D.2.5 A 1995 review of the Accounts Payable System at HQ noted that the advent of accruals accounting meant the identification of unrecorded liabilities in the form of goods received, not invoiced, would become an important issue for the year end accounts and the implementation of a fully integrated purchase order recording system, as currently incorporated in the Computerised local Administration System for Schools (CLASS) system, would make the identification of such liabilities easier. Compliance tests and the Better Payment Practice Code were the subject of a further audit of accounts payable in February 2000.

D.2.6 The importance of good management information to aid planning was stressed in a 1995 report on Compliance with Quotation Procedures in the Architect’s department and a 1997 report on the Sundry Debtors System. Similar points were made in the January 2003 IA report on Catering, where a working group was established to address the information to be included in management and financial reports.

D.2.7 In 1997, IA produced a report listing the main areas of operation of Information Technology within the Board and detailing recommended best practice for consideration. This comprehensive review included the comment that all IT systems should be compatible and could be upgraded in future. Further recommendations on this area were made in an April 1999 IA report. A further review of the system of internal control in operation within information services was issued in August 2003.

²⁰ Final Report on the Provision of Internal Audit Services, BELB Deloitte & Touche March 2002

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D.2.8 DENI asked BELB to review the procedures and systems for the proper management and control of budgets following an overcommitment in SEELB. IA reported on this in October 1997 and found many of the problem areas did not exist in BELB. This report was copied to members of the Finance Committee. IA recommendations included:-

- standardisation of documents advising schools and budget holders of their budget position and seeking information regarding management of identified problems or deficits,
- redefine responsibilities and timetable of activities for HQ budget holders and those centrally responsible for location/service budgets,
- create pyramid reporting structure and sign off system to feed acceptance of budget situation or action plan to correct deficits to designated senior management forum,
- all problem budgets to be reported to the senior management forum with information regarding recovery/repayment proposals,
- once reported continue to monitor budget problems to ensure progress is in accordance with the plan,
- as the HQ management information system does not take account of committed expenditure whereas the CLASS system in use in the majority of schools can, if properly utilised, give accurate and up to date information regarding actual and committed expenditure formal and active channels of communication be established between board HQ staff and project staff with a view to maximising the contribution all systems can make to budgetary control and management support.

D.2.9 Budgetary control in the library service was audited in 1998. It was noted that expenditure on salaries and wages and books was monitored on the basis of committed expenditure, but that for other expenditure, it was on the basis of invoices paid. The hope was expressed that the new accounts system might permit the option of monitoring the whole library system on a formal committed expenditure basis.

D.2.10 A March 2003 IA report on Education contained a number of recommendations to:-

- improve management information to support achievement of business objectives,
- evaluate budget holders understanding of the monthly budget finance reports,
- review format of the budget to ensure staff where appropriate given the ability to determine expenditure in sufficient detail,
- list all staff with delegated budget responsibilities including authorisation limits.

D.2.11 The SEO acknowledged that budget holders were not all getting to the bottom of their control role. He indicated that he would prefer a clear budget for each section to monitor and control before figures were collated into schools' budgets and that more work was needed by services and finance on coding to facilitate control. The SEO requires his heads of services to follow-up large variances with the budget holders and obtains a monthly update on priority issues. Many holders kept their own records because of doubts over the computerised figures.

D.2.12 A report in October 2003 on Accounts Receivable gave an audit opinion that a sound framework of controls operated to ensure that income owing to the Board is properly recorded, monitored and controlled. IA in February reported a sound system of controls operating to ensure that all bank and cash accounts maintained within financial control are properly monitored, controlled and reviewed on a timely basis.

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D.2.13 On foot of complaints, the adviser from the schools development service requested an audit of the provision by private nursery groups under the Pre-School Education Expansion Programme. Among the recommendations in the September 2003 report was that a monitoring system be established by Board management to ensure the terms and conditions of the programme were being applied. This was to be implemented in 2003/04.

D.2.14 Another September 2003 report on BELBCLEAN indicated improvements were required in the existing control framework to ensure that management control over the provision of cleaning services was operating efficiently and effectively.

D.2.15 A number of 2003/04 audits on Resource and Outdoor Centres reminded Board management of the need to have regular information relating to financial and other performance.

D.2.16 Internal Audit observed a number of weaknesses in the operation of Pay Flexibilities for Principals and Vice Principals in a draft summary prepared in April 2004.

D.2.17 A major IA study reported in May 2004 on the Adequacy and Effectiveness of the system of internal control in operation within Special Education A number of recommendations referred to the need to maintain information on home tuition, pupils educated outside N.I., pupils attending BELB schools but residing outside the Board area, classroom assistants, use of Purchase Order processing (POP) for ordering, and inventory of ICT equipment. Specific attention was drawn to the need for the budget holder to review spend to date and compare with the corresponding budget on a monthly basis. Any unusual or material variances should be investigated and monthly reports signed as evidence of this review of spending. Management were also asked to split budgets by finance code, which would result in a greater number of variances, to ensure greater control over actual spend. Improvements were recommended to ensure appropriate structures and authorities were in place and to define the roles and responsibilities of administration staff to permit delegated tasks to be performed within a reasonable timescale.

D.2.18 Management response to the above was generally that the detailed recommendations were being dealt with by regular meetings between the education officer and finance officer. Most were to be implemented by April 2004 "where not ongoing".

D.2.19 In June 2004, IA reported on Peace II that improvements were required in the existing control framework to ensure management information systems in HQ were adequate to meet the needs of the funding body.

D.2.20 A September 2004 draft on Youth Funding recommended that to improve financial controls and help in the budget development process, recurrent revenue balance sheets should be fully completed including the final payments reconciliation.

D.2.21 The CE said internal audit reports found their way on to the agenda of Senior Management Team meetings. The CE felt the Head of Internal Audit (HIA) was responsible for disseminating the results of one audit to other Section heads to comment on issues within their area. He also felt it was for

SLT to take generic issues across departments. The CE was working on integrating internal audit and corporate services within the context of a risk management framework.

D.3 External audit

D.3.1 NIAO management letters issued to BELB from June 1997 to date were examined. A number of weaknesses in tendering and contracts were noted in the letters on the 1998/99 and 1999/2000 accounts.

D.3.2 On 24 February 2000 attention was drawn to weaknesses in procedures to inform the Statement of Internal Control, particularly that the assurance provided by Finance did not contain an analysis or considered responses demonstrating the involvement of SMT. The management letter of 17 June 2003 from the NIAO noted that the nature of the work to support the Statement for the 2000/01 accounts was still limited and needed to be enhanced to ensure that full requirements would be met for the 2002/03 accounts.

D.3.3 The 1999/2000 management letter dated 23 August 2002 referred to a number of weaknesses with opening and closing accruals. NIAO were disappointed with the poor quality of work done to identify opening and closing accruals. This left risks that year end accruals might not have been correctly calculated. This related to electricity and water rates and creditors were overstated at 31 March in relation to credit notes issued after year end and a large insurance premium was included in the creditor listing at 31 March 1999. In response BELB stated that all utility accruals were now identified by reference to invoices and consumption figures; for 2001/02 all accruals were identified by user site; the AR module identifies all credit notes and sales invoices posted after the year end; and there is now greater control over the whole area of identifying and recording accruals and prepayment for year end.

D.3.4 The CE could not recollect seeing the letter of 23 August 2002 but indicated that matters such as this accruals weakness was a matter for the CFO, as the expert, to deal with.

D.3.5 Weaknesses found by NIAO on the 2000/01 accounts were relayed to the Board by management letter on 17 June 2003. This referred to a risk with income and recommended implementation of critical review procedures suggested by Internal Audit. A lack of accuracy in the accounts and the reliance on inexperienced staff meant that accounts could be mis-stated. The BELB response was that income was now fully reconciled weekly by financial accounting staff and a full time officer was in place to monitor and control the accuracy of input to the General ledger.

D.3.6 Management response to the June 2003 letter also suggested that as and from the 2001/02 accounts, reconciliations were carried out on all accounts and account balances with referenced working papers and files. This point had been raised by audit because certain reconciliations between different systems did not exist, leaving a risk of inaccurate disclosure.

D.3.7 The Chairperson^A had only seen NIAO management letters recently when she was preparing for this inquiry.

E Board Business

E.1 BELB

E.1.1 Board minutes for 2003 to November 2004 were examined. Generally the Board Minutes merely recorded that the Minutes of the General Purposes and Finance Committee had been circulated and adopted, including any recommendations contained therein. Matters arising were listed with references to relevant Finance papers and a short comment giving necessary authorities and the thrust of the attachments from Finance Committee. A similar approach was adopted with reports from the Audit Committee.

E.1.2 A Chairpersons Committee met with the CE before Board meetings to discuss the agenda. It allowed the CE to brief these Board officers on important issues. This Committee had requested meetings with SMT staff including the CFO but the CE had resisted any one to one meetings unless he was present. This attitude appeared to inhibit some members and led to a lack of interest. There was a feeling that challenges by Board members were not welcome.

E.1.3 The 27 February 2003 Board were informed by the CFO that, based on declining pupil numbers, he estimated 40-45 teacher redundancies within the Board area. The Corporate Plan for 2003 – 2006 was adopted at that meeting. The Board were told on 27 March 2003 that the Library budget for 2003/04 represented a reduction of £44k on existing service levels and the outlook was bleak; the Youth budget had been increased by 8.6%, the first real increase for 3 years. Arrangements were announced for a Board Planning day focussing on members' performance. Phase I required the completion of a questionnaire including "accountability and governance" and there would be focus groups. There is no record of a Board discussion or approval for the 2003/04 Initial RAP.

