

## Part 4 BELB Findings

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## A Board Awareness of Financial Position

### A.1 Warnings to Board

A.1.1 There has seldom been direct reference to recurrent scheme accounting problems in the Board minutes of meetings. Reliance was placed on the Chairperson of the Finance committee to raise any relevant financial issue. Other Board Committees often discussed matters with financial implications but rarely options to reduce expenditure or change the process of delivery. Requests for bids for more funds from Government were more

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common. There had been a history to March 2004 of the annual accounts prepared by the Board staff showing that expenditure was within budget.

A.1.2 The impact of falling pupil numbers on Board funding was mentioned in February 2003<sup>1</sup>, and again in March 2004, in connection with the 2004/05 allocations.

A.1.3 In November 2003 the Board were informed that expenditure was likely to come under budget but pressures were noted regarding teachers' pay rises being above average and from special education needs<sup>2</sup>. There was considerable discussion at Board level concerning one school which was having difficulty in planning to reduce its substantial deficit but not of the overall position of schools with deficits.

A.1.4 Action taken on foot of finding the deficit in the 2003/04 accounts and the setting up of a Sub-Group, see below, were the subject of a detailed discussion by the Board on 30 September 2004 which re-convened on 21 October 2004.

A.1.5 The Board had not been aware of the history of meeting deficits in non-delegated expenditure from surpluses in the schools budgets but the Chairperson of Finance knew the position.

A.1.6 It is now apparent that the Board<sup>3</sup> should have been warned of a problem of overspend on the 2002/03 accounts.

## A.2 Warnings to Finance Committee

A.2.1 The Finance Committee normally meets on the second Wednesday of every month except during the summer. There have been regular warnings<sup>4</sup> in the Departmental allocation letters (from DE, DCAL and DEL) that the key financial target required containing expenditure within the approved limits taking account of accruals. These were not always shown to the Committee but were discussed by it.

A.2.2 The Finance Committee discussed the additional costs of implementing accruals accounting and the heavy burden on officials in September 2000<sup>5</sup>. An overspend on HQ, library services and student awards was noted in November. The impact on funding of a drop in pupil numbers and over spending on special schools was reported in January 2001.

A.2.3 The following year saw a November 2001 forecast, based on expenditure variances to end September, of over expenditure for the current year being covered by general surplus<sup>6</sup>. By March 2002 there was an expectation of an end year surplus even though CASS was overspent.

A.2.4 During 2002/03 an overspend was forecast on November 2002 as possible with special schools and HQ administration deficits, offset by

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<sup>1</sup> Part 2 Section E1

<sup>2</sup> Part 2 Section B4

<sup>3</sup> Part 2 Section C6

<sup>4</sup> Part 2 Section B1

<sup>5</sup> Part 2 Section C 2

<sup>6</sup> Part 2 Section C3

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surpluses in schools and in meals and milk<sup>7</sup>. On April 2003 the CFO expected a 2002/03 year end surplus of £3m when accruals adjustments had been made<sup>8</sup>.

A.2.5 The September 2003 Committee were told that the Board's reserve funds had been considerably reduced from 2002/03. It was warned in October 2003 that expenditure was high for that stage of the year but was to be closely monitored. An overspend in special schools, HQ and CASS was reported in November 2003 but staff were confident outturn would be within budget.

A.2.6 A paper sent by the DCFO, through the CFO, in mid December 2003<sup>9</sup> analysed the projected outturn for 2003/04. Typical accruals had been factored into this paper except for any arising from ongoing job evaluation. It had been discussed with budget holders. Allocations from the Government Departments were expected to cover more than the projected deficit of £3m. In January 2004 the CFO expected year end to be close to budget, with a major overspend on special schools. He explained that the underspend at the end of December did not include accruals. In March 2004 the CFO still forecast breaking even on the year but he reminded the Committee that accruals had not been factored into the payments to end January.

A.2.7 The 9 June 2004 Finance Committee meeting did not apparently discuss the possible deficit. There is no record of any mention of, or papers prepared for, the Committee on what caused the problems with the 2003/04 accounts although, see below, the Chair was apparently copied a DCFO report of 27 July 2004.

