

INQUIRY
PART 3 SEELB ANALYSIS

Part 3
SEELB Analysis

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A SEELB Budget Overcommitment 1996/97

A.1 Background

A.1.1 In November 1996, the SEELB informed DENI that it was projecting that expenditure would exceed its grant. At year end the outturn was an over-commitment of £3.1m, despite having received £4m in addition to its original allocation of £156.6m.

A.1.2 Deloitte & Touche were asked to investigate the circumstances. The following points have been taken from their report of 7 August 1997¹. The main causes of the over-commitment included:-

- Board did not have satisfactory financial management controls as specified in the Financial Memorandum,
- Delegation of authority was not removed from school governors even where grounds for this were available,
- Less allocated to non-delegated budgets than Board knew was required,
- Initial budgets flawed,
- Contingency fund not capped,
- Financial reporting system requires improvement,
- Monitoring of schools ineffective,
- School deficits allowed without formal approval,
- Action to reduce deficit taken at too late a stage,
- Board provided inadequate material to the Department and failed to state it would have difficulty staying within budget.

A.2 Recommended action

A.2.1 Deloitte & Touche reported the following action had been taken:-

- Rigorous measures to ensure stringent cost cutting actually took place in deficit schools,
- Budgets for special education, transport and severance costs increased to be realistic,
- School contingency fund capped.

A.2.2 The consultants recommended the following further action be taken:-

- Board's budget policy should stipulate that aggregate expenditure will not exceed funds already allocated,
- Strengthen accounting department, including holiday and sick coverage,

¹ SEELB Budget Overcommitment 1996/97; Deloitte & Touche Report of 7 August 1997

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- Increase reporting capacity to produce summary accumulated expenditure reports for the Board,
- School deficits to be subject to formal approval,
- Improve monitoring of school/college budgets and spend,
- Revise reporting to DENI to be more meaningful and timely.

B Consultants' 1998 report Strategic and Financial Management

B.1 Introduction

B.1.1 DENI, in consultation with all 5 Boards, sought consultancy support from Deloitte & Touche to strengthen the 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 Boards². Specific reference was made to taking account of the transfer from cash to accruals accounting and the implications of Resource Budgeting.

B.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 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.

B.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.

B.2 Delegation to CFO SEELB & BELB

B.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.

² Review of Strategic and Financial Management, BELB Deloitte & Touche 21 July 1998

B.3 Budgetary Control; SEELB & BELB

B.3.1 Resource allocation should be driven by the aims and objectives of the organisation and each business unit should identify the resources required to deliver objectives³. This would effect a bottom-up approach to resource allocation.

B.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 produced⁴. Additionally, training may be required to ensure employees have adequate competencies.

B.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.

B.4 Managing Expenditure; SEELB & BELB

B.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 available⁵. This should let budget holders be aware of the total funds committed out of their budget at any time, not just payments made.

B.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 end⁶. Preference for on-line access by all budget holders was stated.

B.4.3 Provision for exception reporting to focus budget manager's attention on significant items was recommended⁷.

B.4.4 Both Boards were also asked to change their system whereby a Board officer(s) was a member of the Board's Audit Committee⁸ to make them wholly member appointees.

³ Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p89

⁴ Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p90

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, p91

⁷ Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p92

C Miscellaneous

C.1 Departmental Allocations

C.1.1 The 15 February 2001 DE allocation letter stressed that the resources currently being allocated did not take account of the cost of new arrangements for teacher's salaries. It gave comprehensive instructions to Boards indicating how public funds are to be spent. It reminded recipients that the 2001/02 budgets were being allocated on a resource (accruals) basis.

C.1.2 A number of the Earmarked and Executive Programme allocations were quite small⁹. In SEELB in 2003/04 the final allocations showed 24 earmarked allocations of which 6 were under £100,000. The 11 Executive Programme items in SEELB contained only 6 over £100,000. There was a similar pattern in BELB in 2003/04.

C.1.3 The 18 January 2002 allocation letter¹⁰ was basically similar to the previous one. However the allocations were essentially interim, pending a Spending Review which the NI Executive was undertaking to set budgets for 2002/03 and the following two years. The list of earmarked funds had increased to 34.

C.1.4 The 2003/04 allocations¹¹ were similar to the instructions of the previous year. This letter pointed out that in addition to providing for the maintenance of existing service levels ongoing support for job evaluation costs, key educational initiatives such as Classroom 2000, additional resources for school core budgets and a major programme of investment to improve the Education estate had been provided.

C.1.5 For 2004/05 DE required Boards to take account of commitments made by the Education Service in the Public Service Agreements and Service Delivery Agreements and ensure there was a read across between the Boards' financial plans, targets etc, and those set out in the Corporate and Business plans. Specific reference was made to job evaluation and escalating pressure of the costs in respect of classroom assistants, particularly for statemented pupils, as well as improving the estate. As in recent years, Boards were reminded that the proposed introduction of Common Funding Formulae might mean changes to non-delegated school budgets and challenging provision had to be made for

⁸ Review of Strategic and Financial Management; SEELB Deloitte & Touche 28 July 1998, p93

⁹ DE ABRAM Statement of Recurrent approvals 2003/04

¹⁰ SEELB Allocation letter from DENI dated 18/1/2002

¹¹ SEELB Allocation letter from DENI dated 31/1/2003

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demand-led services. Boards were to ensure the Contingency Fund is sized appropriately.

C.1.6 Allocations from DENI were specified as being expressed in resource (accruals) terms¹². The budgets set the maximum levels of resource consumption for the financial year excluding all notional costs. The Board was given a key financial target to ensure expenditure is contained within the limits notified and approved by the Department. Budgets for schools were to be recurrent accrued expenditure.

C.1.7 The DENI Allocation letter 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.

C.2 Annual Accounts

C.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.

C.2.2 The cumulative Income and Expenditure deficit transferred to Reserves over the 4 years comes to £12.565m. The School Reserve increased from £9.0m at 31 March 2001 to £12.53m at 31 March 2004 while the Grant Reserve had a reducing deficit from £2.16m at 31 March 2001 to £1.11m at 31 March 2004. Creditors, including those falling due in more than one year, had been some £0.75m greater than debtors in 2000/01, were virtually the same in 2002/03 but then showed a large jump to £21m compared with debtors of £15m in 2003/04. The provision for Liabilities and Charges showed annual changes around plus or minus £0.4m and stood at £6.91m at 31 March 2004.

C.2.3 The SEELB annual accounts for 2003/04 showed a deficit on income and expenditure of £5.66m. Under Funding commitment it showed £2.13m 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.

C.2.4 Note 23 on the 2003/04 accounts indicate that there was an increase in accruals and deferred income of some £2.0m, and in creditors of some £1.1m, over the position in 2002/03.

¹² DENI letter of 20 February 2004 to SEELB

C.3 Resource Allocation Plans

C.3.1 DE specifies the format of the Resource Allocation Plan (RAP) for all Boards. Following receipt of the Departmental allocations the Board must 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, DENI¹³ 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.

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

C.3.3 Section 1 gives the total planned expenditure, recurrent and capital separately, for a number of service sub divisions¹⁴. 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.

C.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.

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

C.3.6 The Planned expenditure totals in the Initial RAP at £213.3m equalled the cash funding required. The revised figure in the Final 2003/04 Section 1 prepared on 30 March 2004 was £235.4m, with an equal amount listed as cash funding requirement.

C.3.7 A further supplementary analysis¹⁵ is required as Section 1A. This gives a matrix of planned expenditure by type of school for the various subdivisions. It identifies expenditure which is Earmarked and that which comes from Executive Programme Funds.

C.3.8 The final RAP Section 1A is checked across to the Departmental allocations. The final 2003/04 section 1A, which lists the main expenditure on schools, gave no EYF for 2002/03 as did the initial RAP. A supplementary

¹³ DENI letters of 15 February 2001, 18 January 2003 and 20 February 2004.

¹⁴ SEELB Resource Allocation Plan 2004/05 Section 1

¹⁵ SEELB Resource Allocation Plan 2004/05 Section 1A

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undated analysis showed an EYF of £11.52m with the ASB and an EYF for 2002/03 of £7.87m with Centre items which are allocated to type of school.

C.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.

C.3.10 The SEELB 2003/04 Final RAP¹⁶ dated 30/3/2004 totals the sum of all the DENI recurrent allocations during the year. Section 1A subdivisions for Earmarked Funds and Executive Programme Funds cross check to the DENI allocations.

C.3.11 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.

C.3.12 Section 2 of the RAP gives planned outputs¹⁷ for the year and follows a DENI pro forma. 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.

C.3.13 The data for SEELB section 2 showed little change from the Initial RAP in March 2003 to the final one presented on 30 March 2004. Apart from some minor updating of figures the main recurrent changes noted were:-

- Primary schools reduce number with deficits greater than 5% went from 16 to be reduced by 50% to 17 schools at March 2003 being cut to zero by March 2004,
- Group tuition for EOTAS rose from 214 to 235 planned,
- Under Milk and meals the target receipts for free meals fell from £3.77m to £3.21m at March 2004 quoted as due to the shortfall in the cost to produce,
- A table showed an increase in the pupil numbers to be transported rising from 14,821 to 19,535.
- A small reduction in the number of Education Welfare staff from 37 to 33 but school psychology staff rising from 37 to 43., the combined cost reflecting an increase from £2.11m to £2.28m

C.3.14 The CFO indicated that part 2 of the RAP was drawn together by the DCFO from information supplied by operating managers. He considered no one was happy with the RAP and budget holders found it difficult to see a link with the corporate plan objectives. Imposition of targets from DE was not thought to make the whole planning area work properly. Completion of Section 2 of the RAP^A was done in conjunction with business unit managers but input to sections 1 and 1A was by finance until 2004/05.

¹⁶ SEELB Final Resource Allocation Plan 2003/04, 30/3/2004

¹⁷ SEELB Initial, Interim and Final Resource Allocation Plans 2003/04

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C.3.15 The RAP Part 2 was sent to budget holders as a blank^B and sub-division proposals discussed with senior operational managers. Staff are expected to be able to inform SMT manager of potential pressures. Past trends are considered but special educational needs are difficult to forecast. A pressure paper, excluding pay, is brought to SMT by the SEO. He was aware there could be problems on back pay for classroom assistants and this linked to accruals because negotiations were ongoing and it appeared the payment would not be made in 2003/04. The SEO said the targets in the Board's Corporate Plan linked to the RAP and, regarding RAP Sections 1 and 1A, were linked to the amount of money allocated by DE.

C.3.16 Until the 2004/05 year the CAO had not seen the RAP Part 1A which was completed by the Finance section.

C.4 Accountability reviews

C.4.1 Within the year DE meets the Chairman and Chief Executive of each Board to discuss general matters concerning Board business.

C.4.2 Minutes of SEELB accountability reviews in 2003 and 2004 were investigated.