E.1.4 The Board noted on 17 April 2003 that, subject to DFP approval of the Business Case and the receipt of a value for money assessment of the legal position, The Finance Department had entered into a contract for the provision of a Payroll Human Resources System over 7 years. The CE informed the Board that he would raise the effects of capping, relating to the 2003/04 Schools' Additional Budget, with the Minister. At the meeting on 25 September, the CFO stated that a calendar showing the timescale for the process of drawing up the Board's budgets would be issued to members. At that meeting the Board heard that it operated through an outreach service for, special education needs whereas the other Boards used classroom assistants. A paper on issues surrounding special education needs had been prepared by WELB.

E.1.5 No specific points of interest other than the usual record of receiving the minutes of the Finance Committee and adopting them, including any recommendations contained therein, were detected in many reports of meetings. Revised Recurrent Scheme Expenditure Analyses were normally mentioned without any issue being highlighted. The 28 November Board

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heard of a problem over sustained funding for the Youth summer programmes.

E.1.6 Concern at the Library revenue estimates 2004/05 were expressed at the 18 December 2003 meeting under Library Committee matters. The Education Committee matters included an acknowledgement that raising literacy standards could not be achieved in the short term without sustained funding and support. From the Finance Committee the Board also noted that reserves would be at minimum levels by March 2004.

E.1.7 On 26 February 2004 the Board was informed²¹ by the CFO that, in overall terms, the schools and school related recurrent budget for 2004/05 showed a reduction of over £4m, compared to the current year's budget. The library budget was also reduced. Members agreed to hold a special meeting on 10 March 2004, prior to the meeting of the Finance Committee, to approve the budgets for 2004/05.

E.1.8 The CFO spoke to the special meeting of the Board on 10 March 2004 regarding the recurrent allocation for 2004/05. Because of falling numbers, core funding had decreased by some £900k; earmarked sums had increased by £700k and, in overall terms, cuts of around £4.2m were required by comparison to the 2003/04 funding. The SMT had seriously considered 4 options and their recommended option was to accept a reduction in the maintenance budget across various services. The recurrent budgets for Youth and Library services were delegated to the Finance Committee for consideration.

E.1.9 Problems of short term funding of Youth Service were raised as issues from the Education Committee (Youth) to the Board on 25 March 2004. The Finance Committee had noted that the baseline allocation for Youth had been supplemented by an additional allocation and by earmarked funding, which meant little or no cuts in this service for 2004/05, while library funding was down by some 1%.

E.1.10 Deficit problems at a school were noted by the Board at the 27 May 2004 and subsequent meetings. Board approval for voluntary redundancies in non teaching staff was granted by the 24 June 2004 meeting.

E.1.11 The Board had not been aware of any serious deficits until the 2003/04 problem. They had known about a school which had difficulty resolving its serious finances and that there were pressures on special education, transport, Principals' pay, and likely changes due to introduction of a Common Funding Formula. They were satisfied these had been handled by Finance staff without serious problems arising for total Board expenditure. They had not been fully informed of the delays in signing off accounts.

E.1.12 There had been a culture of dependency on staff but this trust had unfortunately been lost with the exposure of the 2003/04 problem. The Chairperson of the Board had not been aware of the surplus from the schools' budget covering for deficits in non-delegated budgets for some years. The Chair of Finance was aware of this situation. Recommendations in the 1998 Deloitte & Touche review were not known until late 2004.

²¹ BELB Board Minutes, 26/2/2004

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E.1.13 The Board heard “in committee” on 3 September 2004 an update on the current financial position. It agreed that the SMT should prepare a recovery plan to be presented later that month, and to the appointment of a consultant to address and quality assure the people issues within the finance department.

E.1.14 On 14 September, approval was given for limited use of the scheme for premature retirement of a small number of teachers on specific grounds.. A draft recovery plan had been tabled by the CE to the Board “in committee” to take effect from 2005 to 2008 in a 4-stage process. He also referred to actions to be taken to ensure that a robust financial management system was established to prevent a repeat of the current position. Members agreed the tabled draft was not a recovery plan but acceptable as a working paper. Assurances were sought from the CE that the working paper would meet the DE Permanent Secretary’s expectations.

E.1.15 The Board had a lengthy discussion on the financial situation at its 30 September 2004 meeting. Among the issues raised were the shock news of the deficit; lack of trust; lack of clarification in the management statement regarding corporate responsibility of members; inaction to engage the people’s issues consultant; and inadequacies in communication. Members wished to delay decisions on the recovery plan pending a deputation from the Board meeting the Permanent Secretary (DE).

E.1.16 A re-convened meeting on 21 October reported on meetings with the Permanent Secretary (DE) on 15 October and Minister on 19 October 2004. Concerns were expressed about how the overspend had occurred and the manner in which the Board was being run. A further meeting on 28 October 2004 agreed terms of reference for the external investigation. It also agreed to place its CE on precautionary suspension forthwith. This was not a disciplinary matter, neither was it a presumption of any wrongdoing. The CE and SMT were told immediately. The CE was re-instated in mid-December 2004.

E.1.17 The 28 October 2004 Board meeting discussed the Expenditure Containment Plan which updated the figures in the Business Recovery plan dated 30 September 2004. The Board adopted the proposed economy measures on a split vote.

E.1.18 Audit Committee business was normally taken by the full Board as merely accepting the Committee minutes.

E.1.19 The CE explained that he tried to keep Board minutes concise with few papers, that did not form part of the minutes, as they are busy lay people. At Planning Days officials tried to guide members on the challenge function. He had used corporate assessment to bring members and senior staff together for a common purpose and this had improved relations. Self assessment during these events highlighted the tensions between short and long meetings and whether members were given a lot or only the minimum of information. The CE felt papers should be easily read and understood by everyone.

E.1.20

E.2 Sub Group

E.2.1 The CE informed the Board Chairperson and the Chairs of the Audit and Finance Committees on 4 June 2004 of an overspend in the 2003/04 accounts. These three Board members formed a Sub-Group which held its first meeting on 17 June 2004. The purpose was to discuss the current financial position and explore a way forward. The minutes of this group to 12 August 2004 were examined.

E.2.2 A report from the DCFO and Financial Accountant was noted along with correspondence from the CFO. Members agreed their role was to analyse the potential risks to the Board and on that basis carry out an investigation. The CAO undertook to act as secretary, facilitate the work of the team and provide advice. It was considered appropriate that the work be conducted independently of the CE, given his role as Accounting Officer. The team instructed that support by the CAO to the CE should cease until the conclusion of the work of the team and the CE and CFO were to be informed of the position.

E.2.3 Terms of reference were:-

- determine the nature and extent of the Board's financial deficit,
- investigate the cause of the overspend, given previous assurances that the Board would stay within budget,
- investigate any industrial relations issues or other contributory factors.

E.2.4 The Board decided confidentiality was to be maintained because the officers did not want press speculation until the final figures were available. There was a difficulty for some weeks in determining the exact size of the deficit. The Chair of the Audit Committee had insisted action was needed urgently to stop the loss. He felt the desire by the CE to wait until the whole problem was known showed a lack of proper management. The 14 September paper by the CE was an inadequate response to deal with the situation at that date.

E.2.5 Concern had also been expressed about the suspension of staff in the Finance Department. Switching the Head of IA into Finance certainly reduced his independence.

E.2.6 It was agreed that the corporate assessment of the Board's "management of finances" should continue in parallel with the investigation, with outside assistance to be invited to comment on the accuracy, completeness and robustness of the final accounts. It was felt that a special Board meeting might be necessary. At this point the CE joined the meeting and was informed of the proposed action. The Chairperson of the Board and the Chair of the Audit Committee agreed that it was not necessary for the CE to take annual leave. It was stressed that the CE and CFO had to sustain leadership.

E.2.7 There was a further meeting on 23 June which consultants from Deloitte and Touche attended. It was agreed that phase1 would be a high level investigation of the 23 June position. The CE was to inform the financial

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management team on 24 June of this external assistance. Legal services were to be contacted regarding human resources and other industrial relations issues. Advice was to be sought from the Permanent Secretary (DE) on external facilitation to cover CFO absence and any potential future under resourcing in the Finance Department. A special Finance Committee meeting in July was to be considered. The order of events was agreed as:-

- the accounts/financial position,
- the processes in place and determine why the current position happened,
- the people issues within the finance department.

E.2.8 The Vice-Chair and another member of the Board were added to the team for a meeting on 1 July 2004. Reference was made to consultants to undertake a project manager brief within the Finance Department, and others from Deloitte & Touche to assist the CE to manage the Finance Department in the short term and support SMT in the delivery of a recovery plan. Both external sources of support were to report to the CE to ensure he discharged his executive responsibilities. Special meetings of the Finance Committee on 28 July and the full Board on 12 August were agreed.

E.2.9 Board meetings were not normally held in July and SMT were on leave in August. The CFO had been off sick since mid -June. This timing created difficulties for the calculation of the magnitude of the problem and taking action to curb the situation in 2004/05. The Board was only made aware of various personnel issues and communication difficulties in the Finance Department in June 2004. The Chairperson felt that such sensitive matters needed to be kept in confidence.

E.2.10 On 2 July 2004 the Sub- Group agreed that further investigatory work was needed to establish the exact cause of the overspend and the implications for the previous years' accounts. Individual members of the original Sub-Group undertook oversight of the three areas, viz, finances, people issues and processes. The CE was re-engaged with the sub-group with immediate effect. A recovery plan, working on the assumption of a £5m overspend, was to be commenced immediately and an action plan, emerging from the corporate assessment of the Finance Department, needed to be developed and implemented. The Sub-Group, with guidance from the Permanent Secretary, agreed to bring in Deloitte & Touche in 2004 to investigate the 2003/04 situation.

E.2.11 An overview of the work of the Deloitte & Touche investigation was presented to the 12 August 2004 meeting of the Sub-Group. This confirmed a £4.6m overspend but work was ongoing on job evaluation issues. The Minister required action on recovery by 17 September 2004. The Sub-Group emphasised that the CE should implement a recovery plan urgently, particularly as it was already 5 months into the current financial year and concern was expressed that no action had been taken to halt current spending patterns. The CE was to attend the special Board meeting with a structure and process of how to address the problem. The Sub-Group agreed to stand down after the meeting but Board members were to be part of the recovery team. Other members of the Board were alerted by media speculation.