### A.3 Warnings to Audit Committee

A.3.1 The Audit Committee only meets 3 or 4 times each year. There is, however, overlapping membership with the Finance Committee so that information is available to it from that source.

A.3.2 In September 2003 the CFO alerted the Audit Committee that surplus funding to the Board was 50% less than the previous year<sup>10</sup>. There had been no serious matters identified on the 2001/02 or 2002/03 accounts to merit Audit Committee action.

### A.4 Warnings to Board Sub-Group

A.4.1 The CE informed the Chairperson of the Board, and the Chairs of the Finance and Audit Committees, on 4 June 2004 of an overspend in the 2003/04 accounts. These three senior members of the Board formed themselves into a Sub-Group which held its first meeting on 17 June 2004. It determined its terms of reference as covering the nature and extent of the deficit, investigating the cause and any related contributory factors<sup>11</sup> leaving

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<sup>7</sup> Part 2 Section C4

<sup>8</sup> Part 2 Section C5

<sup>9</sup> Part 2 Section H1

<sup>10</sup> Part 2 Section D1

<sup>11</sup> Part 2 Section E2

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the CE free to manage the day to day affairs of the Board, including responsibility for keeping the 2004/05 expenditure within the Departmental limits. The Sub-Group decided to maintain confidentiality.

A.4.2 Reference to the 2003/04 deficit was given to DENI on 2 June 2004. The problems and approach were discussed with DENI at an accountability meeting re-scheduled on 28 June 2004<sup>12</sup>.

A.4.3 The Vice -Chair and another member of the Board were added to the Sub-Group on 1 July 2004<sup>13</sup>. The final meeting of this Sub-Group was on 12 August 2004, when it received an overview of the investigation by Deloitte , confirmed there was a substantial overspend and noted that the Minister required action on recovery by 17 September.

## A.5 Conclusion

A.5.1 The Board was informed of financial problems arising during the year as and when these became evident to staff. Such problems were usually mitigated by a combination of additional funding from Government, use of reserves or by savings in other services. From the introduction of accruals accounting to 2003/04 accounts being finalised, staff assurances that the year end position would be satisfactory were fulfilled. This generated a feeling of euphoria concerning the Board's financial position. Those aware that the budget, expenditure and variances reports were on a cash basis knew the Finance Department had taken care to factor in a level accruals estimate for projection purposes. No advice appears to have been offered to the Board that as actual expenditure since 2000 was higher than the Departmental allocations, serious corrective action to reduce services would be needed.

A.5.2 Immediate action was taken to set up the Sub-group once the Chairperson of the Board was made aware of the 2003/04 deficit but the full Board and Principals were not made aware of the details until after the media carried stories about it. Although the Sub-group had decided to keep the matter confidential pending agreement on the size of the deficit becoming available the timing was unfortunate. The Board were annoyed that an acceptable Recovery Plan in 2004/05 was not available for their full discussion until October when it was adopted on a split vote.

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## B Financial Reporting to Board

### B.1 Board

B.1.1 In general the Board minutes merely record that the Minutes of the General Purposes and Finance Committee have been circulated and adopted, including any recommendations therein<sup>14</sup>. The Board relied on matters being brought to its attention by the Chairs of the Finance or Audit Committees.

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<sup>12</sup> Part 2 Section B4

<sup>13</sup> Part 2 Section E2

<sup>14</sup> Part 2 Section E1

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Many matters were brought forward from other Committees and discussed by the Board, but rarely was there any indication of the options and detailed resource implications of these being considered as part of the decision making process. The CE wished to keep Board papers and records simple.

B.1.2 Members are free to join meetings of any Committee. These meetings, and those of the Board, are open to the public. At Board meetings members saw the formal papers sent to the Committees and were not necessarily aware of points made by officers at Committee meetings, unless there was a formal record in the Committee minutes. The Chairperson ensured the Board had a full discussion on the findings of the Sub-Group, set up to deal with the repercussions of the deficit on the 2003/04 accounts, at the September 2004 meeting.