C.4.3 In November 2003, SEELB confirmed they would remain within budget. Pressure from asbestos in schools, insurance costs and particularly Special Education Needs, where a classroom assistant was needed, were mentioned. The Board was to give DENI information on surpluses in schools and clarify how it deals with deficits in centre budgets.

C.4.4 SEELB said each senior officer reports to the Audit and Risk Committee. Tendering and contracting procedures had been changed.

C.4.5 At the accountability review¹⁸ of 29 June 2004, DE was informed of a deficit in the 2003/04 accounts. More information was to be sent by the Board. The CE said schools in deficit were closely monitored and controlled and the Board was satisfied with the tight controls in place. The Board had plans to reduce expenditure on maintenance, Classroom Assistants, Special Education and CASS to constrain RAP within specified limits.

C.5 Department / CFO meetings

C.5.1 Regular meetings are held between DE and the CFOs of all Boards. These enable DENI and Boards' finance staff to discuss and agree financial procedures etc, for example, the treatment of end year flexibilities which was

¹⁸ SEELB Accountability Review 29/6/2004

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formalised in 2002 ,and ongoing discussions over many years on a Common Funding Formula for delegating budgets to schools. The minutes of these meetings from 2000 to date were examined and the following paragraphs note relevant issues mentioned at these meetings.

C.5.2 On 2 March 2000 CFOs reported on their end of year carry over including the schools' delegated portion.

C.5.3 An update on the 1999/2000 grant-in-aid carry over was given on 26/5/2000. At that meeting it was agreed to give DENI copies of the monitoring returns CFOs supply to their Boards, along with bids and easements and supporting information. One Board representative felt that a reconciliation of cash to accrued expenditure was fundamental to financial management/control of Boards. CFOs agreed they could provide accrued expenditure in the planned expenditure column of the revised RAP.

C.5.4 The Chairman on 20/6/2000 indicated that, in applying the rule that a body in receipt of grant-in-aid should not carry over in excess of 2% of the total grant, DENI discounted any carry over in the schools' delegated budgets. In so far as in-year monitoring was concerned the Department required an accruals out-turn statement. There may also be a need for a separate form for earmarked expenditure. The development of an updated Resource Accounting Manual was mentioned.

C.5.5 Ongoing concerns over the regrading and substantial arrears of job evaluation were expressed at the September 2000 meeting, and many subsequent meetings. DENI reminded CFOs that such pressures were of the Boards' own making.

C.5.6 On 19/1/2001 CFOs raised concerns about the provision of estimated expenditure on an accruals basis when there were no financial targets for 2001/02. They wished a direction from DENI.

C.5.7 It was agreed on 30/4/2001 that a Contingency Liability provision be made in the accounts in respect of job evaluations for which the amounts are known at the date of signing of the annual accounts.

C.5.8 CFOs were warned on 15/11/2002 that threshold and job evaluation allocations would be included within core funding for 2003/04. The SEELB CFO informed this meeting that his Board was potentially the greatest loser under CFF because it historically spent more on Special Needs than other Boards.

C.5.9 A revised RAP format had been considered in December 2002 and Resource Managers had been asked to look at their specific targets to ensure only those of strategic importance were included. Low level targets can be set up by Resource Managers directly with the Boards and outside the RAP arrangements.

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C.5.10 A revised methodology for determining baselines of Board HQ Administrative expenditure was explained in June 2003. In spite of the difficulties in getting schools to date stamp and forward invoices to Boards for payment, Boards were reminded that their performance on prompt payment was poor and a significant improvement was required. An updated EYF pro forma to reflect final outcome figures following completion of Board annual accounts was agreed.

C.5.11 Concern had been expressed that there were significant variances between monthly estimates of cash funding requirements and actual cash draw down. It was agreed in October 2003 that Boards would in future provide the monthly cash funding estimate. Potential pressure from an increase in employers' share of Superannuation contributions for non-teaching staff was noted.

C.5.12 DENI told the group on 13 November 2003 that it would shortly look at progress by Boards in implementing the recommendations of the Strategic and Management and Financial Review of Boards¹⁹ in 1998. The CFOs undertook to provide DENI early in December with their best estimates of cash funding requirements for the current year. This was to ensure the Department's cash control limit was not exceeded. A recent update on job evaluation for classroom assistants gave £16.7m to be paid to 31 March 2004, with the original estimate being £14m for 2004/05.

C.5.13 In May 2004 the group was updated on the arrangements relating to May pay for teachers and pensioners.

C.5.14 CFOs, in September 2004, indicated they felt the current RAP system was not working effectively and required a fundamental review. The RAP should focus more on outcomes and the business/resource people should take greater responsibility for it. The possibility of merging the Boards' Business Plans with the RAP was to be considered. A review of Boards' resource budgeting and accounting and financial control arrangements was scheduled to commence in October 2004. Some of the difficulties of operating to the Financial Memoranda etc. of three departments, DE, DCAL and DEL, were raised.

C.5.15 Apart from this group, the CFO's frequently met to try to agree uniformity of accounting treatment for example on treatment of carry over.

C.6 Accruals Accounting Project

C.6.1 The SEELB took the lead role in implementing the Accruals Accounting Project on behalf of all 5 Boards. This PFI project started in 1999 set up the

¹⁹ Review of Strategic and Financial Management Arrangements in ELBs; Deloitte Touche Tohmatsu July 1998

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Oracle computerised system. The Outline Business Case defined the objectives for the Project²⁰ as including:-

- introduce accruals accounting to the Boards by 1 April 1999,
- provide related financial management information systems,
- provide on-line access to financial and management information to allow managers to analyse the costs and budgets of their own responsibility areas.

C.6.2 A Peer (Gateway 5) Review in October 2002²¹ indicated that Phase I was to provide core elements of the accounting and payroll services that are necessary to provide the ELBs with an accruals based financial management information service for the year ended 31 March 2000. Phase II was to provide the remainder of the accounting and payroll services by March 2001.

C.6.3 Due to various difficulties with the contractor the project was changed to remove the payroll element and the timetable slipped.

C.6.4 The Gateway review²² found that the project had met its primary aim for the introduction of accrual accounting costs across the 5 organisations. It stated the vast majority of accounting needs had been met. Continued user representation on the AAP Project Board provides confidence that any high level emerging changes to user and benefit needs are being addressed and will continue to be. The user needs were in an Output Based Specification and subsequently incorporated into Schedule 2, the Business requirement of the Formal Contract – Project Agreement.

C.6.5 The 2002 review recognised²³ that the main benefits “would be from improved access to management information and resultant ability of management to use that information to effect change”. The status was recorded as “costs are now charged at cost centre level and this should enable more effective monitoring by managers; much more comprehensive reporting facilities available to both finance users and budget holders and many users have on-line access”.

C.6.6 Regarding future service provision,²⁴ Gateway noted a key justification for the project was to allow “weaknesses in the then current system in relation to budgetary control functionality to be addressed”. Implementation had indicated a larger number of users than originally envisaged would require on-line access.

C.6.7 In 1999 the Project Board had membership²⁵ of CFOs from all Boards and Chief Administration Officers from the other 4 Boards.

²⁰ NIAO The PFI contract for the ELBs new computerised accounting system ; HC498 of 20 March 2003 paragraph 2.6

²¹ Peer (Gateway 5) Review – Evaluation of In-service Benefits, October 2002

²² Peer (Gateway 5) Review – Evaluation of In-service Benefits, October 2002; section 2 Summary of Findings

²³ Peer (Gateway 5) Review – Evaluation of In-service Benefits, October 2002; section 4 Operating phase

²⁴ Peer (Gateway 5) Review – Evaluation of In-service Benefits, October 2002; section 6 Future Service Provision.

²⁵ AAP Project Board Minutes May – September 1999

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C.6.8 DENI sought further information to support a bid²⁶ made at the end of 2002 to facilitate upgrading to 11i of the Oracle system. A main reason was because Oracle were not prepared to support the software system beyond June 2003. The CFO, in his reply, included the cash cost of additional workstations which he calculated would bring the cost of workstations together with associated software licences to over £5m for the project. The costs of the AAP Project are met directly by DENI without forming part of its grant-in-aid.

C.6.9 In its suggested response to questions from NIAO and DFP²⁷ following an audit report on the whole PFI AAP, the SEELB said the Project Board could not have foreseen the majority of the requirements for more workstations which were for Purchase Order Processing and On-line Reporting. It stated that in 1997 it was envisaged the financial systems would be required primarily by Finance staff with the majority of processing taking place centrally and reporting primarily by paper. Sixty of the extra workstations were to give enhanced reporting for budget holders.

C.6.10 The inadequacy of the links between computer systems is known to the CE, especially with payroll. The financial information system is not straightforward on account of this and Oracle returns do not tell the whole story. Proposals for e-commerce introduction had stalled. The CE recognised that the introduction of the AAP was being implemented at different levels in the Boards because some finance people found it complex and difficult to put into effect. It needed a cultural and structural change to implement.

C.6.11 Although a 5 Board system,^C working practices in individual Boards to implement the Oracle modules varied. The Project team had written business process manuals and user manuals for each module but these had not been adopted into working practices. Some Boards operated on a cash basis only. The power of the Project to capture and report on accruals depended on the input of relevant data. Payroll was on separate systems.

C.7 Various memoranda

C.7.1 A selection of Memoranda covering correspondence between the CE and CFO June 2000 to July 2004 was examined.

C.7.2 The appraisal forms²⁸ for 2000/01 indicated that implementation of the Accruals Accounting package was achieved with a review and change to business processes and manuals. They also indicated that phase II of AAP completed by March 2001.

²⁶ November and December correspondence on DENI file 1460/03

²⁷ 2004 notes on DENI file 1472/03

²⁸ Staff Appraisal Form completed 10 April 2001

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C.7.3 Staff appraisal form for 2002/03 showed²⁹ that the CFO set himself an objective of improving efficiency, including to specifically ensure that the Board lives within budget, and considered he had achieved this. While Finance may monitor expenditure to compare with the funds available, spending decisions are taken by others. Another strategic objective was to provide high quality information and support services but the associated objectives only referred to development of the web site and ensuring statutory and Departmental deadlines were met.

C.7.4 There were no specific references to objectives related to management information systems in the 2003/04 year appraised on March 2004.

C.8 Financial procedures

C.8.1 The Board supplied a number of financial procedure papers to the Inquiry. Comment on the more relevant to the Terms of Reference of this Inquiry are summarised below.

C.8.2 A Coding manual³⁰ notes that within Oracle there are six segments in the Chart of Accounts. These are:-

- Board. To identify the individual reporting entity for which a set of accounts is produced.
- Cost Centres. To identify individual locations/schools/operational units/ service areas within the Board.
- Finance Codes. To analyse how the Board utilises its funding, it identifies income and expenditure incurred, assets owned and liabilities outstanding. Codes for delegated expenditure are separate from those for non-delegated.
- Function Codes. Optional codes to provide further analysis of Board funding e.g. special initiatives.
- Project Codes. To identify how capital expenditure has been incurred.
- Spare segment to allow for expansion of coding or reporting.