F Corporate and Business Plans

F.1 BELB

F.1.1 In its 1999 to 2002 Corporate Plan, the BELB identified 5 Strategic themes and set out aims and targets for each. Aspects relevant to this Inquiry are noted below.

F.1.2 By 2001 performance standards were to be set for services provided by the Board, each department section and team. An aim of evaluating and assessing user needs and aspirations was set in the context that the Board services must be close to all users, and staff of individual sections are users of services of other sections within the Board. Under strengthening partnerships, a target was that Board members and officials should work collaboratively to formulate policies and review procedures.

F.1.3 The 1999 Corporate Plan stated the Board was committed to making the most effective and efficient use of all its resources, human, material and financial. Monitoring and evaluation was to require each department to prepare an annual business plan, setting out its aims and targets. All staff were to review and monitor progress in achieving their targets and this would involve an annual report on progress.

F.1.4 The 2003 – 2006 Corporate Plan set out a number of strategies with associated themes. These were linked to the Board's mission statement which concentrated on the provision of quality education, library and youth services to contribute to lifelong learning. Part of the Plan was an Organisational Improvement Plan.

F.1.5 Under Improving standards, the themes included:-

- Develop and implement a performance management framework for the Board,
- Develop an appropriate communications policy for each department,
- Ensure all senior leadership team have collective responsibility for core educational processes/reviews,
- Re-align business planning cycles with financial planning cycles.

F.1.6 Under Meeting Needs, the themes included:-

- Develop a management information system to support the corporate planning process,
- Review the information needs of Board members and implement an appropriate information mechanism.

F.1.7 Optimising resources included:-

- Align the corporate/business planning and financial systems,
- Review the management/operation of senior leadership team to ensure optimum usage.

F.1.8 The final Part of the 2002-2006 Plan states that the Chief Executive ensures that internal control mechanisms are in place. These mechanisms include the development of an effective management structure through the senior management team, which provides clear lines of accountability giving members confidence that the strategies and targets contained within the Plan

are being developed. The Plan also states that the CE ensures that officers provide accurate, timely and appropriate information to Board Committees to enable them to be effective decision making bodies.

F.1.9 The Board had asked for fuller information during a self assessment session at a Corporate Planning day. They had also expressed dissatisfaction on communications with SMT. More training of staff to communicate with the Board members, so that information does not reach them from outside sources, first was mentioned.

F.1.10 The Finance Chair felt there was a weakness in the Corporate Plan because it did not link non-delegated services to the funds required to meet those services. The SEO recognised the weakness in relating corporate plans to RAP2s without direct finance linkage to recurrent schemes. This was evident when considering Performance Measurement relative to the objectives on Literacy and Behaviour to match VFM and it was agreed that more work was needed. The Audit Chair considered the process represented the classic problem of insufficient linkage between planning and financial resources. Discussion at the Planning Day had not been rigorous enough regarding investigation of problems associated with special education needs.

F.2 Corporate assessment

F.2.1 Since 2002, the Board has embarked on a series of assessments to link with, and support, the strategies and targets etc. in the Corporate plan^E. A May/June 2002 Project, as part of the Senior Leadership Team Programme, considered Corporate Assessment of the Board in relation to:-

- leadership
- policy and strategy
- people
- partnerships and resources
- processes
- customer results
- people
- people results
- society results.

F.2.2 Leaders were defined as SLT (the Chief Executive and officers one and two tiers below him) and members of the Board. Assessment was by group exercises with feed back to members to develop the Corporate Plan. Work on this project was suspended from mid 2004.

F.2.3 This Excellence model assessment mostly looked at Strengths, Evidence and Areas for Improvement, while other aspects were evaluated under the headings of Inputs, Processes, Outputs and Outcomes. Under Criterion 5, Processes, the team identified evaluation of 5 key strategic processes namely:-

- management of change,
- supporting teaching and learning,
- management of resources (human, financial and physical),

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- communication,
- corporate governance.

F.2.4 In 2003, the last three of the above were identified as key processes. There had been no evaluation of the Finance Department or detailed analysis²² of the last three key processes in other services in 2002 or 2003.

F.2.5 An assessment of SMT on 17 February 2004 on “Knowledge, Skill and Competencies of team” produced 8 Aspirations with a scoring of the Present Position and Suggested Actions. Interestingly there is no reference to an aspiration for these senior managers to ensure the staff under their command comply with requirements to manage with economy, efficiency and effectiveness etc. The nearest is an aspiration of “Ability to measure the performance of the team” but the Suggested Actions for this are “to benchmark with other organizations (concept of successful team) and Self assessment exercises.” which are hardly robust enough to ensure compliance with the Financial Memorandum.

F.2.6 The CE asked for an urgent assessment^{EJ} of the Finance Department, following the same Excellence Model approach, in mid 2004. This was the allegedly the third year of assessment and followed a slightly different approach to ensure inclusion of as many staff as possible. Finance was the first department to be assessed in this round, with the report available on 28 June 2004. Primary headings were as the 9 mentioned under the assessment of the Board above, with the exception of the heading “people”, but it did identify a final section on Key Performance results. Each heading was further divided into 2 to 5 sub-heads. Against each was given elements for improvement totalling over 70 items.

F.2.7 This document demonstrates so clearly weaknesses that have been identified over recent years without being rectified that it is included as Appendix 3. Main themes running through the areas for improvement frequently relate to problems with budget holders accountability and access to information, poor communications, within and outside the Finance Department, and inadequate training.

F.2.8 The CE asked the Procurement Officer to follow up this 2004 assessment of the Finance Department and consider how to begin to draw up an action plan. The response was a minute²³ recommending developing action plans round 6 key themes. Against each area for improvement were notes indicating which could be addressed in action plans or be considered. For the areas listed under Finance Forecasting and Planning and Control, the minute recommends a specialist sub-group. Virtually all the finance areas have been recommended in many reports and audits over many years.

F.3 Business Plans

F.3.1 BELB Business Plans for the Education Department and the Finance Department for 2003/04, and a draft for Technical and Services

²² E-mail of 20 December 2004 from CAO

²³ Minute from Burnett to Cargo 23 August 2004, table of areas for improvement

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2004/05, were examined. These business plans relate to Corporate Plan Strategic Themes, highlighting them and Corporate Targets, with detail of the particular Strategic Objective; Proposed Action; Lead Person and Evidence/Outcomes.

F.3.2 For the Education Department, there are a very considerable number of officials listed for various Lead Person roles. There are over 200 Evidence/Outcomes, but very few with any direct link to the resources needed to obtain these outcomes. Reference was made to action to ensure that budgets are delegated down and all holders manage them through effective monitoring arrangements, and to implementing recommendations in audit reports. A few refer to bids to outside agencies for specific funds and to Best Value reviews, and some have indirect references such as staff numbers.

F.3.3 Best Value reviews were carried out in BELB under a steering group chaired by the CE. The conclusion of one in December 2001 was that it provided²⁴ a framework by which the Board can contribute to increasing standards of literacy. The section on Finance merely referred to an approximate total cost of £750k. Of the six dozen or so recommendations one referred to finding finance from executive programme funds and one suggested a value for money study of one initiative but there was no other costing of the recommendations. This review stated that the Board does not have a statutory duty to obtain best value.

F.3.4 Another Review²⁵ in January 2004 contained over 200 recommendations on the provision of behaviour support. Many of the recommendations sought additional staff and resources but only two proposed a cost benefit analysis, that for further Moderate Learning Difficulty Units attached to mainstream schools and one for the provision offered by the Secondary Pupil Support Service. The 2002/03 cost of provision of support for behaviour was given but no estimates of the potential cost of any of the recommendations. The Financial Accountant noted that the Five Board Best Value report on Accounts Payable did not look sufficiently at options and how to reduce costs.

F.3.5 In March 2003 Internal Audit²⁶ commented that in their business plan the Education Department had agreed clear objectives, which complied with Board objectives translated into detailed operational plans, with resources determined and allocated to ensure successful implementation. One difficulty was found to be with uncompleted job evaluation. The IA noted that staff may be continuing to perform tasks given during the recent re-structuring without any acknowledgement of the change in duties or responsibilities. Some had not yet fully taken responsibility for the budget process.

F.3.6 A Management Information note²⁷ surveyed many Board services, summarised Data Management Systems in BELB, Issues or Development needs by Service and listed emerging Issues. A school database and profile has been appended. Discussions took place between Education and Finance

²⁴ Literacy in a Learning City; Best Value review of Literacy provision within BELB, December 2001

²⁵ Behaviour in a Learning City, Best value review of the provision of Behaviour Support, January 2004

²⁶ IA Report Education, March 2003

²⁷ Papers supplied by Mr Campbell, SEO BELB

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staff on relevant budgets and coding etc. The policy on budget management noted the SEO responsibility for overall management within his Education Department, delegating budgetary control to key staff. Important duties for all budget holders were clearly laid down including:-

- possess information on total budget .. and appropriate finance codes,
- possess budget details to cover every aspect to which the budget relates,
- receive monthly income and expenditure reports ,
- monitor expenditure on an ongoing basis,
- detect as early as possible potential deficits/overspends,
- keep within budget limits,
- approve expenditure and ensure none is given which falls outside the purpose of the budget,
- regular updates to line managers,
- only authorise POP payments relative to their own budget.

F.3.7 The Technical and Services business plan uses headings for the Strategic Objective; Present Position; Proposed Action; and Lead Person. It has a strategic objective of improving the management of assets and budgets, and specifically refers to the development of the new payroll system and appropriate targets for the department. There was no link between action and the resources required to deliver the services.