B.1.3 Most of the financial issues mentioned in the Board minutes referred to allocations from the 3 Government Departments, or were linked to approaches to the Minister or Department. A special meeting of the Board on 10 March 2004 considered the Recurrent Scheme for 2004/05. There has not been any regular report to the Board on the progress of income and expenditure against budget. It follows that almost complete reliance was placed on the Finance and Audit Committees to keep the members aware of any material financial matter. As a General Purposes and Finance Committee, much of its business dealt with issues other than accounting matters.

B.1.4 The CE attended most Board and Audit Committee meetings but not the Finance Committee. The CFO generally attended all Finance and Audit Committees, and occasionally the Board. There was no Finance Committee meeting in February 2004 as the allocation letters for 2004/05 from the 3 Government Departments had not been received.

B.1.5 The Corporate Plan appears to give a wide ranging coverage<sup>15</sup> of strategies, themes and an organisational improvement plan but the assessment of processes, linked to resources, were not evaluated. In this planning and in Best Value studies, there is seldom an analysis of the finance/resource implications needed to implement the proposals, or evaluate options, although the need for much improved statistics and financial management information systems to inform these decisions was frequently recognised.

## B.2 Finance Committee

B.2.1 The Finance and General Purposes Committee normally meets on the second Wednesday of the month. This is claimed to be too soon after the end of the month to allow the Oracle computer system to generate expenditure figures for the previous month and permit distribution of the papers. Minutes are prepared by the Finance Department. More time is probably spent on other items of business than on financial matters.

B.2.2 The main Government Departmental allocation letters and instructions, issued just before the start of the financial year, are copied to the Finance Committee. Since 2000 these letters have stressed that they are in

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<sup>15</sup> Part 2 Section F1,2 &3

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resource (accruals) terms. Subsequent allocations from the Departments are referred to the Committee. Also given to the Finance Committee in February or March is a table of the various funds specified by the Departments and the type of school or service to which they are attached. While this Initial Recurrent Financial Scheme matrix<sup>16</sup> shows columns for inflation and new/reduced commitments, the end result equals the actual allocation from Departments. This indicates the service with an altered commitment and the amount involved.

B.2.3 The Chair<sup>17</sup> of the Finance Committee and the CFO both stated that variances were monitored and reported to each Finance Committee meeting. The aggregate expenditure in cash terms to the end of the previous month was shown against the aggregate budget for the main school types and some 9 Board services. Where there was pressure on expenditure for a service this was brought to the attention of the Committee. There is no record in the minutes of Financial Reports being available, or any discussion, from May to September 2003<sup>18</sup>. Monitoring to end January was given to the March 2004 Committee and it was noted that accruals had not been factored in to it. The report of monitoring was prepared separately from the Oracle system by the CFO due to timing problems. Monitoring returns for April and May have been rare.

B.2.4 The Finance Committee were also informed of the Finance Department Business Plan and Annual Report<sup>19</sup>.

## B.3 Audit Committee

B.3.1 The Audit Committee meets 3 or 4 times each year. Internal Audit attend most meetings and the external auditors, NIAO, attend frequently. The Committee sees and approves Internal audit plans and is informed of NIAO management letters and potential investigations. It gets a resume from the auditors of the main activities since the last meeting<sup>20</sup>.

B.3.2 The Committee Chair insists on dealing with strategic issues and leaves detail for the officials to progress. The Committee does not question the extent to which audit recommendations have been followed up and implemented. It has not considered financial management information systems or whether these should be included in the internal audit coverage, except in so far as individual audit value for money studies often cover the role and/or value of such information.

B.3.3 The Chair had indicated his preference for a Finance Committee which did not have to deal with general matters. He also thinks the Internal audit function is not completely independent as it reports to the CE, although he accepts the present set up is in line with Treasury guidance. He would prefer a single internal auditor to cover all Education and Library Boards.