C.8.3 Within the Cost Centre Code³¹ there is a structure from Centre to Division to Service to Group. Data cannot be posted to “parent” codes designated with alpha numeric characters, nor can they be used for on-line account queries. Their use is solely for reporting purposes. Thus data can only be posted to a Cost Centre and not to a Division.

C.8.4 Within Oracle balances can only be carried forward on the finance code and not the cost centre. Suspense cost centres no longer exist. External funding is now coded to the function code and the department/business area on which expenditure is incurred will be used as the cost centre. In Oracle suspense accounts have been set up as finance codes.

²⁹ Staff Appraisal Form 22 May 2003

³⁰ Coding Manual Headquarters;

³¹ AAP; General Ledger Business Processes, October 1999

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C.8.5 The ability of a budget holder to set his budget at service, division or cost centre is provided in Oracle. The budget and actual data are held in the same database and coded in the same way but note that actual transactions (invoices and journals) cannot be posted to budget codes. Journal Transfers are the method whereby actual income or expenditure is transferred from one account code to another.

C.8.6 SEELB maintains a HQ Financial Procedures³² instruction. These detailed instructions include noting that the adequacy of controls depend on:-

- clearly defined procedures for the flow of all documentation,
- effective discipline to ensure compliance with policy and procedures,
- formal written communications systems which provide relevant and reliable information to all appropriate staff,
- formal and updated allocation of duties and responsibilities to all staff.

C.8.7 Board members recognised that accruals accounting had been signalled for many years giving time for teething problems to be sorted. The only element of accruals which the budget holder would see within the financial report was the Purchase Order Processing (POP) which gave encumbrances for goods ordered, but not yet paid for. Significant manual intervention was required to prepare complete year end accruals. An overspend had been noted in 2001/02 but there were sufficient reserves to draw upon to avoid a year end deficit. The CFO pointed out that the lack of an electronic link to the schools and out centres meant that accruals could not be brought into account without considerable manual intervention. The Acting CFO referred to payroll accruals being very significant. The difficulty in predicting job evaluation effects especially when settlement is close to the year end and dealing with payroll being on a different system from the Oracle one was stressed. An interface for the non-teaching payroll system, being developed in the BELB, with Oracle has been developed. There can be problems with POP if receipting is not carried out correctly.

C.8.8 There were difficulties getting clear budget lines with all funds allocated to a budget holder and an individual being able to be held responsible for complete management of all that amount. A particular problem^D was regarding special needs, where there was no budget line for classroom assistants in primary and post primary school so this expenditure was absorbed within school headings in mainstream education and not counted against special education.

C.8.9 An asbestos problem caused major disruption to the Finance Department which had to leave their offices for 6 months. During this period access to records was lost. There should be no problem over tracking earmarked funds through the Oracle system provided they were coded as such.

³² SEELB HQ Financial Procedures; January 2000.

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C.8.10 The CFO confirmed that the definition^E of services and coding structure etc had been determined by the Finance Department and in place for over 30 years. He had put a proposal to the Association of Chief Executives in 2002 to implement an Oracle “I Procurement” module to create an integrated computerised system including schools and the sundry out centres of the Boards. The CFO claimed this could collect accruals information each month but it would have required all purchasing and receipting of goods received being included in the Oracle system and direct keying by schools and out centres. All Boards only produce full accrual accounts at year end.

C.8.11 For 2003/04 instructions were issued by the CFO to Estates Management to stop maintenance and minor works expenditure in August 2003. Because of this, and the improvement of the payment performance during the year and the historic accruals level, he expected that there would be a lower level of accruals than in 2002/03, but in fact they were higher.

C.8.12 Special education has consistently overspent on budget. This has been recognised but covered by surpluses elsewhere. Apart from Best Value and audit studies, the Board appointed consultants in 2004 to advise on how this service should be managed. Their final report is awaited but an earlier draft identified weaknesses in the Board’s processes. An IA report of June 2004 also reported on weaknesses with classroom assistants.

C.8.13 The CE met other senior managers more frequently than the CFO. He had regular staff meetings with his SLT but it got too large so he reduced the frequency and had short informal meetings with the 4 most senior including the CFO.

C.8.14 The CFO said that in 2003/04 he reversed accruals in July 2003, at the request of budget holders, both Board and schools. He had informed SMT, but not in writing, and said he had given the impact on their budgets. It is not clear from other witnesses that they understood what was happening.

C.9 Budget holders’ responsibilities

C.9.1 The job descriptions of senior staff specify the sections for which they are responsible. They are expected to promote efficiency and effectiveness, establish efficiency targets, allocate appropriate resources and evaluate outcomes. This includes ensuring the management of appropriate monitoring and control systems to give effect to proper accounting for resources.

C.9.2 The only job description for the CFO is that prepared for advertising the vacancy in 1985. No specific letter of delegation^F had been issued because he was in place before the CE appointment. The 1985 description requires a pivotal role in management of the Board’s finances and includes:-

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- organise and supervise the day to day operation of the services,
- advise the Board on matters relating to the services,
- prepare estimates and financial management information .. in respect of efficient provision of the Board's services and in relation to financial management,
- monitoring of expenditure and budgetary control to ensure efficient operation of the Board's services.

C.9.3 A memorandum of delegated duties was given to the Acting CFO in November 2004. It listed prime duties to ensure compliance with the Financial Memorandum and Accounts Directions issued by the Department; Government Accounting NI; and any relevant DFP directives or guidance. Ensuring expenditure is kept within control totals; an effective financial control system is in place; effective management systems appropriate for monitoring achievement of SEELB's objectives, including financial monitoring and control systems and embracing economy, efficiency and effectiveness in the use of resources, have been put in place, were listed among further examples of duties. In the general job description the Acting CFO has an oversight role on the preparation of estimates and financial information and has to exercise such budgetary control as required to effectively monitor and control budgets.

C.9.4 In their proposal³³ for Programme and Project Management Consultancy, the consultants to the Accruals Accounting Project stressed a number of factors to SEELB which were considered essential for proper delivery of the system. These included matching inputs to outputs, with the financial and management information system supporting decision making and allowing selection of the best alternative. Critical factors included aligning managerial responsibility with financial responsibility so that those who make decisions must be responsible for the financial consequences. They noted that the change in the Government proposals to accruals based accounting was to link actual resource costs and outputs.

C.9.5 Within the set of financial instructions the responsibilities of budget holders³⁴ is given as:-

- Ensure budgets are set at an appropriate level according to their reports,
- Manage the process for receipting goods and services,
- Ensure expenditure is coded correctly,
- Ensure there are sufficient funds,
- If not sufficient agree an increase,
- Monitor budget against spend monthly,
- Request virement if required.

C.9.6 Special attention is paid to the need to ensure additional allocations from the Departments are given an appropriate code, budget is allocated by

³³ Proposal for Programme and project Management Consultancy PwC dated 27 November 1998

³⁴ SEELB Responsibility of a Budget Holder; undated

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school or other location and notified to finance, and budgets are monitored. Budget holder training was apparently initiated in February 2004.

C.9.7 A timetable has been drafted which basically starts with an Initial RAP approved by SMT/Board. It then states that, after a “needs assessment“, Resource Managers prepare a draft budget and formally agree it with a profile by Cost Centre over the year. By April, budgets are entered into Oracle by Budgetary Control, and resource Managers have to confirm that their reports are showing the correct budget allocations in May. Meetings to discuss performance versus budget are to be held in September, December and February/March. Exception reporting to SMT is required.

C.9.8 Rules for monitoring CASS earmarked initiatives have been introduced. An individual budget holder must be identified and take responsibility for ensuring the funds are used for the correct purpose and the correct coding is used. A function code is given to such funds. The instruction requires any under-spend at year end to be correctly identified and authorisation obtained from the funding body to carry over these amounts.

C.9.9 An inter-office memo of 7 May 2004 instructed budget holders of earmarked funds to notify Budgetary Control by 16 May if a carry over was likely. Details of the earmarked fund, function code, estimate of the value of carry over and explanation of why carry over had arisen was needed. Carry over was not to exceed 3% and final value confirmed by mid July. The memo reminded budget holders that commitments due under leases, rental and hire purchase had now to be reported.

C.9.10 A presentation on accruals accounting in schools on 15 October 2004 defined accruals compared with cash based accounting. Examples of accruals were given e.g. payment in arrears for temporary teachers, job evaluation, electricity. The participants were told that in period 12, finance prepare manual accruals as part of the preparation of the annual accounts e.g. payroll, threshold etc. Manual accruals are reversed the next financial year to prevent double counting. A credit of the amount of accrual would be seen on school reports when the accrual is reversed. Those made in March 2004 would be reversed in March 2005.

C.9.11 Two versions of a draft discussion paper “Plan for Improved Financial Management” dated 22 July 2004, were traced. As well as giving a remit for a Senior Finance Managers Group, this planned fairly comprehensively under the following headings:-

- Identification of Budget Holders,
- Cost savings
- Budget Setting,
- Communication,

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- Reporting,
- training,
- Advice and Support.

C.9.12 An undated paper on Mechanics of Budgetary Control Proposal was investigated. This gave detailed instructions under the following headings:-

- Process,
- Relationships with Unit Managers,
- With Budgetary Control,
- with Other Budget Holders,
- Finance,
- SMT,
- Reporting to each Budget Holder,
- to unit Managers,
- How to profile budget at start of year,
- Frequency of budget holders meetings, and
- A cycle for action for 2004/05.

C.9.13 The responsibility of a Resource Manager is set out in an undated paper from Budgetary Control. This is quite similar to the papers on budget holders. Like them, it includes a confirmatory slip that the Resource manager has read his financial reports and carried out his responsibilities.

C.9.14 A summary of comment, apparently from budget holders from August 2003 to January 2004, indicated a continuous level of dissatisfaction at being asked to confirm agreement to budgets or reports.

C.9.15 From the AAP a unified Board approach was adopted on the production of Accrual accounts³⁵. This indicated possible sources of accruals as:-

- Invoices relating to year end,
- Payroll including overtime,
- Electricity,
- Gas,
- Water rates,
- Travel expenses,
- Rates,
- Revenue retentions,

³⁵ Five Board Approach to the production of Accruals Accounts; Version 1.0

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- Tuition fees.

C.9.16 A Budget Holder Manual on Oracle details the options and screen instructions³⁶ for accessing the computerised records. This 50 page document gives copies of the screens and how to access data at the operator/computer screen interface.