F.3.8 The Finance Department business plan 2003/04 indicates the CFO developing a performance measurement system under an objective of measuring the effectiveness of board services; submitting the department for IIP assessment by September 2003; producing business plans for 2003/04 by March 2003 and an annual report for 2002/03 by May 2003; representing the Board's interests in a number of reviews and bodies; and producing the NTSN report by a date agreed by the DE steering group, and publishing its action plan by March 2004.

F.3.9 Agreement was reached on a performance measurement template in respect of core services for literacy and behaviour. This had been developed from 2003/04 in a 12 to 18 month performance measurement programme. There has been no action on it since then²⁸ and the template is blank in so far as other themes or businesses are concerned.

F.3.10 The Chief Librarian noted the strong culture in the Library service to use statistics such as unit costs to improve management. She had shared her work on the library service with SLT. A lot of work had been done on the behaviour support side to develop thinking and information services and with the Literacy support team but some board officers were struggling and on a steep learning curve with performance management. High level thinking had not filtered down and been put into practice.

F.3.11 The DCFO was expected under the Finance business plan to introduce the 11i upgrade; produce a staff development plan by October 2003; develop an ongoing partnership with the PPP contractor; improve the management of assets in line with the plan agreed by the audit committee; and, with the management accountant, produce the financial scheme 1 month after DE the letter was received.

²⁸ E-mail of 20 December 2004 from CAO

F.3.12 Training was provided in 2002 for Board members and the Senior Leadership Team of officials. This was of a broad nature and not in the management of resources.

F.3.13 There are no risk registers²⁹ in the BELB for the SEO, CAO, Finance and Internal Audit sections. Internal Audit staff had been allocated to meet with senior officers within each department in order to identify, priorities and agree risk areas. SMT sought to embed risk management within the quality assurance programme under the Excellence Model and the HIA provided advice and support on the Corporate and Risk assessments.

F.4 SMT/SLT meetings

F.4.1 The Chief Executive holds meetings of the Board's Senior Management Team every month, or more frequently. Members are the four managers in the first tier below the CE. Meetings of its Senior Leadership Team are held less frequently. This team is made up of the first and second tier of managers in the Board. There are some 20 in this group which includes SMT members. The minutes of both from April 2003 were examined and points relevant to this Inquiry noted. These minutes are very concise and do not mention any contrary views being expressed.

F.4.2 In April 2003 the Head of IA presented a paper on the Board's risk management strategy to SMT with a proposed action plan. Consideration was given to possible 2003/04 performance objectives/targets. The 3 November 2003 SMT discussed a paper which had been circulated outlining carry forward balances from 2002/03. The SEO, Chief Librarian and CFO were to meet to determine how £42k could be saved to make up a projected shortfall. On 19 November it was agreed that the CE and CFO should discuss how the issue of implementing performance measures could be progressed and, the SLT trained. SMT agreed to exercise restraint on all new commitments including staff costs and to review the position once end November reports were available. There is no reference to any review at the next SMT on 2 February 2004. The CFO did stress the importance of continued restraint on all new commitments including staffing costs.

F.4.3 There was discussion of the budget on 1 March 2004. Strategic planning to manage within budget for the future was required. The Chief Librarian gave an overview of a management information system template and followed this up on 26 April 2004, identifying who would deliver, and target dates. Content on literacy and behaviour frameworks for performance measurement were also discussed.

F.4.4 At the 7 June 2004 meeting, SMT agreed an action plan for financial recovery. There does not appear to have been another SMT until 21 September 2004, when the Acting CFO tabled the latest work on the recovery plan and highlighted the expected 2004/05 outturn and potential savings. SMT agreed budget holders only would authorise purchases. On 23 September, after meeting DENI, the Acting CFO outlined the need for radical savings. SMT agreed to tight restrictions on purchasing orders; to enforce expenditure

²⁹ E-mail of 22 December from BELB Internal Audit

controls and provide forecasts to existing budget reports to schools. The 10 December 2004 SMT noted that spending to end November had been some £5m less than the same period last year but the Acting CFO was still projecting an overspend of some £4.5 to 5m at year end. It was agreed that each department should establish core areas where savings could be achieved.

F.4.5 On 19 September 2003, SLT were told by the CFO of the importance of prudent budget management. The members agreed to discuss the position regarding Board finances at each SLT meeting. The position on surplus funds was explained by the CFO on 17 October who again re-iterated that all budget holders should manage within budget. The next reference to finance was on 15 March 2004, when the CFO gave an update on the budget and indicated a review would be made in the summer to determine where savings could be made.

F.4.6 The CFO was to meet heads of departments following the 30 April 2004 SLT to identify potential savings. He had stressed the financial pressures in 2004/05. On 21 May 2004 the CFO said he would look at the position of individual budget holders once the 2003/04 accounts were finalised. He referred to the £4m savings required because the initial allocation had been reduced, to some outstanding commitments and to the need to create some breathing space which exacerbated the overall position. Future projections offered no improvement and priorities would need to be identified with well-argued cases for additional funding. SMT was to determine future strategy in June. The CFO also reported in May that work to populate the frameworks on literacy and behaviour for performance measurement was on target.

F.4.7 The CE expressed his thanks on 15 October 2004 for the support he had received regarding the current financial position. He highlighted the importance of continuing to reduce costs in the short term. The Acting CFO commented on the likelihood of a deficit in 2004/05 and emphasised that service delivery in all areas needed a fundamental review. The CE indicated that budget holding had been retrenched back to the Senior Management Team and Oracle training was planned. He emphasised the need for confidentiality.

F.4.8 On 19 November 2004 the Acting CE, appointed September 2004, explained the importance of involving SLT in shaping policies and strategies, sharing information, sustaining staff morale and ensuring better communication. The Acting CFO updated the financial situation, with the deficit increased by £2.6m over that previously reported. The Acting CE asked SLT to meet their heads of departments as soon as possible to identify potential savings within this year's budgets.

F.5 Staffing

F.5.1 The BELB CE reported that as the CFO was in post before he arrived he did not remember issuing a letter spelling out CFO delegated responsibilities. The CFO had relied for a job description on the specification when he was appointed in 1993. In 1999 the CFO had recommended that the

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delegation to him be formally documented as per the Strategic Financial Management Review of 1998 and this was signed by the CE on 7 June 1999. This delegation letter referred to paragraphs in the then extant Financial Memorandum dated April 1992.

F.5.2 Full delegation was given to the CFO for:-

- the preparation and submission to DE of receipts and payments,
- Board not to incur expenditure otherwise than in accordance with a financial scheme approved by the Department,
- all cash flow information,
- preparation and submission of the Board's accounts and submission of these to the C&AG,
- all financial controls including an appropriate system of financial management, compliance with Departmental instructions, payments to be made only in respect of invoices and properly matured liabilities, receipts to be collected promptly, reasonable safeguards against fraud, and ensuring DE financial instructions and guidance are brought to the attention of schools with delegated budgets,
- the financial duties (with the exception of signing the accounts), financial management (to the extent of having the information training and access to any expert advice needed to exercise responsibilities effectively) and regularity and propriety of expenditure imposed on Accounting Officers.

F.5.3 The above delegations are wide ranging regarding the handling of accounting matters but they do not remove the ultimate responsibility of his Accounting Officer role from the CE. The CFO was not delegated any role in ensuring effective management systems including financial monitoring and control systems and embracing economy, efficiency and effectiveness in the use of resources; advice to the Board and accountability to the C&AG.

F.5.4 The description of the duties of the CAO in the Belfast Board were laid down in the application notice to be completed by January 2004. Under responsibilities this included "collaboration with and support of board members in the development of policy and planning" and "assistance to the CE in fulfilling his accounting officer role through effective monitoring of control of finance and safeguarding of public funds and resources".

F.5.5 An effectiveness area for the CAO was management of the administration department's operational activities including :-

- leading officers in the effective and efficient operation of services,
- support officers in the acquisition of resources, the efficient and effective use of resources and the management of appropriate monitoring and control systems to give effect to proper accounting for resources.

F.5.6 The SEO recognises his responsibility to manage the resources under his command with economy, efficiency and effectiveness and to maintain regularity etc.

F.5.7 The Chief Librarian has a clear responsibility mandate as far as the public libraries with DCAL financing are concerned. The Library Committee is a statutory Committee which has to approve their estimates etc. There is constant pressure on monitoring and controlling finance.

F.5.8 Since the beginning of 2003/04 there have been significant periods of time off, etc. in the Finance Department:-

- CFO May 2003 to early July 2003 and 21 June 2004 to 30 November 2004 (illness) and 1 December to date (suspended);

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- DCFO 14 April 2003 to end October 2003 (removed from oversight of management accounts) and 27 August 2004 for 3 weeks leave, then suspended to date,
- Management accountant (numerous absences in 2003 due to illness and maternity leave): from 1 January 2004 (career break);
- Financial accountant (resigned 31 August 2004).

F.5.9 A contract CFO was appointed on 13 September 2004 to take charge of the Finance Department.

G Investigation of BELB accounts by Deloitte October 2004

G.1 Background

G.1.1 Deloitte were engaged by the BELB to perform specific procedures regarding the current reporting financial position, as reflected by the 23 June 2004 version of the draft annual statement for 2003/04. The procedures performed by the consultants did not constitute a review or an audit of any kind. The information, provided by BELB Finance Department, was not subject to checking or verification except where stated³⁰.

G.1.2 The findings in the Deloitte report of 1st October 2004 have been useful to indicate the type of problems and control weaknesses which affected the financial management of the Board. The following summary analysis has identified the main factors found to underlie the adequacy of financial controls.

G.2 Accruals

G.2.1 There did not appear to be a mechanism in place for the identification of significant movements in accruals during the year. Accruals at end 2003/04 were higher than at end 2002/03 but this was not fully recognised during the year. Adjustments for accruals, prepayments and deferred income were not made on a monthly basis. As a result the monthly management accounts provided internally did not reflect the true financial position of the Board, in particular the actual and forecast levels of surplus/deficit³¹.