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<sup>16</sup> Part 2 Section C 3, 4

<sup>17</sup> Part 2 section I3

<sup>18</sup> Part 2 Section C5

<sup>19</sup> Part 2 Section C6

<sup>20</sup> Part 2 section D1

## B.4 Conclusion

B.4.1 There is always a tension in the relationship between a Board composed of lay people and the expert staff with regard to the nature and amount of information required by the members to assist them to perform their strategic functions. Planning Days discussed the merits of providing either more or less details. The general atmosphere resulted in Board and Committee minutes being concise with few financial papers attached, other than contracts or maintenance figures.

B.4.2 In general, monthly reporting of the financial position was adequate but stronger on additional funds received from Government than on the progress of expenditure and projections of the future. Understanding of Board decisions would have been improved by listing the main issues discussed and raised, with recommendations fully spelled out and appropriate follow up noted. Members were generally content with the speed and thoroughness of responses by staff to questions. It appears that briefing by staff could have been somewhat fuller to assist members to carry out their challenge role and understand issues more clearly. Thus, if all the Board members had seen clearer references that the staff merely assumed that the level of accruals would be the same as the previous year, this might have triggered a query on what action had been taken to validate this assumption. Mention of expenditure using up the reserves should have been made clear to Board members.

B.4.3 The service headings used for informing the Board members of monthly variances etc did not, in many cases, demonstrate the real capability of budget holders to manage the resources under their control. The format of many reports had been agreed with Government departments but this did not prevent Boards seeking management returns better suited to their own needs to allocate and plan their use of resources to meet their objectives. The need for a better Financial Management Information System had been recognised for many years in reports to the Board but action to enable this to be produced has been severely delayed. Only in 2003/04 was more concerted action taken to open the discussions on how the necessary information could be captured.

B.4.4 Given the information actually available in the Board in 2003/04, reporting to the members has to be classed as adequate, although some simple additions would have helped to make monthly returns more meaningful and useful to the lay members to enable them to challenge staff decisions.

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## C Fulfilment of Board Responsibilities

### C.1 General

C.1.1 The Board has wide responsibilities for educational matters and members are widely drawn from those with an interest in education. The time spent on purely financial issues by the Board and all its Committees was limited. Even the General Purposes and Finance Committee appears to

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spend the lesser part of its deliberations on purely financial management and control issues. While the strategic role of the Board was recognised,<sup>21</sup> there was a feeling that they should have had more background information and more frequent access to the Senior Management Team<sup>22</sup>.

C.1.2 The Finance Committee was crucial for keeping the Board informed on all financial management matters. It tended to deal with broad strategic matters leaving detail to the expert officials employed by the Board. Advice was generally provided to it by the CFO or some of his staff.

C.1.3 Members had full access to the allocations of funding from Departments, and details of Departmental requirements on these funds. The ability of the Board to exercise judgement on the amount to be allocated to individual services, or variations in allocations, is severely limited as the greater part of the allocation is delegated to schools, or covered by earmarking or ring fencing of funds.

C.1.4 While the minutes indicate considerable discussion of the initial 2003/04 budgets, no change from the proposals put forward by officials was noted.

C.1.5 The Committee supported action to deal with service deficits. The CFO had regularly given warnings of year end figures being very close to allocations and had reminded members of the position regarding accruals. However, the annual accounts prepared by the Board officials since accruals accounting was introduced had shown outturn below budget and members had been assured by this. All Board Chairs were greatly shocked when the deficit became known.

C.1.6 The Finance and Audit Committees were content that explanations were readily provided by officials when requested, and with the level of detail presented to them on any issue. They felt that a little more detail on the reasons for, and implications of, any point being mentioned by officials might help lay members of the Board to operate a stronger challenge function but would not have pressed this point. Chairpersons accepted that the Board would be given a better understanding if the Committee minutes listed the issues which had been discussed and recommendations agreed. More robust reports<sup>23</sup> with comment on accruals, deferred income etc would have helped the Committee to challenge that its responsibilities were being protected.