C.9.17 General Ledger Business Processes³⁷ details the processes to enter data and obtain reports from the general Ledger. These include budgeting and reporting. The processes were redefined to take into account changes arising out of the transition from cash to accruals accounting and the implementation of a new system. Responsibility for the upload of budgets at start of year rests on budget holders with Budgetary Control processing the information. The same applies to amendments to the budgets and virement. Standard Monthly reports and ad hoc reports are also at the request of budget holders and processed by budgetary control.

C.9.18 Within the processes Oracle can handle Reallocation Journals where, for example, HQ data has to be reallocated across the 4 main groups – Schools, Youth, Libraries and Further and Higher Education - and the transition from cash to accruals accounting³⁸ and Recurring Journals to create formulae for transactions that are repeated every accounting period such as accruals, depreciation charges, allocations and recharges.

C.9.19 Part IV of the General Ledger Business Procedures covers budget roles and responsibilities. Budget holders are required to monitor expenditure and approve all expenditure against budget. The Assistant Finance Officer informs budget holders in February of approved budgets for their specific area of responsibility for the following year and the latter have to forward detailed expenditure plans matching approved budgets to Financial Support. It recommends that budgets are set and reported on at the level at which they need to be monitored. The budgetary data are profiled by Finance who then upload the information into Oracle. Within Oracle General Ledger there is a list of standard system reports available to the user. A Financial Statement generator will be available to respond to additional information requirements.

C.9.20 A system had been introduced where all staff had to sign each month that they had received their financial reports and understood them. The implication is that any failure to input budget information or any miscoding should be noticed by them and raised with Finance. Any additional expenditure above the agreed budget needed SMT approval but this was not always sought, particularly in respect of special education where new commitments were entered into without knowledge of the Finance Department.

³⁶ Budgetholder Manual; Oracle Financials 11i; Version 1.1 July 2003.

³⁷ AAP General Ledger Business Processes; Version 5, 16 November 1999.

³⁸ AAP General Ledger Business Processes; Version 5, 16 November 1999 sections 3.6 and 3.7

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C.9.21 The DCFO felt^G that because initial budgets were inadequate some holders did not feel they really owned them. He confirmed that in 2004/05 SMT had made management decisions about allocations to particular budgets. Some holders had got specially designed regular reports but many accepted standard formats. Prior to April the Board had taken action to identify people interested in voluntary redundancy. It had joined with the other Boards to submit a 5 Board bid in respect of special education pressures. Difficulties with an unclear reporting structure, inadequate setting of original budgets, decisions by SMT without reference to budget holders, lack of impetus from SMT to manage budgets closely and a complex coding structure were problems in the budgeting process identified by the DCFO.

C.9.22 Throughout 2003/04 the CFO was expecting just to remain within budget and had so reported to the CE. He had indicated that individual services would be overspent and had specifically warned the CE and SMT that the policy on special educational needs would bankrupt the Board if it was not changed. The staff had been aware for some years that there was overspending on special education. The SEO recognised that he was responsible for his budget holders.

C.9.23 The HIA did not challenge the assumptions budget holders were making concerning their budgets. He thought this was a role for the holders themselves as they were the experts and audit's role was to check the robustness of systems. The CFO felt, that for something like job evaluation, forecasting of the likely level of expenditure was a shared responsibility between individual budget holders and the Finance section. He considered that this evaluation, together with special education and transport had been further advanced than in other Boards. If this is proven there should be fewer end year problems on these issues for SEELB in future.

C.9.24 The CAO knew what job evaluations were outstanding and the CSMU had the overview across all Boards. Until a job evaluation was completed the Board did not know the grade awarded or the expenditure to be incurred. Back pay depended on how long a post holder had been in post and the grade awarded. Budget holders now realise the importance of accruals but lay people still find the concept difficult.

D SEELB Finance Committee

D.1 Background

D.1.1 The Finance Committee Minutes of SEELB were examined from January 2002 to November 2004. As it is officially the Finance and Property Services Committee the bulk of its deliberations deal with the latter. Frequently the finance element is little more than noting that expenditure is still within budget with no note of any substantive discussion on the matter. Finance reports are attached to the minutes. The past Chairperson and the Vice Chairperson both confirmed that all members of the Finance Committee and Board were fully aware of their responsibilities to keep within the Departments' allocation limits.

D.1.2 The CE rarely attended the Committee or is recorded as having contributed to the discussions. Meetings are held monthly except in the summer. The CFO had sought to restrict his unit to finance matters alone and divest property services but this had not been accepted regarding the Committee. The CE had taken Property services from the CFO command to the CAO. The CAO considered that the Committee needed to be given such background or verbal briefing that they were aware of the options which could be used and the impact of pressures.

D.1.3 The Finance and Property Services Committee reports to the Board in relation to (for 2004/05 these are listed as responsibilities³⁹):-

- Financial estimates,
- Local Management of Schools Schemes and Formulae,
- Tenders, Contracts and Accounts,
- Appointment of Consultants,
- Capital development,
- Purchase, leasing, letting, maintenance and equipment for Board premises,
- Direct Service Organisations.
- Emergency works (added in 2001/02).

D.2 Budgeting

D.2.1 At the time of introduction of accruals accounting, it was identified that budget holders had difficulty understanding the move from cash to accruals and a significant resource requirement would be needed to change this. As a

³⁹ SEELB Corporate Plan

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consequence Finance took overall responsibility for the integrity of the Board's budget and ensuring that all budget holders remained within budget allocations. Prediction of accruals was difficult because so much was delegated to schools.

D.2.2 The 2002/03 recurrent scheme was debated by the Finance Committee on 31 January 2002. Members were concerned about some aspects of maintenance and the Transport provision and that DE was going to ring fence the youth budget.

D.2.3 A Finance Committee on 11 February 2003 discussed the 2003/04 Recurrent Scheme. The Departmental letters and attachments were given to members. The CFO indicated that additional sums would be received for earmarked issues but noting that some were now part of the block grant. The block grant had been increased by 9% with the Aggregated Schools Budget as a %'age of the total being reduced following directions from DENI. Increased funds had been made available for maintenance. Members welcomed the increases but had concerns over threshold payments becoming part of ASB. Members were provided with 6 schedules of supporting analysis of the figures:-

- A compares 2003/04 block grant with 2002/03,
- B compares breakdown by service for 2003/04 with 2002/03,
- C the Aggregate Schools Budget,
- D General Schools Budget £171m plus £49m on Excepted items,
- E LMS exceptions £48.8m by category,
- F Maintenance allocations.

D.2.4 It is interesting that there does not appear to have been any mention of bids or savings from any of the various services. The Initial RAP based on the information on services taken to the Committee equalled the Departmental allocation.

D.2.5 During 2003/04 the total DENI funds allocated to SEELB came to £194.6m compared to £176.8m in 2002/03. It was reported in March 2003 that DENI had provided £6.08m for End Year Flexibility for 2002/03 and this had been shared to various school categories, leaving a surplus to the Board of £6.13m. At half year the DENI budget had increased to £223.2m and to £234.4m by the year end.

D.2.6 Revised Financial Schemes were presented to the 15 September 2003 meeting. This confirmed the Board could only spend money approved by the Departments and stated that the schemes had been drawn up under the accruals methodology. No 2002/03 carry forward was shown because DE had not yet agreed the accounting treatment necessary to establish carry forward balances. Tables gave the Committee details of over £12m of earmarked money allocated since the initial grant and showed how this was distributed among the 19 Board Services.

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D.2.7 Officials noted that job evaluation payments in CASS and HQ were putting their budgets under pressure. The spend profile was being distorted due to maintenance payments on account of the asbestos problem. However the Board was still within budget.

D.2.8 Members were rightly quick to criticise the late arrival of allocations from the Departments. By February the initial 2004/05 allocations had not been received. Such delays make it more difficult, although not impossible, to comprehensively start the process of planning within the Board for the following year. Further allocations from Departments during the year, and these were frequent, were reported to the Committee together with the purpose of the allocations.

D.2.9 On 8 March 2004 the Committee agreed to the Recurrent Allocation Plan for 2004/05 as presented by officials. The CFO highlighted a number of points such as the DENI increase of +6.14%, although the Board had expected £1.9m more. Officers pointed out that both the DENI Block Grant and the DCAL allocations represented cuts for 2004/05 in real terms. Officers had indicated the money and %'age changes proposed in 2004/05 compared with 2003/04 base by 13 service areas. Changes fell within +1.02 and 8.56%. There was no reference to any challenge from members to the allocations by service.

D.2.10 The rates bill was forecast to rise by 5.0%, but the nature or size of other assumptions did not appear to have been presented or queried.

D.2.11 In October 2004, six months after the start of the financial year, officials told the Committee that not all budgets had been signed off. Effectively this meant that expenditure variances by service or budget holder could not be calculated.

D.2.12 The CE confirmed that the RAP pre-determined the allocation of funds. Line managers made operational assumptions and the SLT then agreed all allocations within the total during budget preparation. The September revision did not go through the same iterative process. The Board had to take account of legal advice concerning statemented children and this meant budgets for special education were to a degree demand led. This also impacted on transport costs. The CE recommended a team of consultants should examine the provision and systems for special education to establish why SEELB statemented more children than other Boards. The Board was now implementing the recommendations of that report.

D.2.13 The SEO stressed the problems created by legal and equality requirements which made special education practically a demand led service. Other pressures came from recent policies such as English as an Additional Language (EAL). These will eventually be linked via corporate plan, risk registers to budgets and the RAP. Greater involvement of budget holders in the past 6 months was welcomed by the SEO as their input into essential decisions on

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reduced services is most important. Costs of special education were discussed at the Education Committee and in SMT.

D.2.14 Services such as transport have quite good basic statistics but still find difficulty in estimating taxi needs which are linked to SEN. The budget setting requires iteration at strategic manager and CFO level. Entering codes and data into the Oracle system is best done as at present by budgetary control as it is complex and mistakes can be made easily. Good communication is essential and SMT now decide which budget gets all Departmental earmarked allocations. HQ services were charged out at the end of the year and this caused problems because they were outside the control of budget holders.

D.2.15 A lot of effort had been put into organising the system for schools but there was less effort regarding the non-delegated budget holders.

D.3 Monitoring

D.3.1 Regular written reporting of expenditure against budget on a monthly and cumulative basis goes to the Committee. This information is disaggregated by some twenty service areas. There is no reference to whether expenditure was on a cash basis or included accruals or whether budget information included deferred income etc. Details of new allocations from Departments were given to the Committee with a note these had been entered into the budgets.

D.3.2 Variances on cumulative figures were only given in money terms while separate month figures included %'age variance. In general, throughout 2003/04, there were no large cumulative money variances or high %'age month variances. There is virtually no record of any queries on the variance figures. Virements between school recurrent and capital were frequently approved by the Committee. Throughout 2003/04 the Committee was told that, in spite of pressures, it was expected that the annual expenditure would be within budget. It was felt that the Board needed better defined expenditure headings so that, for example, special educational needs expenditure within mainstream schools budgets could be available to them. The CE now realises that further breakdown, keeping delegated and non-delegated expenditure separate for certain aspects, would help control. Also the manuals need to be more user friendly. Control of plans to ensure schools in deficit bring these down to under 5% is the role of Local Management of Schools. The CAO indicated the person in charge of an item of expenditure should be the budget holder and account for it.