G.2.2 The DCFO and CFO had discussed the impact on the Finance Department of accruals and how to identify, treat and process them. Areas identified included utilities, payroll, contracts for certain goods and services, pre-payments such as insurance and those items of expenditure paid in advance. The system was kept open after 31 March to identify back postings. Schools ordered goods through the CLASS system but there was not yet an interface to Oracle. The POP system could create accrual information but a very low number of transactions were processed through it.

G.2.3 Projections had been made towards the year end to attempt to give year end surplus/deficit forecasts. The calculations assumed that the 2003/04 year end accruals figures would equate to the 2002/03 figures but this was over simplistic. The projections also forecast that expenditure in the final months would follow the same profile as that of the first 10 months, which was not realistic.

³⁰ BELB Project Academy; Final Report by Deloitte 1 October 2004.

³¹ BELB Project Academy; Deloitte 1 October 2004, 12.4.1

G.3 Deferred Income

G.3.1 Certain funds made available to the BELB are classed as earmarked. That is, they are given for a specific purpose and should only be used for that purpose. These can be from a number of Government Departments, DCAL and DEL, as well as DENI. Where the monies have been issued to the Board, but not all used on the approved work, the unspent balance at year end should be treated as deferred income for use in future accounting periods. They should not therefore contribute to the Board's surplus or deficit.

G.3.2 Although not earmarked, certain funds have been made available to the Board for some years, specifically to assist with job evaluation. Good accounting practice would treat these monies in the same way as the above earmarked funds and defer unspent balances to a future accounting period³².

G.3.3 The above treatment regarding job evaluation had not been fully applied in 2002/03. If it had been, the deficit in 2002/03 would have been increased by some £1.8m, with a similar reduction in the deficit for 2003/04. However, adjusting for DENI earmarked funds drawn down, but unspent at year end, would increase the June 2004 draft account deficit by some £3.9m to some £6.64m net. DENI approval would be required for the Board to retain these monies for use in the following year.

G.4 Reconciliation of Primary Books and Management Accounts

G.4.1 Deloitte were advised that it was difficult to provide an audit trail which would reconcile management and financial accounts³³. This is essential to give assurance that management accounts give a fair picture during the year. The mapping structure is internal to the computerised Oracle financial system but the Board staff are responsible for all basic input.

G.5 Information to Board Finance Committee

G.5.1 Because, as noted above, adjustments for accruals and prepayments are not made monthly, and those for deferred income only made at year end, the regular reports to the Board's Finance Committee do not reflect the true position of the Board. Projections estimating the position at year end were not robust³⁴.

³² BELB Project Academy; Deloitte 1 October 2004, 12.4.3,4

³³ BELB Project Academy; Deloitte 1 October 2004, 12.4.2

³⁴ BELB Project Academy; Deloitte 1 October 2004, 12.4.5

G.6 Budgetary Control

G.6.1 A considerable number of weaknesses were found by Deloitte in the general area of budgetary control³⁵. The more important for this Inquiry are:-

- Structures in the Board to manage budgets do not match the organisation structure and some elements of the budget have no assigned budget,
- Payroll budget is not calculated on a bottom-up basis and can reflect prior year inefficiencies. Such budgets may not match pay awards voted in previous years.
- Some budget holders not fully engaged in the budget setting process. This impacts on capacity and motivation to manage budgets.
- Significant expenditure may have been incurred before budgets are entered into the financial system. Not all the budget for 2004/05 had been entered into the system by end September.
- In a number of areas an explanation of year end variances could not be given for 2003/04.
- Budget holders do not all provide a budget breakdown to Finance at the start of the year.
- Budgets are not all allocated to all cost centres and expenditure codes.
- Reports not always issued on a timely basis.
- Service line reports include some elements of expenditure not directly under the control of budget managers.
- Budget holders are not always effectively challenged in their budget management responsibilities
- Budget holders have to pass all queries on their budget and expenditure to Finance as there is no on-line access.
- There may be insufficient training of some budget holders.

G.7 Ear marked funds

G.7.1 Funds carried forward from one financial year to the next are not easily traced through to the management accounting system³⁶. Deloitte were not able to obtain readily from the Finance Department a trace on earmarked funds carried forward from 2002/03.

G.7.2 Some funds have not been ring fenced and transfers to certain cost centres may not have had proper DENI approval.

G.8 Staffing

G.8.1 The staffing complement in Management Accounts appeared to the consultants to be inadequate³⁷. This was confirmed by the CFO, DCFO, Financial and Management Accountants.

G.8.2 This was compounded by absences of the CFO and Head of Management Accounts for extended periods. Removing the DCFO responsibility for management accounts from April to November 2003 did not assist control.

³⁵ BELB Project Academy; Deloitte 1 October 2004, 12.4.6

³⁶ BELB Project Academy; Deloitte 1 October 2004, 12.4.7

³⁷ BELB Project Academy; Deloitte 1 October 2004, 12.5

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G.8.3 The Acting CFO was appointed on 13 September 2004 on secondment from a firm of accountants to head the Finance Department and the Head of Internal Audit was transferred to fill the post of Management Accountant on a temporary basis.

G.8.4 Comments were raised by a number of interviewees concerning people issues throughout the organization, and particularly in the Finance Department. It was alleged that these left a climate where staff were hesitant to raise queries or objections, and inhibited free and frank debate. Failure by senior and line managers to enforce detailed application of budget holder duties etc was also mentioned

G.9 Financial Impact

G.9.1 Deloitte identified the causes of overspends experienced in 2003/04 on the basis of figures available to them. Important factors were:-

- the massive increase in the value of accruals³⁸ at end 2002/03 of £5.38m to £10.87m at end 2003/04,
- the large increase in deferred income³⁹ from £1.03m at end 2002/03 to £3.29m at end 2003/04,
- budgetary control arrangements⁴⁰ in 2003/04 left unassigned budget of £3.9m without identified budget holders with associated expenditure of £2.8m.

G.9.2 Deloitte analysed the 2003/04 overspend by department⁴¹ as follows:-

Service area	(Over)/Underspend £'000
Schools-Delegated Budgets	(800)
Schools – Non-delegated	(1,394)
Special	(1,987)
Meals	(551)
Transport	(500)
CASS	(555)
Libraries	(152)
Headquarters	(128)
Central Initiatives	(834)
Underspending departments	2,320
TOTAL	(4,582)

G.9.3 Potential adjustments to overspend in the draft accounts for 2003/04⁴² were identified by Deloitte. These included £1.83m for Job Evaluation not spent in 2002/03, which should have increased the 2002/03 deficit from £0.3m to £2.1m, with a compensating increase in the available funds for 2003/04. They also determined that £3.95m of DENI earmarked funds drawn down in 2003/04, but not spent in that year, should have been treated as deferred income. The effect of these would increase the 2003/04 deficit from £4.5m to £6.64m.

G.9.4 The number of areas where problems exist and the size of the sums involved indicate a major problem with financial controls in the Belfast Board.

³⁸ BELB Project Academy; Deloitte 1 October 2004, Review of Accruals, p21

³⁹ BELB Project Academy; Deloitte 1 October 2004, Review of Deferred Income, p27

⁴⁰ BELB Project Academy; Deloitte 1 October 2004, Budget Management Structures, p35

⁴¹ BELB Project Academy; Deloitte 1 October 2004, Review of Variances, p40

⁴² BELB Project Academy; Deloitte 1 October 2004, Summary of Potential Adjustments, p51

H Financial projections 2003/04

H.1 October 2003 to March 2004 accounts

H.1.1 The CFO prepared estimates of the outturn for the year against budget on a monthly basis from mid 2003. This was a regular annual feature with the results being discussed with the CE and used to back up his commentary to the Finance Committee. Because the Committee met on the second Wednesday of the month this was too soon to obtain details of spend up to the end of the previous month. This means that the most recent figures from the Oracle system are some 6 weeks old when the Committee meets. The CFO, however, maintained his own spreadsheet which enabled him to add details which he forecast were about to reach the financial accounts and make allowances for accruals and surpluses from the previous year.

H.1.2 The CE said that since the corporate assessment of 2003 on all of the Board members, he had highlighted that finances were tight. He had asked the CFO to do an in depth review with budget holders and senior staff. The result was a memo in December 2003 with a worst and best case scenario of a deficit £1m and a surplus, respectively, and a programme to meet any deficit.

H.1.3 The CFO had warned some years earlier that reserves of £6m were being run down to £3m in 2003 but the CE preferred to spend on maintenance and a higher specification had been used on some C2K work than the funding provided by DE. Virement was rarely used other than at year end. The Chief Librarian was aware that the Board was running down its reserves but not that deficits in non-delegated services were covered by surpluses in the schools budgets.

H.1.4 When the CFO got figures to the end of October 2003 he compared the half year spend against the profiled budget for this period by service funded by DENI. There were 12 services with all schools lumped into one line, and excluding Miscellaneous Further Education and Student Awards which were shown separately. Details included the annual budget; annual rates; the April-October profile; April to October actual spend; the variance; a projection of expenditure for the year and the variance from the annual budget.

H.1.5 To 31 October 2003, the projections indicated a likely deficit over the year of some £106k on DE funded services, with the largest deficit for the year likely to be over £1.5m on special education, and the largest surplus of over £1.1m on transport. As the spend was in cash terms the CFO added in his estimate of the cost of accruals amounting to some £5.4m, offset to some extent by surplus from 2002/03 of £3.5m. This left a potential deficit of over £2.0m. The CFO carried out further projections and using combined figures for all three sponsoring departments, assuming no slow down in spend for the rest of the year and factoring in £5.01m of teachers' threshold pay which was atypical expenditure excluded from the March 2002 budget he forecast a possible surplus of £800k. The SEO was aware of the need to tighten belts in

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October 2003, although there was no indication of an overspend. He did not feel budget holders appreciated the impact of accruals.

H.1.6 A Project Plan for Budgetary control⁴³ for the period November 2003 to March 2004 was prepared for the CE on 25 November 2003. This comprised 2 xA4 sheets, giving on one side a budget by the usual services, which was virtually the same total as the £202m annual budget quoted in the October returns, with zero for maintenance. It specified individuals to be the lead and frequently gave the basis as “spend to date plus budget holder input”. The reverse gave deadlines for 7 actions. Notes referred to the need to divide some services into relevant budget holders, aggregating information from the “White Book” into levels meaningful to budget holders; to build forecasting models based on previous trends of known commitments and budget holder estimates of new and reduced spend, holders to plan for 2004/05 on the basis of 2003/04 levels, plus or minus projected surplus/deficit at December 2003, and earmarked funds managed separately with no more diverting into core funds.

H.1.7 A memo from the CFO^F to the CE on 17 December 2003 gave a worst case estimate of a deficit of £2.3m and the best case scenario of a surplus of £5.0m. The CFO felt the year end position was likely to be an underspend of around £1m. The DCFO had minuted the CFO on 15 December with an analysis⁴⁴ of the projected outcome for 2003/04. The analysis included carry over from 2002/03, additional allocations of £2.6m, for which official notification was awaited, plus another £3m expected from a comparison of additional DENI funding received in 2002/03 and assumed to be at a somewhat lower amount. Projected expenditure was expected, from both financial and management accounting systems, to be linear compared with 2002/03. Typical accruals were factored in, except for potential job evaluations currently ongoing. An initial calculation gave a projected deficit of £5.1m but this was offset by the additional and expected allocations which might even re-instate reserves to £3.5m. The detailed budgetary position had been discussed with the relevant budget holders.

H.1.8 The position to the end of December was projected by a similar process. Staff in the Finance Department had been involved in doing more analyses, budget holders contacted and their joint forecasts considered. Projections were compared for straight line monthly spend and one including an expectation of further income. These summarized the position as a best case with a £3m surplus and a worst case of a deficit of £1m, which compared with an average surplus of some £1m at year end. These projections included the same £5.4m for accruals. A memo dated 26 January 2004 to the CE noted that spend was being monitored carefully, strict controls were in place over staffing requests and any budget increases received in miscellaneous education was to be retained at the centre and not issued to budget holders.

H.1.9 The situation was reviewed at end January 2004 when variances by service suggested the deficit in special education might be reduced to just over £1m, and in HQ to £136k. Other services showed surpluses while keeping £5.4m for end year accruals gave a small surplus of £800k.

⁴³ Project plan for Budgetary control created 11/25/2003

⁴⁴ 15/12/2003 Minute from DCFO to CFO Budgetary position and projected outturn to March 2004.

H.1.10 At end February 2004 the CFO projections gave a deficit of over £300k, while his colleagues were forecasting surpluses up to £1m⁴⁵.

H.1.11 The CE said the Financial Accountant had talked to him in early May 2004 and indicated a possible problem. After the CFO had spoken to the DCFO they had felt there should be no difficulty with the year end accounts. On 2 June 2004 the CFO advised him that there was likely to be a deficit of some £4.5m. By 5 July he was updated on the investigation by Deloitte which indicated finance, process and personnel issues. It appeared the problem came from the change to accruals accounting.

H.1.12 The DCFO highlighted the practical difficulties of calculating accruals^G and the time consuming nature to process them. In 2001/02 a reconciliation exercise from the cash accounts to accruals had been done for all systems, schools and central services, which gave some £6m. For planning assumptions, it was taken that accruals would be flat in subsequent years.

H.1.13 The Financial Accountant had computed the level of accruals^H at year end in every year since his appointment and could explain all the reasons for the 2003/04 rise. He had discussed his methodology with other Boards as staff were seeking consistency of approach. He had refined the treatment of invoices with a March date, but not paid until the next year to determine trade creditors and enable quicker closure of the accounts, but only goods received by 31 March were accruals. Encumbrances did not affect the year end accounts. He was critical of the practice of adding days because of delays in receiving papers from schools for the determination of prompt Payment statistics.

H.2 Post March 2004

H.2.1 Completion of the annual accounts took up most of the activity of the Finance Department during April and May with much time being devoted to determining the end year accruals.

H.2.2 On 27 July 2004, the DCFO sent the CE a Report⁴⁶ on the 2003/04 position. This followed his attendance at one of the Board members Sub-Group meetings. Included were proposals for a Recovery Plan. The DCFO considered the deficit was due to an allocation of £1.3m late in March 2004 for teachers unspent pay and an unspent portion of £0.8m of Executive Programme Funds which DENI had sought to be returned. But BELB had already used these funds to support overspends in other parts of the organisation, particularly Special Education. These amounts had therefore to be put into deferred income. Added to this was an allocation for classroom assistants' job evaluation, drawn down but not used for that purpose, and which DENI asked for it to be accrued. The money, £2.4m, had been spent on overspending services giving a combined effect of an overspend of £4.5m.

⁴⁵ Copies of working papers supplied by CFO

⁴⁶ Report on Financial position for BELB 2003/04

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H.2.3 A report by the DCFO to the CE on 27 August 2004⁴⁷ considered expenditure to end July 2004 and the implications for 2004/05. The CE was told that action to reduce expenditure appeared to be having little impact and, accordingly, more radical action needed to be taken immediately if a possible deficit (even assuming additional funding of £9m during the year) was to be contained. The DCFO's report was a follow-up to a note of 5 August 2004 from the Financial Accountant projecting that savings of some £25m would be needed in the 2004/05 year. He had become involved in forecasting in the absence of the Management Accountant. The paper was given to SMT and discussed by them. Operational staff were not otherwise involved in the determination of accruals or the preparation of projections.

H.2.4 The DCFO prepared a further report dated 27 September 2004 which was issued to the Board. This largely gave the DCFO's views, with more of the historical reasons for the deficit, in the areas identified as problem areas in his August paper. It did not deal with recovery. It introduced comment on the operation of the Employers Efficient Discharge Policy in the Board.

H.2.5 The acting CFO informed the November 2004 Finance Committee that adjustments to the final accounts for 2003/04 had been completed to take account of the points raised by Deloitte. These revised the 2002/03 deficit from £315k to £2.14m and the 2003/04 deficit from £4.52m to £5.41m.

H.2.6 The status of the Containment plan at 28 October 2004 did not specifically refer to a 3 year period but the reference to the schools' expenditure cut of £3m remained as planned by 31 December 2004. It reduced the original £9.3m deficit by £1.3m for reductions in expenditure following revised forecast analysis; £150k rebate from Phoenix gas; £388k from DEt for asbestos expenditure on the maintained sector; and £1.6m additional funding to be obtained from the DE. This still left a revised savings requirement in 2004/05 of £5.846m. The last three items also appear in the table of Financial forecast for 2004/05 which shows a deficit of £5.846m.

H.2.7 The Acting CFO has recently brought all the proposals for reductions for 2004/05 plus key issues on financial pressures to the Finance Committee. He considers that more painful reductions would be needed to keep within budget this year. Accruals are running around £11m at end December 2004. He now makes monthly projections of the year end position including estimates of unspent balances.

⁴⁷ Handover report as at 27 August 2004 DCFO to CE

I Management of Board Resources

I.1 Budgeting

I.1.1 The SMT members^{FI} reported that since 2001, budget preparation was by the classic arrangement of budget holders making bids around the end of the calendar year for new or reduced services for the following financial year. These were usually discussed with Finance staff. Heads of services were involved with holders under their command and could discuss with Finance. Finance used the Oracle system to update the previous year's figures for inflation to give a revised baseline to which the bids could be added. When the Departmental funding letters were received, Finance collated the baselines, new earmarked and Executive funds and bids/reductions into a Recurrent Financial Scheme by service for the following year. It was then presented to SMT where decisions were taken on how budgets were to be trimmed or spare money allocated before submission to the Finance Committee. The initial scheme was adjusted by Finance so that the final allocations total the amount available from DE, DCAL and DEL.

I.1.2 The Chief Executive^J stated that he tried to ensure a consensus emerged round the table about priorities and budget allocations in the context of what the Board was trying to achieve in the Corporate Plan. He said a performance measurement framework had been developed and the Board was currently developing this as a means of starting to benchmark services and provide information to SMT about the Board's performance. Budgets could then be allocated according to these measures. The CE accepted that the Corporate plan and performance measurements did not link as well as they should. He stressed it was necessary to frame services in the context of need rather than what you assumed the need was. . He felt the organisation had got this approach down to the funds required on his main themes of literacy and behaviour and he had developed action plans to ensure effective delivery. He considered that Best Value Reviews would then change the use of resources to cut out waste. Staff should think outside their service.

I.1.3 The Management Accountant, who was also responsible for the Local Management of Schools finances, prepared the center budget (covering long term sickness for teachers, classroom assistants, initial furniture and equipment, Curriculum Reserve Fund and Contingency Fund etc) on the basis of last year's budget uplifted by inflation, compared with projections of current year spend and discussed with budget holders. Projections were made in January so that these could be compared with the available funds from the DE allocation letter once it was received. She indicated Oracle profiled the budget equally over the 12 months of the year.

I.1.4 The budget methodology appears sound but the impression was obtained that trimming of bids was largely left to Finance staff and SMT were not encouraged to make reasoned, strong cases for additional funds in front

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of other members of the team. It was reported to a Board meeting⁴⁸ on 10 March 2004 that SMT had considered 4 options for dealing with changes leading to the need for a cut of some £4.2m in the 2004/05 budget, compared to 2003/04, and had recommended reducing maintenance. There is no record of such discussion or proposals in the SMT or SLT minutes. The options were to set the initial recurrent scheme as:-

- in excess of DE allocated funds,
- set budget at a different level from the DENI indicative level,
- anticipate additional in-year funding, or
- target maintenance expenditure across various services including schools.