D.3.3 Difficulties arose in 2001/02 on posting payroll accruals paid in May but due the previous financial year, thereby leaving increased cash required in May 2002. A similar problem occurred in 2003/04 on caretakers' job evaluation when a March 2003 accrual was reversed in July 2003. The Acting CFO and DCFO accepted that the concept of reversal of an accrual would need to be

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clearly and simply explained so that members of the Finance Committee or Board could fully understand.

D.3.4 Normal accruals are not the issue and should be capable of capture through the Oracle system when they are likely to be fairly constant. The problem arises from large amounts of relatively non-normal expenditure which should be known about, even in broad terms, to those responsible for that area of expenditure. There could be reticence to make predictions of the possible cost of certain changes to salaries etc in case this might become known and prejudice negotiations. On job evaluation the CAO staff would know the number of staff being evaluated while finance has the possible pay changes and this should make a rough estimate possible.

D.3.5 The large number of budget holders did not help, in spite of the training given, as their understanding of proper managing was uncertain.

D.3.6 The variance reports gave the month's budget and expenditure and that for the aggregate position to the end of the previous month. The latter also included the %'age of the aggregate spend to the annual budget, together with the same calculation for the previous year. At December 2001 the block grant expenditure was £4.4m over 2001/02 budget but staff stated that the Board remained within budget although the delay in the Department funding threshold payments and job evaluation made financial monitoring difficult especially for schools. In May 2002 Members got an inter Board comparison of the rate per AWPU and the %'age of ASB to the total allocation for the 2002/03 year.

D.3.7 The June 2002 Finance meeting heard that in 2001/02, 181 schools finished in surplus and 27 in deficit. Twenty six of the 51 schools expected to be in deficit in 2002/03 had submitted plans to return to balance, a few over 3 years. By end June the 2002/03 first quarter budget was overspent by almost £2.5m. Because of a problem with asbestos, Finance and Accruals Project staff had to be evacuated in September 2002. At mid year expenditure was only £500k above budget.

D.3.8 The Committee was aware of certain factors which impact on the expenditure levels. On 19 May 2003 the Committee was told that the special education budget of £16.66m would need to be supplemented and in June to have priority for any additional funds but the Board was expected to keep within budget. Cleaning charges had to be increased because job evaluation had put up the pay by some 7.5%. By August, September and October 2003, pressures from job evaluation were apparent for CASS and HQ. Rates payments had been delayed and asbestos maintenance was distorting the picture. In November 2003 the Committee discussed including teacher threshold payments in the Local Management of Schools' allocations.

D.3.9 Although warnings were issued about pressures, it is interesting to note that at end September 2003 the deficit for the aggregate spend to date

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reported to the Committee was under 10% and overall savings of more than £1m were recorded in the expenditure returns. At 31 March 2004 the only large service deficit was transport at £414k or 3.25%. The returns to the Committee indicated the year end position to be an overall surplus of £5.7m with an actual expenditure of £228.64m. The F10 expenditure return to DENI at end September 2003 gave aggregated expenditure of £105m against a budget of £115m, or a half year saving of £10m. That for March 2004 showed spend of £206m on schools compared with an annual budget of £222m or a saving of over £16m. Examination of the F10 returns shows that few services had entered their budgets into the system in April and many were obviously still incomplete by end May. This, and not keeping separate records for earmarked funds, makes interpretation of the F10 doubtful. The differences between what goes to the Committee and the Department suggests that two separate systems of recording are still in use in spite of the Oracle system being introduced to help accounting consistency. It was not possible to examine F10 returns for 2004/05 due to the work being done to improve budgetary control.

D.3.10 There was no reference in February 2004 to any potential surplus or deficit on the 2003/04 accounts. No mention of any financial report at the September 2004 meeting. In October 2004 the Committee was aware that grounds maintenance would increase by 3.0% and cleaning services by +7.3%. These were brought to the Committee because the Finance Department is also responsible for the delivery of these services. The minutes do not record any discussion of any implications for the surplus/deficit position.

D.3.11 The October 2004 meeting was presented with a revised summary of expenditure against budgets. This only gave totals by sponsoring Department without any service breakdown. The Committee does not appear to have been asked for its views or approval of this change. The DCFO gave a presentation to members on accruals accounting. The DENI (non-youth) spend for the half year was £2.4m above budget and just over half the annual budget. Youth and DEL were under budget, but libraries were overspent by £134k. An important caveat was attached that the spend profile is not even throughout the year and budgets had not been signed off by budget holders so that significant change was possible.

D.3.12 The 15 November 2004 Finance Committee was given copies of the Recovery Plan. The CE stressed the success of the Plan would require strenuous efforts by everyone, including schools, and remaining within budget in 2004/05 would be very challenging. Outturn statements for 2003/04 and budget statements for 2004/05 had been given to members in advance. It was noted that the impact of some of the savings identified in the Recovery Plan would not yet be evident in the Finance report.

D.3.13 Staff were aware that the Board was spending beyond its allocation for three years. The CE was aware of the pressures but content that end year figures had not shown the Board to be in deficit. Variances had always been

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explained. Action had been taken some years ago to tighten up on schools with large deficits and this area was now under control. The CE relied more on comparisons with the profile of the previous year for monitoring as there were new teachers recruited in May/June but coming into the system for pay in August/September and temporary teachers were more in demand in February from sickness. The DCFO stated there was an overspend on the 2001/02 in-year budget allocation by £4m, in 2002/03 by £4.1m and 2003/04 by £8m at which time “all surpluses had been used up resulting in a deficit of over £6m for the DE (Schools)” and the SEELB was eating into school delegated carry forwards.

D.3.14 There were problems for budget holders understanding the impact of End year flexibilities. The first concept for monitoring was to produce global reports for each SMT member which was an aggregate of the records for business units but this fell into disuse. Input by units had not been successful and Finance Department have to key in data but require budget holders to confirm the details when they get the monitoring return. The CE is now aware of how function codes were allocated as he was involved with removing defunct codes. This was a major issue because of miscoding in schools but the Manual was updated frequently. The CE felt there had been an issue with attitude and training in the Board to the budget process.

D.4 Final Accounts

D.4.1 The Committee was aware that the 2001/02 and 2002/03 accounts had not been signed off, pending agreement with the Departments on a number of issues associated with the introduction of accruals accounts.

D.4.2 The Committee was told in April 2004 that the 2003/04 final figures would change because of accruals and prepayments. No indication of the potential significance of the changes was discussed. The Finance report included a reference that the transport budget would be overspent after all adjustments and unspent balances had been carried forward.

E SEELB Audit Committee

E.1 Background

E.1.1 The Minutes of the SEELB Audit Committee were examined from when it was established as a response to the “Nolan Committee”, ie from February 1998 to date. Terms of Reference⁴⁰ were reviewed and agreed in mid 2003. Since then the Committee has been composed of Board members plus an independent accountancy expert, the latter having been added in May 1998. Since 1998 no staff member has been officially a member of the Committee. In 2003 the Committee became responsible for reviewing the SEELB Corporate Risk Register and risk management aspects. Meetings are quarterly.

E.1.2 The general responsibilities of the Committee have remained the same for the past 5 years in so far as the Board is concerned. The Audit Committee⁴¹ reports to the Board in relation to (from 2004/05 classed as responsibilities):-

- Promoting the highest standards of propriety in the use of public funds,
- Promoting a climate of financial discipline and control,
- Providing support for the creation and maintenance of a system of internal control,
- Providing reasonable assurance that organisational objectives will be achieved,
- Promoting the highest standards for the operation of the Internal Audit Service,
- Reviewing the internal audit assurance provided to the Chief Executive.

E.1.3 Since 2003 the Committee is to advise the Accounting Officer⁴². Details of the information which must be provided to the Committee at each meeting and that to be provided at appropriate intervals were determined in 2003. The remit of the Committee was reviewed and strengthened in 2002. The Audit Committee have been pressing hard to embed the culture of risk management to Board Committees.

E.1.4 The Audit Committee is very content with the arrangement for an external expert to be a member and with the support it receives from the Board staff and the external auditors. The Committee agree the IA plan and get regular updates. There is broad discussion with internal and external auditors on their reports and management letters and also their proposed programme of work.

E.1.5 There is no requirement on officials to inform the Committee of any actual or potential accounting problems which could, or have, arisen or any

⁴⁰ SEELB Audit Committee Minutes Appendix Committee meeting 27 May 2003

⁴¹ SEELB Corporate Plans 2000/01 to 2004/05

⁴² SEELB Audit Committee Minutes Appendix Aud 02.07.03

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matter such as staff suspensions or sickness which might impact on financial management. Apart from matters raised by Internal or External audit, the only requirements refer to drafting of the Annual Accounts and any material changes to accounting policies. Unless officials take the initiative, the Committee procedures do not require notification of important matters affecting financial discipline and control, standards of propriety or maintenance of a system of internal control

E.1.6 The Chief Executive, Chief Finance Officer and Chief Internal Auditor attend most of the meetings. Northern Ireland Audit Office (NIAO) staff are present at the Audit Committee meetings.

E.1.7 SEELB members appeared to be quite active in questioning officials about various aspects of financial management. The minutes indicate regular questioning on the coverage of the audit plan. Members have also been questioning Internal Audit on its reports and insisting that officials address all the issues raised. A similar approach has been taken to external audit findings and recommendations. The Committee have been assiduous in querying the availability of staff for the Internal Audit Unit.

E.1.8 The Committee was appraised in April 1998 of the arrangements in place to monitor the Board's budget. Key elements were to re-align the General Schools Budget, to ensure that "Centre" costs such as transport and special education were adequately funded, and to hold monthly meetings where senior officers would be provided with a detailed analysis of the financial performance of each school. In May 1998 the Committee appointed a qualified accountant to assist it in its deliberations.

E.1.9 Audit assurance was discussed in June 1998. Important factors recommended by IA included:-

- Completion and dissemination of the Corporate Plan,
- Creation of a Business plan by each service unit,
- Allocation of budgets based on service provision,
- Budget authority clearly linked to service provision, and
- More integration of HQ systems with CLASS system.

E.1.10 In December 1998 officials were instructed to provide additional guidance on the presentation of financial information to School Governors and to produce an exemplar on this subject. Fraud in the public sector was considered at the same meeting and the Committee were informed that a Fraud Policy and Fraud Response Plan had been drawn up by November 2000. In 1999 concern was expressed DE on the proposed capital accounting convention to be used by Education and Library Boards under the accruals accounting.

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E.1.11 Progress with the Accruals Accounting Project was requested by the Committee. They were informed in November 2000 that a creditors system and a general ledger had been implemented successfully with all 5 Boards able to produce their annual accounts for 1999/2000 on an accruals basis. NIAO told the Committee a few months later that the transition to full resource accounting would have resource implications for the Board's finance unit. No reference was found to subsequent progress reports on the Project.

E.1.12 The Committee discussed the Statement of Internal Control to be given by the Chief Executive in the Annual Accounts from 2002. Since December 2002 some of the matters relevant to this Inquiry brought to the Board included the following. In December 2002 the Audit Committee discussed a Risk Management Policy using the framework linked to the HMT Business Risk management 7 stages. Reference was also made to the NIAO management letter commenting on the 1999/2000 accounts having an increased volume of comment linked to the difficulties found in introducing accruals accounting. A verbal report on staffing in IA was mentioned.

E.1.13 The May 2003 Audit Committee agreed Terms of Reference for the Committee including members to serve for 4 years if possible; to be independent of other Board Chairpersons; more than 2 meetings per year and duties extended. The Committee to be provided with a number of items including external auditors management letters and to check the Statement of Internal Control for the Annual report. The July meeting stressed the need for a full complement of staff in IA; IA to have overview of the Risk Management and Board's Risk register; and the SIC was presently transitional. Members were given the Treasury Guidance handbook.

E.1.14 The September 2003 Audit Committee got an overview by the CE of Risk Management. He emphasised the links between objective setting, risk management, and service delivery. The Committee requested a presentation from each SMT member indicating how the process had been applied in their area regarding raising standards of learning, of achievement, and to improve accessibility. The membership was increased to 6. Members asked for an update on the Accruals Accounting project and the 2002 Review of IA. They heard from NIAO that the 2000/01 and 2001/02 accounts were still open awaiting decisions on End Year Flexibilities and the management letter on 2001/02 was nearly finalised with fewer comment than the previous one. Some SMT members have already given their presentations.

E.1.15 As schools had been given a good report on their systems from audit, it was expected that the central Board systems should have been similarly adequate. The Committee had expressed concern over staff shortages in the internal audit unit and problems created by loans and sick leave in the Finance Department. The Chair has discussed with the Head of Internal Audit and the CE how members can be made sufficiently aware to assist understanding so that the Committee can meet its responsibilities more effectively.

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E.1.16 The CE took an active role in discussions with IA and made proposals for their programme. On audit and consultants reports, the CE expected operational managers to take action.

E.2 Internal Audit

E.2.1 SEELB Internal Audit have been producing an audit plan and annual programme for some time. Details of IA activity over recent months are given to the Committee. New comprehensive standards were introduced from April 2002. At the same meeting the Committee agreed a strategy for the audit of schools.

E.2.2 The 1997/98 IA report indicated that a review of budgetary control had been abandoned because staff in the unit were unable to spare time to allow the audit investigation to be complete or accurate. The question of HQ budgets continued to be an area of concern and IA would have liked to see a more obvious link between budget authority and service responsibility.

E.2.3 The following year IA had noted a potential risk in LMS/Budgetary Control. It repeated its recommendations on the link between budgets and service provision.

E.2.4 Officers were asked to ensure that key risks in each strategic unit were fully documented and addressed in May 2000. Officials reported at the February 2002 meeting that recommendations to address all the issues raised by NIAO in a report on ear marked funding had been made. Anti competitive behaviour by contractors and the need for effective checks on contractors work were highlighted at the December 2003 meeting.

E.2.5 An independent assessment of the compliance⁴³ of the SEELB Internal Audit with the standards of the Government Internal Audit Manual was carried out in 2002. This report provided assurance that the Unit was operating in compliance with Treasury's Government Internal Audit Manual.

E.2.6 The CFO did not see all IA reports, nor was he aware of SMT discussing these since the Committee was set up. He felt corrective action was for operational managers and although there was no mechanism for this, he would have been expected to be told what they were doing.

E.3 External Audit

E.3.1 The Committee had a presentation on the management letter on the 2000/01 accounts from the NIAO at the September 2003 meeting. In October 2004 NIAO indicated the 2002/03 and 2003/04 accounts would not be signed off

⁴³ Deloitte & Touche Report on the provision of Internal Audit Services March 2002

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until the outcome of the review commissioned by DENI was known. The Committee was told that some of the delays in finalising accounts were due to the impact of the change in the system from cash to accruals accounting and related problems, such as the treatment of End Year Flexibilities.

E.3.2 In March 2003 the NIAO reported on the PFI contract for the Boards' computerised accounting system – the Accruals Accounting Project (AAP). The Outline Business Case defined the objectives for the Project⁴⁴ as including:-

- introduce accruals accounting to the Boards by 1 April 1999,
- provide related financial management information systems,
- provide on-line access to financial and management information to allow managers to analyse the costs and budgets of their own responsibility areas.

E.3.3 The services were to be delivered to the standard specified in a PFI Agreement⁴⁵. This established the quality of service required in the development and operation of a new IT system to support the financial management information requirements of the Boards. The agreement details how performance is to be measured against thresholds.

E.3.4 The Board was informed of the detail of NIAO reports and in March 2004 considered the one on LMS. It was agreed officials would make a full report to the Board addressing all the issues arising from it. The Committee was also informed of the likely programme of NIAO investigations.

E.3.5 The CFO was asked to aggregate responses to external audit reports and management letters.

E.4 Other

E.4.1 In September 2003 members requested an update on the Accruals Project but there is no record of this having been given to date, other than a reference to the 11i upgrade.

E.4.2 The CFO informed the Committee in December 2003 that “the 11i upgrade to the Board's financial system had been implemented successfully during July 2003”. The record does not indicate the reasons for the changes or improvements this was expected to provide.

E.4.3 In June 2004 the Committee discussed the Statement of Internal Control. This gives the Accounting Officer's responsibilities and describes the corporate governance, risk management and control processes in the Board. An

⁴⁴ NIAO The PFI contract for the ELBs new computerised accounting system ; HC498 of 20 March 2003 paragraph 2.6

⁴⁵ NIAO The PFI contract for the ELBs new computerised accounting system ; HC498 of 20 March 2003 paragraph 4.16 to 4.18

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addition to refer to administering pay flexibilities for Principals and Vice-Principals was agreed.

E.4.4 There appears to be no mention to the Committee of difficulties with certain schools spending more than their allocations under LMS. Even at 19 October 2004 there seemed to have been no mention of surplus/deficit problems facing the Board on the 2003/04 accounts; suspension of certain finance staff; the initiation of the PwC study; or meetings with DENI in September on recovery plans. The CE did indicate that in light of the recent spending review and deteriorating financial position it would be necessary to adopt a more “hands on” approach in relation to key governance issues. He also indicated he would extend risk management to schools.

F Board Business

F.1 General

F.1.1 The minutes of the SEELB Board were examined for the period January 2003 to September 2004 for references to matters relevant to this Inquiry. It meets monthly except for July. Generally more than two dozen of the 35 members are present. The CE normally attends accompanied by a number of his senior officials. The Board relies on Committee Chairpersons alerting them to important matters and together they decide the areas on which a report has to be taken at Board level. The minutes of the Board incorporate all the Committee minutes and papers. Most of these from the Finance Committee deal with its responsibilities for Property Services. Specific issues from Committee meetings are noted. The Board formally adopt the various Committee minutes. References are included to the main issues discussed in Committee so that all members have a reference if they desire more detail.

F.1.2 It is noted that Board meetings are open to the press and public. This can result in discussion of sensitive matters being curtailed and minutes therefore being limited. The Board has gone into closed committee to deal with such matters. Care was taken to avoid public comment while matters were the continuing subject of enquiries by consultants etc. The Board Finance and Audit Committees have been very active in pursuing matters under their responsibilities and the Board has been kept up to date on developments. Relationships between the Board and the CE were considered to be good.

F.1.3 Board members have had training on accruals, end year flexibility and the Oracle system but the Chair acknowledged that it was difficult for lay people to grasp the full implications. The Audit Committee's role at present involved Governance and Risk Management as well as audit. Such issues did not exercise Board members as much as educational issues.

F.1.4 At the February 2003 meeting, the CE reported on his appearance before the Public Accounts Committee on Substitution Cover for Teachers. In March 2003 the CE, under his business, reported that a NIAO Report indicated that the procurement and implementation of the Accruals Accounting Project had been successfully handled and had met its primary objective.

F.1.5 The Chairman informed the Board in May 2003 that the Remuneration Committee would assess the CE's post in relation to Performance Related pay and agree targets for the coming year. At the year end this Committee would assess performance and make recommendations to DE.

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F.1.6 The Board noted the Audit Committee Terms of Reference and the 2002/03 Internal Audit Report in August 2003. The nominations by the Board to the Audit Committee were agreed in September 2003 with the position on the 2000/01 Annual Accounts. Otherwise there is little recorded comment on the Audit Committee business.

F.1.7 The February 2004 Finance report had indicated that in the first 11 months of the year only 90% of the budget had been spent and, together with the comment that spending was forecast to be within budget, it gave an assurance there would be no end year difficulty over surpluses/deficits. In April 2004 the financial statement indicated an under spend of £5.83m against the Block Grant but noted expenditure figures would change because of accruals which were not quantified. Unspent balances were to be carried forward to next year. The determination of a deficit of £5.7m therefore came as a great shock to the Board members.

F.1.8 Many matters with financial implications are discussed in the Board or through the various Committees other than Finance and Audit. Some of the points debated follow. The Pre School Educational Advisory Group on November 2002 brought up a paper on Expansion Programme – Progress review 2003/04. It evaluated progress on reaching the current target of provision for every child who wants it by March 2003; gave statistics of children, providers etc and listed committed capital projects without any expenditure. There is a programme for 2003/04 provision by cohort, school or private sector, but with no indication of any cost implications.

F.1.9 In February 2003, the Education Sub-Committee adopted a policy for Education Otherwise than at School (EOTAS). This quoted a baseline figure per pupil agreed by DENI which was considered inadequate. A decision was taken to claim from the host school for future transfer of a pupil into EOTAS. No other detailed financial assessment was included.

F.1.10 Special Education discussed a Finance Report in May 2003. They noted that the 2003/04 budget for this service was only £16.6m compared with £17m spent in 2002/03. Details were included by 10 sub-heads. It was noted that a further £2.6m was spent in mainstream schools on special education in 2002/03 for language difficulties, and another £6.8m for additional classroom assistants in schools up to primary level. Extra transport costs of £3.78m had been required in 2002/03. Members expressed concern at an April 2003 meeting on the cost of backdating the Principals and Vice -Principals pay award, assumed to be around £350k, unless DE funded it.