I.1.5 The CE felt the above process should inform the Resource allocation and that it be restricted to 4 or 5 major areas, mentioning health, learning, employability and social needs, rather than about 100 targets. His strong view was that a budget holder needed to understand the context in which he was working, the quality management systems, the information he needed and to know why he needed it. The CE used the example of IT systems bringing problems while his approach was through Investors In People and self-assessment mechanisms, within SMT, to try to ensure that staff at all levels had a capacity to be a life long learner.

I.1.6 There is no provision in this budgeting process for making allowances for deferred income or pre-payments from the previous year. The SEO recognised that it took time for the process of budget holders responsibilities to bed down. The CAO recognised that improvements had been made in budgeting for transport and catering, and producing management information. and these were useful when looking for savings. She felt budget preparation was basically for budget holders with support from finance. Unfortunately, although the catering manager had an idea of the cost of job evaluation in that area, the budget for 2003/04 had already been set so an overspend was expected.

I.1.7 The Board relied on the Chair of Finance to raise specific problems with the whole Board. This was expected to facilitate discussion of the budget. However, the size of the agenda for Board meetings did not help, as much time was taken up in the Board with non- financial matters, and even the Finance Committee dealt with other general aspects. There was complete reliance on staff to provide information. The CFO was clear in his presentation of the budget proposals and very quick to produce these a few days after receipt of the Departmental allocation letters (ie from DE, DCAL and DEL). The Committee did not see the original bids from the non-delegated services.

I.1.8 The Board members and CE^{BJ} were aware of the difficulties in forecasting due to the school year starting mid-way through the financial year. These difficulties were due to changes in teacher numbers, payroll changes etc. They recognised the importance of looking forward from mid-year to get the most efficient budgets and to align business and financial cycles. The Audit Chair felt a Committee devoted to financial matters would improve the position.

⁴⁸ Minutes of BELB Board meeting 10 March 2004.

I.1.9 A similar budgeting process took place mid-year to revise the budgets. For special education the costs kept rising because the diagnosis of pupils was better, more specialist disorders were recognised, and the inclusion of pupils with special education needs in mainstream schools was Government policy. This is a demand led service where efficiencies are difficult to introduce. There are many other areas which are ring fenced leaving little flexibility to find savings. Previously CASS had been on target but threshold payments upset this, as did the timing of job evaluation payments. Heating and lighting was debited to the Education budget but the SEO had no control over such expenditure, nor on classroom assistants delegated to schools. The adequacy of training in how to manage and control a budget was of uncertain value.

I.1.10 The CFO and DCFO were aware^{FG} that by running reserves down by some £3m in 2001/02 and 2002/03 the Board was overspending its allocations from the three Government Departments. This was compounded by paying for non-delegated services out of surpluses in the schools budgets. The re-structuring in all internal departments meant that not all budget holders had been properly identified in 2001. Overspending on some services such as SEN, Classroom 2000, C2K and transport, which had been over budget the previous year, had not been adequately taken into account for 2003/04 by SMT.

I.1.11 For 2005/06 the Acting CFO has attempted to make the budget process more open by getting staff to look at what is controllable and where the Board has some discretion before making bids. Even if outturn is demand led to some extent, estimates of the likely outturn will be needed. The capability of the many budget holders to implement the process of forecasting and controlling was quite variable. The SLT should be able to make more of an impact on financial control than it has demonstrated in the past and a group of its nature is needed for a major discussion and debate on bids and savings before budgets are put to the Finance Committee or to DE, DCAL and DEL. Corporate assessments and Best Value reviews etc have not generally resulted in staff looking ahead sufficiently at the financial consequences.

I.2 Monitoring

I.2.1 The 1998 Deloitte review⁴⁹ of Education and Library Boards noted that monitoring reports for non-schools services were being produced within one week of month end and reflected user requirements. The main gap was that they were on a cash basis only and this was an issue to be addressed through the Accruals Accounting project. Budget holders were reported as monitoring their budgets monthly and where appropriate taking action to bring expenditure within budget. SMT members were given summary reports of all budgets under their control and addressed areas of concern with the relevant budget holder.

I.2.2 The re-organisation at the end of the decade and the introduction of accruals accounting changed the picture of monitoring. Reports from the

⁴⁹ Review of Strategic and Financial Management Arrangements in BELB, 21 July 1998

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Oracle system were not apparently thought to be able to produce regular monthly returns a few days after month end. Staff appear to be confused on whether reports from Oracle are in cash or partly in accruals terms. There is also confusion on the extent to which aggregate monthly budget information from the computer reflects an in built profile, or whether it has been varied to take account of known variations in expenditure patterns, such as temporary teachers pay being linked to the start of the school year in August/September. The Finance staff have maintained their own spreadsheets to assist monitoring and make projections of the likely end year outturn. In fact there are a number of quite sophisticated formulae options which can be used in Oracle to enter monthly budget profiles or a budget holder can manually enter their own forecasts if an unusual event is likely.

I.2.3 Budget holders and their line managers have access to expenditure details from the Oracle system and some standard reports were prepared for them. On request Finance could help to provide ad hoc or specifically designed reports for staff, these of course could only deal with information available in the computer system. There were timing problems with data from systems other than Oracle, but details for each budget holder were available for delegated and non-delegated expenditure. Only 7% of orders went through POP. The CFO was not aware of the user requirement in the accruals accounts project for a management information system.

I.2.4 The Oracle system is large and powerful with thousands of codes. It would have appeared daunting to staff who were getting to grips with restructuring who had minimal computer experience. A special section^K in Finance (budget control for budgets and accounts payable for invoices) is used to input data sent to them by Budget holders. Standard reports are available but budget holders can get their own versions or go on-line to get information. Few staff use the on-line facility and most rely on standard reports. Training had been organised by the Finance department.

I.2.5 The 1998 Deloitte review⁵⁰ had hoped that the Accruals Accounting Project would provide accruals and commitment information. Accruals information is not available to all budget holders. The 2004 Deloitte report noted that adjustments for accruals, prepayments and deferred income were not made on a monthly basis, nor was there a mechanism for detection of significant movement in accruals during the year⁵¹.

I.2.6 The Chair of Finance recognised that tracking and reporting accruals on a frequent basis could be over sophisticated and time consuming. Members had felt monitoring included accruals. The CFO had indicated his inclusion of them in his projections.

I.2.7 Problems which had or were likely to have serious impact on the financial ability of BELB were known to the CE. He pointed out there was much less flexibility since 2002/03 from reducing pupil numbers, capping of school budgets, the inclusion of earmarked funds, special educational needs had been funded by DENI but not met fully, and job evaluation also funded by the department but not for HQ staff. Teachers threshold pay had been

⁵⁰ Part 2 Section A4

⁵¹ Part 2 Section G2/3

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mentioned as a problem and redundancy had to be considered. The incompatibility of many Board computer systems made control more difficult with connectivity to Oracle and better interrogation a must. The CE had great confidence in the CFO because of his past experience.

I.2.8 The CE took up his post after the 1998 Deloitte Review, which he thought did not look at accruals. He tried to improve the management framework through performance measurement and now has a much tighter system to develop people skills in a strategic context.

I.2.9 The CAO recognised that there could be problems in coding for monitoring of some miscellaneous areas and that in 2003/04 there may not have been a budget set for these. Others did not fit easily into an individual SMT responsibility. Transport was another area with budgeting problems and therefore expenditure comparisons could be difficult to assess. Monthly reports had not been available in 2004/05 because of the work on final accounts. She would like to agree monthly returns before they go to Committees and agreed with the IA recommendations on management control in a recent BELBCLEAN report. Monitoring returns where part of the expenditure has been allocated to schools do not help the management of the budget.

I.2.10 The Financial Accountant was aware that earmarked funds were taken as inside the Resource Allocation Plans (RAPs) approved by DENI and therefore the Board felt free to spend the money anywhere. The reason Deloitte 2004 could not track such funds was because some of them had been used to cover deficits in other services such as HQ. The Executive Programme Funds were ring fenced.

I.2.11 The Acting CFO has identified main areas^L where accruals need to be kept in mind, such as arrears of pay awards and threshold payments etc. Estimates from these high level projections by the senior finance staff are now reported in the monthly cash returns to the Finance Committee and to SMT/SLT which have been re-instated in 2005. The decision to restrict those in charge of budgets to SMT only has now been relaxed and at year end there were some 25-30 nominated budget holders able to approve purchases and invoices.

I.2.12 The Acting CFO stressed the difficulty of giving budget holders a complete budget for the year, when it is not practical for them to forecast accruals for all the budget lines, and the necessity to keep some funds in reserve to year end. The Acting CFO is of the opinion that much more work is required to re-structure the hierarchy of budget holdings and responsibilities plus there is the need to ensure that holders are only given funds which they have the power and ability to control properly. At present many get re-charge costs but cannot control these. The timing of charges for substitute teachers and some classroom assistants being met between the centre and LMS was cited as examples.

I.2.13 The Chief Librarian stressed the problems^M of dealing with different DE, DCAL and DEL requirements. She has found it possible for dedicated staff to organise budget profiles taking account of likely irregular payments, although it has been difficult to predict the timing of job evaluation payments

but it is nearly completed in her services. Projections taking account of accruals have been possible in the library service. She felt that the performance measurement framework being introduced has enabled many staff within SLT to get started on the journey of thinking adequately about the information needed to properly carry out their function, but that it will be a long hard road. SLT need to ensure by close personal contact that staff below them put into place the necessary measures.