F.1.11 The Inter Board Fundamental Service Review of Special Education was discussed at the April 2003 sub committee, where the increase in statemented pupils from 1990/91 was noted as 75%. An action plan was discussed for staff to consider with Principals. One of the proposals was to evaluate placement of pupils with learning difficulties in a special school as

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against a mainstream school. This is a very complex area, requiring rigorous analysis to determine the necessary basic data, but a good start has been made with the educational aspects.

F.1.12 A Report on School Support Programme was discussed by the Education Committee in September 2003. The strengths and weaknesses were noted without reference to potential costs.

F.1.13 The Strategic Issues Committee discussed in May 2003 a paper on The Early Years. This is a position paper on one of the key issues developed under corporate planning. Tensions caused by policies and funding strategies have been experienced. These demand a rigorous evaluation. There are recommendations but no financial assessment. Resources will be the last of these strategic issues to be tackled.

F.1.14 In October 2003, the Education Committee considered English as an Additional language. A new scheme for funding will be within the schools' budgets, which could affect the support service.

F.1.15 The Library and Youth Committees discussed a financial report on the activities of those services from time to time. Any reports, including finance reports, to Committees other than Finance, are compiled by the staff operationally in charge of those areas. Finance staff are not involved in this process

F.1.16 At the May 2004 Board meeting, the CE said the CFO had provided a report showing a schools surplus of £12.5m and a Centre deficit of £10.5m, leaving an overall surplus of £2m. The CE expressed his concern that if the schools spent this surplus the Board would over spend in 2004/05 and sought permission to save £3m in 2004/05.

F.2 Action following 2003/04 deficit

F.2.1 In evidence^H to the Inquiry, the Chairman understood that the CFO informed the CE verbally on 21 June 2004 of a potential deficit. The size reported varied from £5m on 21st, £1m on 23rd, in balance on 24th and these were reported to the Chairman's Committee. On 28th June a deficit of £4m was reported, but on 30th the CFO told the Committee that £4m was owed to the Board from DENI from some time back and this gave assurance the problem was containable.

F.2.2 The SLT and CE had been kept informed^I of the above figures by the CFO. At 30 June 2004 the CFO told the CE that DE owed £4m and this, plus End Year Flexibility, would leave the Board in surplus. Following internal disagreements in the Finance Department and with IA, this was changed by 5 July when it was noted that DE did not owe the Board any funds. On 14 July

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2004 a further accrual of £1.4m for threshold payments had been found bringing the total to £5.7m.

F.2.3 Senior staff were fully informed of the position from June 2004 and were involved in numerous meetings to get an accurate picture. The seriousness for 2004/05 was recognised and cuts as large as £17m were considered. They had been operating in 2003/04 on the basis of the monthly finance reports which said the Board was on target to finish the year with a surplus. A line of unallocated budget is still maintained to try and identify savings.

F.2.4 On 1st July 2004 the Chairman's Committee set up a Working Group to consider the action needed to control the Board's finances in 2004/05. It has been chaired^J by the Chair of the Audit Committee. Its Terms of reference were to overview and monitor expenditure in the 2004/05 financial year and to devise a financial recovery and containment plan to ensure similar problems did not arise in the 2004/05 Accounts. This Group met almost weekly and reports to the Finance Committee. Its secretary is the Chief Auditor. He informed them that there had been £4m owed from DENI (the Chairman thought teachers' threshold payments had been mentioned) but this had been settled some time previously.

F.2.5 The Chairman issued a letter to all Board members on 19th July 2004 informing them of the overspend and the action being taken. The CE made a presentation on the problem to the Finance Committee on 15 August giving details and the reasons for it. He also identified savings being made. Principals were informed of the problem and the CE reported on feedback from them. The chronology and history of references to the problem were confirmed^K by the past Chairperson of the Finance Committee who indicated that the reasons were a failure of internal and external communication, special educational needs, transport and job evaluation pressures.

F.2.6 The presentation by the CE in August 2004 highlighted doubling of the cost of classroom assistants from £5.2m in 1999 to £10.6m in 2003/04; high numbers of children with special needs; increase in sums delegated to schools as directed by DE from £107m in 2001/02 to £125m in 2004/05; treatment of end year flexibility for 2001/02, only agreed in 2003; transport costs for children taken to other Board areas; job evaluation of a high number of posts without DENI funding for HQ staff; and a very high deficit in the non-delegated schools budget. The CE gave a note on his proposed changes in management and control. Listeners heard his strategy for savings to stay within budget in 2004/05 showing the services where the savings were expected to be found.

F.2.7 The Chairman understood suspension of the CFO on 6th July had been taken by the CE using the executive powers granted him by the Finance Committee during July. The Chairman had agreed this action by the CE.

F.2.8 Executive powers were granted to the CE during July at the June 2004 meeting. There was no recorded reference to end year difficulties at this meeting

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from either the Finance Committee meeting on 21 June or the Audit Committee on 16 June 2004.

F.2.9 The Chairman reported on 26 August 2004 that he had met the Minister in relation to the Board's financial position. There was no open discussion on this or the Finance Committees report on the 2003/04 financial position.

F.2.10 The 30 September 2004 Board meeting discussed the current financial position "in committee". Documents which had been submitted DE on a Financial Recovery Plan were presented to members. This Plan covered proposals for additional savings in 2004/05, together with briefing highlighting inadequate resources on Special Education Needs and Home to School Transport.

F.2.11 The CE had taken direct action to find out why the Board were in an overspend situation. This included an internal disciplinary investigation and an independent financial investigation to establish the underlying reasons behind the problem. A member of audit staff was seconded to Finance to examine budgets. The Board fully supported^{HK} the action taken by the CE to contain expenditure following discovery of the 2003/04 deficit. A verbal update of high level management reports is now given to the Financial Working group every 2 weeks.

F.2.12 The SLT is taking the Recovery Plan forward. All budgets across the Block Grant have been investigated to identify potential savings so that the Board would remain within budget in 2004/05. Savings to be made by schools were factored in against the delegated budget allocation. In 2004/05 the budget control system was in disarray because of the previous year's overspend and none of the budgets had been keyed into the Oracle system by December other than the delegated schools budget.

G Corporate and Business Plans

G.1 SEELB

G.1.1 A corporate and business plan is prepared annually by the Board. It sets out a framework for the Board's activities over the coming year and demonstrates how it will seek to achieve its mission. The main structure of these reports has not changed in essentials since 2000/01 except that in the earlier years the descriptions of operational units were not so full. The reporting duties of the relevant committees have not changed during the past 5 years.

G.1.2 While the main focus is on the core educational functions of the Board there are a number of references to accountability matters. The Plan notes that funding comes from 3 Government Departments under some two dozen headings. It details the responsibilities of its various Committees and the structure of its operational units.

G.1.3 In SEELB the Finance Department has responsibility⁴⁶ for:-

- Accounts (..process payments and receipts in accordance with statutory obligations ..)
 - Payroll
 - Local Management of Schools (... provide high quality financial planning and management information to meet the needs of school and HQ units ..)
 - Budgetary Control (.. provide financial management information and support services to all HQ units and special schools ..)
 - Financial Control (.. provide an efficient and effective financial management system for the Board ..)
 - Purchasing
 - Facilities, Catering and Hospitality
 - Catering Services
 - Grounds Maintenance Services
 - Cleaning Services
 - Student Support
 - Awards and Benefits, and
 - Administration.
- Details in brackets highlight some of the relevant financial references.

G.1.4 Some Performance indicators⁴⁷ set in the 2000/01 Business Plan are relevant to this Inquiry. These included:-

⁴⁶ SEELB Corporate and Business Plans 2004/05

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- Contribute to the development of e-mail transmission of financial information to schools, libraries, youth clubs and service users,
- Review financial procedures following on from the implementation of Accruals Accounting as an ongoing project,
- Review financial procedures manuals in line with the new accounting system,
- Review business processes following on from the implementation of Accruals accounting and implement changes by March 2001,
- Review procedures for monitoring recovery of salary and scholarship overpayments by January 2001,
- Develop the new Accruals Accounting system to meet the requirements of the Late Payment Act,
- Provide relevant finance reports to schools etc. within 14 days of month end,
- Improve timeliness, relevance and presentation of finance reports to provide base for effective decision making by September 2000,
- Produce key information on financial performance of schools by March 2001,
- Implement Phase two Accruals Accounting System by March 2001,
- Produce statutory annual accounts under resource accounting by June 2000,
- Participate in the inter-Board Accounts Payable User group.

G.1.5 The 2001/02 Business Plan⁴⁸ detailed plans against objectives, rather than referring to performance indicators as previously. It included few references to financial plans, other than to repeat its review of the financial reporting timetable to schools but now with a date of September 2001. Initially the approach was based on each unit preparing a service plan, but this was changed to a Balanced Scorecard approach with minimal focus on allocating resources to objectives.

G.1.6 The Targets against Measures of the 2002/03 Business Report⁴⁹ was also light on financial matters. Importantly it did specify that by March 2003 the Board would review its Financial Procedures. By December 2002 it was to have a Code of Practice for Members and a Code of Conduct for staff. An upgrade plan for the Accruals Accounting Project was to be agreed by December 2002.

G.1.7 The targets set for 2003/04⁵⁰ by SEELB were often similar to those for 2004/05. For this Inquiry relevant points included:-

- By December 2003 revise/update financial procedures to maintain an effective system of internal control,
- During 2003/04 will use variance reporting to monitor all schools and service units budgets within 14 days of month end,
- During 2003/04 ensure that all financial reports are sent to schools and service units within 14 days of month end,
- During 2003/04 secure consensus on priorities for budgets/bids,

⁴⁷ SEELB Corporate and Business Plans 2000/01

⁴⁸ SEELB Corporate and Business Plans 2001/02

⁴⁹ SEELB Corporate and Business Plans 2002/03

⁵⁰ SEELB Corporate and Business Plans 2003/04

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- By November 2003 will train new Principals and Boards of Governors in financial procedures.

G.1.8 Among the targets set for 2004/05 (and within the context that expenditure must be contained within government limits and resources optimised to address identified needs and priorities) the SEELB has identified⁵¹:-

- By June 2004 will complete the annual accounts,
- By May 2004 will agree and implement Resource Allocation Plans with the sponsoring departments,
- During 2004/05 will devise financial performance indicators for all services,
- By February 2005 will consult and agree funding arrangements for alternative education,
- Performance indicators for DSO, telephone, local best value, transport, youth service, and alternative education provision.
- Various risk management targets,
- Secure an unqualified audit certificate for 2003/04.

G.1.9 The CAO felt the link between the Corporate Plan and the RAP was an area that needed further progress and the plan needed to link to priorities and budgets. SMT had intended to work with a consultant to look at development of a more strategic Corporate Plan.

G.1.10 There are disconnects between service delivery and the corporate plan objectives. Risk management was introduced in 2003 to influence managers to embrace it as a tool. In 2003 the Audit Committee approved a risk based audit strategy. A risk register may have more than one name responsible for managing different aspects of the risk and may not be exclusive to a single line of the budget.

G.1.11 The risk registers take the form of assessing objectives or business risks for a unit under the following headings:-

- Inherent risk,
- Inherent risk assessment (on a scale 1-10),
- Risk owner,
- Root cause,
- Existing controls,
- Control evaluation,
- Residual risk evaluation,
- Additional control required,
- Officer responsible.

G.1.12 A number of registers were examined. These assessments have been useful to alert managers to think about their control mechanisms and what needs to be done to mitigate risk areas. Relative to the subject of this Inquiry, one set

⁵¹ SEELB Corporate and Business Plans 2004/05

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included, under additional controls, improved MIS, SMT to agree key board activities and resources allocated to these, improved assessment of value added by board services, and need to quality assure individual and team performances.

G.1.13 A high level register demonstrated the complexity of the area of responsibility of the risk owner and identified individual staff to be responsible for follow up of the additional controls required. While there were references to performance indicators, there was little cross linkage to the resources needed to implement the current controls or assess the value of additional ones.

G.1.14 The Finance Department risk register front page listed 5 main themes but details were not included for Financial and for Knowledge management. Within the other 3 themes sub heads were listed, but not all these were in the register. It was noted that under Contingency Planning, the items Budgetary and Major incident, were not included. The entries were tersely drawn compared with the detail given in other registers and additional controls were not generally thought to be necessary.

G.2 SMT meetings

G.2.1 The SEELB held meetings of its senior management about every fortnight. Senior management was considered to be the top 11 staff including the CE, CFO, Education Officers in charge of Curriculum, Administration, PPP, Special Education/youth, Primary/Nursery, and Property services, and the Chief Librarian. The minutes from March 2003 to November 2004 were examined for detail relevant to this Inquiry. Staffing proposals were often brought to the SMT. Minutes were kept very concise and detailed papers not attached to them. From October 2003 the minutes included a column identifying who would be responsible for taking action. A smaller Leadership team of the CE plus the four most senior staff meet monthly.

G.2.2 The 19 March 2003 meeting decided that all Balanced Scorecards were to be returned by 31 March. In May 2003 possible future approaches to the provision of school transport and a draft timetable for the completion of job evaluation were discussed. Members were informed of the Treasury guidance on economic appraisals during a discussion of the Board's Strategic Development Plan 2003-2005. The Audit Committee request to the CE to do a presentation on Risk Management, and that others would be expected to make similar presentations was mentioned in September 2003.

G.2.3 Breaches in purchasing procedures had been detected in schools and within the Board, so the October 2003 SMT agreed a training module was to be developed. Members got a full brief in November 2003 from the CE on the Accountability Review with DE where the need to develop Management Information Systems was highlighted. All were asked to collate responses to a list

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of issues. The same SMT were told of a recent audit report and concerns over the weight given to professional/technical skills.

G.2.4 An overview of the 2004/05 Recurrent Scheme was given by the CFO on 2 March 2004. The issues were outlined and the SEO (Curriculum), CAO and CFO were to meet to discuss required efficiency measures. The Corporate Plan/Business Plan was tabled and suggestions were requested by 23 March. The CE outlined the financial position at the SMT on 19 May 2004. All were asked to draft savings proposals by 25 May to be put to the next Board meeting. The CFO tabled a paper detailing the allocation of resources and a query was raised on whether targets were measured on a like for like basis across all Boards.

G.2.5 The 4 August 2004 SMT, attended by the DCFO, had a major discussion on the financial position which was calculated as an overspend of £5.66m. Reasons included a failure to retain sufficient funds centrally over a number of years to meet inescapable commitments on special education, job evaluation and transport. This was exacerbated because DE instructions to increase the AWPU by 4% in 2002/03, and by 9% in 2003/04, operated on a higher initial AWPU base than in other Boards. Contributory factors included special education classroom assistance in mainstream schools; no additional DE funding to meet HQ job evaluation; transition to accruals accounting; staffing requirements for the Accruals Accounting project; and difficulties with interpretation of End of Year Flexibilities. Reference was made to the report expected from PwC.

G.2.6 SMT noted that subject to DENI approval it would be necessary over the next three years to claw back finance to cover non-delegated expenditure. The CE was to appraise schools to allow them to develop their 3 year plans. The DCFO was to identify the level of expenditure to date in the present financial year and the projected spend to March 2005 (a joint SMT responsibility). All members of SMT were to identify and check actual savings to date, while the CAO was to identify savings from the release of agency and temporary staff. The CAO was also to identify outstanding job evaluations and potential costs.

G.2.7 By 24 August SMT had the final draft of the first part of the PwC report. The CE emphasised the importance of:-

- budgets brought under control and accurate savings identified urgently,
- budget holders being held accountable for living within budget,
- corporate approach in delivering the required saving,
- accurate assessment of the causes of the identified overspends in the non-delegated budgets and the action being taken to address them.

G.2.8 An action plan was required by 17 September 2004 for the Minister. The Finance Committee would meet, with all Board members invited, on 16

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August. The full Board meeting would then be on 26 August. Principals would be briefed on the position.

G.2.9 SMT considered the draft Financial Management review on 7 September 2004 and were given a day to comment. It was agreed that the SEO (Curriculum), ASEO (Administration) and Acting CFO would prepare a draft action plan for implementation of the recommendations in the Report. Strategic issues in relation to special education were to be discussed at a special SMT. Members noted that a consultation document on Common Funding would have a detrimental effect on many schools' budgets and that schools should be advised to save, not spend, surpluses.

G.2.10 By 5 October the report on finances had been sent to DENI. Plans on schools in surplus or deficit were discussed. In future, allocation letters from Departments would be brought to SMT for confirmation of budget holder and coding. Work continued on the review of the budgetary system. SMT were asked to submit bids/pressures to the Acting CFO before the next meeting. The 21 October meeting was reminded that, under the new Financial Management System, managers would be held accountable for their own budget and any overspend must be reported immediately to SMT for discussion. The Recovery Plan was given to all SMT on 2 November 2004. Suggestions for revisions were made for the Board meeting that afternoon.

H Investigation of SEELB accounts by PwC September 2004

H.1 Background

H.1.1 PwC were engaged by SEELB to review the current financial management arrangements and to recommend improvements. The consultants did not perform any kind of audit, or other similar verification of the information provided by Board staff⁵². The focus of the review was the Board's recurrent expenditure, not the monitoring of capital expenditure.

H.1.2 The findings in the PwC report of 14 September 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. The following sections use the layout in the Section on Appraisal of Current Systems and Recommendations of the PwC report which also identified relevant stakeholders.

H.2 Set Annual Budgets

H.2.1 There were delays in establishing overall budget control totals for each sponsoring Department, and in adjusting to reflect End of Year Flexibility (EYF). To minimise the impact, the Senior Management Team (SMT) in the Board should perform initial budgeting using assumptions regarding anticipated expenditure⁵³.

H.2.2 The SMT should work closely with Finance to ensure full understanding of the impact of EYF on current budgets. Such co-operation is needed to ensure remedial action in the current year suitable budgets for future years.

H.2.3 A significant surplus in schools delegated budgets with a large deficit in non delegated budgets over recent years had effectively hidden problems with the latter. Greater care was needed in budgeting by function.

H.2.4 Lack of clarity and ownership of budgets by budget holders led to reduced accountability and greater risk of overspends. There was also an inconsistent level of budgets held in Oracle. This gave excessive set up costs

⁵² SEELB Financial Management Review; PwC 14 September 2004

⁵³ SEELB Financial Management Review; PwC 14 September 2004, Set Annual Budgets

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and an inability to provide comprehensive reporting of actuals against budgets for certain key combinations of cost centre, finance code and function code.

H.3 Record Actual Costs

H.3.1 The monthly management information did not include accrual, prepayment and other accounting adjustments. Accruals were only posted once in the year, well after the year end, and deferment of extra funding was not processed on a timely basis. The Board should clarify with the sponsoring Department the accounting treatment to be given to deferrals.

H.3.2 Year end accruals for 2002/03 were reversed in July 2003, with no equivalent accrual until the year end. Significant adjustments are needed monthly but the consultants suggested the Board consider the level at which to process these to avoid confusion for budget holders from detailed monthly accrual reversals.

H.3.3 There was no regular transfer of support costs from HQ cost centres to recipient cost centres, and little transparency of adjustments, recharges and accruals when they do occur. There is uncertainty regarding the timing and basis for such adjustments. Rules, including the basis for calculation, for the transfer of support costs are needed.

H.4 Monthly Reporting

H.4.1 There is lack of clarity over the monthly monitoring process and responsibilities. This leads to inconsistent budgetary management. Lack of effective monitoring mechanisms was compounded with significant areas of expenditure not reported. This meant significant overspends could not be addressed in a robust and comprehensive manner.

H.4.2 Figures reported to the Finance Committee differed from those on the Oracle system due to timing differences. There were significant late financial adjustments not reported to the Committee. Staff did not expect the significant year end difference.

H.5 Revise Budgets

H.5.1 Limited or inconsistent amendments left out-of-date budgets on Oracle. This led to unreliable reporting of financial performance and also to a risk of expenditure being incurred where insufficient budgets available. SMT need to work with Finance to clarify the impact of new initiatives and amend budgets accordingly. An appropriate audit trail is important.

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H.5.2 Budgets on Oracle and the total Government funding are not kept fully synchronised throughout the year as funding amounts change. A process to allocate such funds is needed.

H.6 Financial Impact

H.6.1 PwC reported the financial performance of the SEELB in 2003/04, as determined at the time of their September investigation, as an overall deficit per Annual Accounts of £5.66m⁵⁴. Main elements making up this deficit included a surplus of £12.16m on Schools – delegated; a deficit of £15.98m on Schools – Non-delegated; and Funds in hand for Teachers' Threshold payments of £1.44m. The deficit was stated after utilising opening EYF of £1.87m and £0.47m held for Youth and £0.38m held for DEL.

H.6.2 The deficit in the Non-delegated Schools Budgets⁵⁵ included:-

Area	(Surplus)/Deficit £000s
Pre-Primary	(521)
Primary	9,058
Secondary	4,494
Grammar	(411)
Special Education	1,194
Milk and Meals	358
Transport	1,307
CASS	1,084
Miscellaneous education services	(380)
Schools Libraries	(217)
Board and Clothing	12
TOTAL	15,978

H.6.3 The above figures indicate the large magnitude of the effect of control weaknesses in an area where total expenditure in 2003/04 was reported as £85.591m and demonstrated the lack of adequate financial controls.

⁵⁴ SEELB Financial Management Review; PwC 14 September 2004, Financial Performance, p15

⁵⁵ SEELB Financial Management Review; PwC 14 September 2004, Review of Financial Year, p19

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