I.2.14 Some commitment information can be obtained through Oracle by using the Purchase Order (POP) system but this is not available to all budget holders and is not apparently widely used in BELB. In any event, purchases through the delegated schools budget are on the different CLASS computer system. Considerable weaknesses were detected by the 2004 Deloitte report on budgetary control⁵².

I.3 Monitoring returns 2003/04

I.3.1 An examination was made of the F10 monitoring returns submitted to DENI for 2003/04. These were produced from the Oracle system. Comparisons were made with the allocations reported from time to time to the Finance Committee. The main interesting points follow.

I.3.2 The initial allocation for 2003/04 from DENI amounted to £175.8m, reported at the 14 May 2003 Committee. This increased during the year through £192m on 8 October, £209m on 21 January 2004 to £203m reported on 21 April 2004. These amounts do not agree with the monitoring returns which give data to the end of the month.

I.3.3 No budget information was available for April and May 2003. The allocated budget for the year increased from £182m at end May to £203m at year end, an increase of £20.8m. Aggregate expenditure to December 2003 and January 2004 was £4.1m under budget, to February 2004 was under by £3.2m and at end March was £2.4m over, according to the F10 processed on 10 June 2004. The March expenditure was £26.4m compared with some £16m in February which was near the monthly average for the first 11 months.

I.3.4 An indication of the changes to service budgets from May 2003 to end March 2004, and the over or underspend at year end, is shown in Table I1. This shows that in spite of increases in budgets of some 10%, some services overspent their allocation by a material amount and the picture would have been more serious had it not been for savings (after their budgets had been increased) in primary schools and miscellaneous educational services.

⁵² Part 2 Section G6

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Table I 1

Service	End March 2004 budget £m	Increase in budget May 2003 to end March £m	Overspend Underspend at end March 2004 £m
Pre-primary schools	6.265	0.7	1.7
Primary schools	72.569	7.6	-1.5
Secondary schools	61.866	7.2	0.6
Special education	19.830	1.6	1.8
CASS	6.126	1.6	0.2
Misc educational services	5.225	0.6	-1.5
HQ	5.540	0.4	-0.2

I.3.5 Encumbrances in the schools services at end March were shown on the F10 forms as £1.3m, plus another £0.6M for HQ. This is similar to the position at February 2004. It is higher than in April 2003 when the school encumbrances came to £0.7m, with HQ at £0.2m.

I.3.6 A monitoring report at mid year had been provided to the Board. The CFO always satisfied members with the quality of his responses. The CFO updated the Committee every month on monitoring to end of the previous month through a simple spreadsheet. Questions were answered authoritatively. Before 2004 there was no evidence of problems which could not be sorted out within year. The Finance Chair was aware of the difficulty of ensuring that budget holders managed adequately especially if central expenditure was not managed tightly. He mentioned the responsibility of the CE working with the SMT to ensure budget holders were controlling sufficiently. The Audit Chair felt an attempt could be made to check accruals, for example, on job evaluation. He stressed that too much time should not be devoted to too frequent calculation of accruals as the figures should normally be fairly constant, unless some major element had been introduced. He indicated accruals should be captured by the SMT service divisions. Control of earmarked funds should be straightforward.

I.4 Action in 2004/05

I.4.1 The Financial Accountant felt certain at the end of May 2004 that he had detected a deficit in the 2003/04 accounts. The DCFO and CFO were informed. The size of the deficit was refined during further work in May. The CFO still estimated that there would be a small surplus at the May SLT meeting.

I.4.2 The CE said⁵³ that on receipt in June of the information that the Board was in deficit he put a stop to all public advertisements of posts, except for some which had available earmarked funds. He also asked the Procurement Officer to review the main financial issues associated with the corporate assessment of the Finance Department, see F.2, and prepare an action plan. When Deloitte indicated that monthly monitoring reports were not on an accruals basis, the CE asked the DCFO on 13 August 2004 for a report on the current financial situation, using the July figures with key accruals adjusted.

I.4.3 At its meeting of 7 June 2004, SMT agreed to implement savings which had been outlined (details not recorded) and were deliverable immediately, investigate the scope for further savings and reduce deficits in schools. A later stage was to review the financial position following implementation of stage 1 and consider further reductions.

I.4.4 Reference was made to overspending in a number of services in a 27 July 2004 report⁵⁴ to the CE by the DCFO together with suggested action to recover the situation:-

- take decisive action against eight schools with deficits >20%,

⁵³ Examination of Mr D Cargo 15 December 2004

⁵⁴ Report on Financial Position for BELB 2003/04

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- take more radical action against schools planning deficits as a group rather than each in isolation,
- Unless more funding comes from DENI cut the persistent and growing deficit in special education by reducing the number of classroom assistants and cutting back on general expenditure to reduce costs,
- implement the proposal already made by Finance to cut central service core and HQ budgets by 5% from the 2003/04 baseline,
- to get DENI approval need to factor in some planned maintenance expenditure and not the complete cut already initiated,
- make detailed review of service provision in the transport budget,
- consider the in year costs of catering staff job evaluation increasing rates,
- on CASS consider the impact of external initiatives although the central element of the budget was in surplus,
- make a careful approach phased over a longer time frame to reduce school budgets.

I.4.5 The DCFO also suggested a loan from the N I Consolidated Fund might be considered. He concluded that immediate action was required which would need to be explained and agreed by members of SMT. The DCFO referred to an earlier decision on electrical installation which was at a high standard relative to the funding given for the C2K project, although this element should diminish in 2004/05. His 27 July paper was apparently copied to the Chairman of Finance Committee and SMT members.

I.4.6 On 5 August 2004 the Financial Accountant wrote to the DCFO projecting savings required in 2004/05 of up to almost £25m. He commented that it was too late in the financial year to turn around such a large deficit.

I.4.7 The DCFO was instructed by the CE on 13 August 2004 not to send letters to schools informing them of the deficit position. The CE indicated he prefers a face to face discussion on the lack of plans already submitted.

I.4.8 On 14 September 2004 the CE brought a draft recovery Plan⁵⁵ to the Board. The first phase from June to August referred to the need to understand fully the nature and extent of the problem. The second phase of containment was from September 2004 to March 2005 and said that as well as an action plan to reduce schools deficit, other HQ services could provide £2.5m. It was proposed that there would be a recovery phase from April 2005 to March 2008 to address the issue of proper funding as well as clawing back overspend incurred in 2002/03 and 2003/04.

I.4.9 Another feature of the 14 September 2004 plan was to address any systems weaknesses from September 2004 to March 2005. It hoped that the implementation of proposals (outlined in an Appendix of Issues; Key Actions; Constraints; principal resource; and Timescale/priority) would put in place a robust financial management system in line with best practice.

I.4.10 A paper headed Business Recovery Plan⁵⁶, classed by the Finance Committee/Board as a containment plan, was prepared on 30 September 2004 by the CE. The stated objectives were to achieve a balanced budget with reduction of the existing financial deficit of £9.3m over 3 years. Many of the savings required a review of individual expenditure areas while others, such as saving over £3m on delegated schools with deficits in excess of 5%,

⁵⁵ Draft Recovery Plan supplied by Mr Cargo dated 14 September 2004

⁵⁶ Business recovery Plan supplied by Mr Cargo BELB dated 30 September 2004

were for plans to be in place by 31 December 2004, with balancing school budgets in 3 years. This plan expected to obtain £1.3m from a revised forecast and £1.6m additional funds from DE.

I.4.11 The Savings Report became, with a few minor adjustments, an Expenditure Containment Plan of 28 October 2004, obtaining £2.5m from restricting planned maintenance of schools, £1.3m from new procedures for response and emergency maintenance of schools, and some £0.75m in the Board's Corporate Services for 2004/05. The remainder of £0.16m for voluntary redundancy, £0.46m from the Education Department and £0.14m from Technical & Services was still only planned.

I.4.12 The CE said he re-trenched budgets to SMT staff and made heads of departments accountable for all spend in their departments in an effort to keep within 2004/05 allocation.

I.4.13 Examination of the F10 cash returns to DENI from April 2004 to October 2004 indicated total budgets being some £10m below the DENI items in 2003/04. The following analysis has to be treated with caution as finance staff were busy after April 2004 on finalising the accounts and determining the extent of the problems arising from the deficits. At end June, expenditure was some £4.5m over the budget to date but not all budgets had been entered into Oracle. By end September 2004, spending was 50% of the annual budget for the year. It was £3.5m below the cumulative budget to date but the latter had been set at the level of expenditure to date in 2003/04. While there had been progress in reducing cash spend in 2004/05 compared with 2003/04, it was not until nearer mid-year that containment action appeared to bite. With so much of the funds being tied into delegated schools' budgets, and such a high percentage of expenditure being pay, it will be a large task to get sufficient further savings to break even in 2004/05 and recover the effects of earlier over expenditure.

I.5 Training

I.5.1 An examination was made of training materials⁵⁷ used from 2001 to 2004 which included financial management.

I.5.2 Specific training was laid on for budget holders in 2001 and 2002. This gave an overview of the source of funds and their allocation to budgets. The need for training of budget holders was stressed regarding their responsibility, monitoring and control and the need to take action. The role of spending departments to analyse budgets, profile expenditure patterns, check expenditure against plan and monitor was included. Quite a lot of the time was spent dealing with coding for the new computer system. In 2002 there was slightly more emphasis on the next steps for budget holders to check but only a single slide on monitoring. The SEO felt the explanation of how to drill down to monitor detailed information in the Oracle system and get ad hoc reports had been good.

I.5.3 Training was provided for SLT in February 2004 under the general heading of performance measurement. Mention was made of the need for a

⁵⁷ Copies of presentations supplied by Mr D Cargo

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framework to include costs and value for money, audits to get a baseline for individuals, teams and processes, and decisions and mechanisms needed for management/financial systems.

I.5.4 Regular training has been provided annually for School Governors on financial management. This is specific to the organisation of their own systems to control and comply with Local Management of Schools.

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