C.1.7 The remit of each of the Board Committees is included in the Corporate Plan<sup>24</sup>. That for the Audit Committee is biased towards accounting discipline and control, although development of systems to ensure operations are carried out to make the most economic and effective use of resources is mentioned. The Finance Committee has to make recommendations on financial estimates and issues relating to Local Management of Schools. The only other Committee with responsibility for considering financial management is that for Education (Youth). Others such as the large spender Education (Schools) have no such remit. The Library Committee is a statutory

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<sup>21</sup> Part 2 Section C1

<sup>22</sup> Part 2 Section E1

<sup>23</sup> Part 2 Section G5

<sup>24</sup> 2003-2006 BELB Corporate Plan – Monitoring and Evaluation – Appendix 1

Committee<sup>25</sup> which considers the public library estimates and funding provided by DCAL.

C.1.8 Monthly reports frequently allocate some expenditure under a service or division to schools so that the total of spend, or variance, under the control of an individual budget holder, or higher level manager, is hidden in the monitoring returns. This has not apparently been queried by Board members, even though it could indicate where intolerable pressures are arising from demand led aspects, and the need for early corrective action and other benefits.

C.1.9 The Corporate Plan 2003 – 2006 approved by the Board is strong on Learning Strategy and Organisational Improvement with numerous Strategic Objectives, Themes and Outcomes. Its Organisational Improvement Plan is presented under 5 Strategic Themes with dozens of elements. While a few of these refer to issues pertinent to the present difficulties of the Board, such as developing a management information system to support the corporate planning process and aligning planning systems, it is remarkable that since the plan was developed from a 2002 corporate assessment there has not been a clear link between the aims and the resources of personnel or money required to deliver the objectives. The Board members do not appear to have challenged this important omission.

C.1.10 Bringing Board members together with staff in a joint corporate assessment exercise was expected to improve relations. This does not appear to have been the case.

C.1.11 Failure of the Board to remain quorate<sup>26</sup> at the important meeting to discuss action on the deficit position is regrettable. The officers of the Board acted immediately the problem was exposed to set up the Sub-Group<sup>27</sup>, determine its terms of reference, bring in Deloitte to investigate and leave the CE to carry on managing the normal business. Their desire for urgent action to stem any excess spending in 2004/05 was understandable. Recent pressure by the Chair<sup>28</sup> for each Committee to be more active in monitoring the financial position of services under their remit is a welcome improvement. The desire of the officers of the Board not to publicise details of the 2003/04 deficit until the position was better known was reasonable given the need to check figures, but it was unfortunate that many members first heard about the problem through the media.

## C.2 Conclusion

C.2.1 The Management Statement<sup>29</sup> sets the Board the aim of providing services by making the best possible use of the resources made available to it. It further stipulates that the Board cannot become involved in details of operational activities which must be matters for the attention of the executive structures. To enable the Board to manage its resources economically,

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<sup>25</sup> Part 2 Section I2

<sup>26</sup> Part 2 section C6

<sup>27</sup> Part 2 section E2

<sup>28</sup> Part 2 Section C6

<sup>29</sup> Department of Education Management Statement for the Belfast Education and Library Board 2000/2001

effectively and efficiently requires it to obtain sufficient information from staff to demonstrate that adequate measures are being taken and options for improvement are being assessed and costed.

C.2.2 The production of Corporate Plans and assessments, Business Plans and Best Value studies, gave the impression that systems were in place. However, these rarely linked in a direct manner their proposals and action plans to the resources of staff and/or finance required to deliver them. Similarly, there appeared to have been no serious attempt to evaluate the costs of situations imposed on the Board, such as teachers' pay or Board policy decisions, such as job evaluation, in advance or in-year, so that their impact on the finances available to the Board could have been taken into account when allocating budgets to services or making projections.

C.2.3 The Board relied on the expertise of its staff to alert them to important issues. Certainly, when alerted to the possibility of a deficit in the 2003/04 accounts, the senior officers of the Board acted immediately to deal with the situation. Leaving the CE, who was aware of the overspend, to control and manage normal operations with outside consultants brought in to assist in determining the cause of the problem, was a proper application of their responsibilities. The time taken to inform the full Board, and School Principals whose finances in 2004/05 were going to be affected, of the potential problem should have been smaller. When the potential magnitude of the problem became apparent the Board should have pressed for a faster response from the CE regarding policy changes, and their possible financial impact, likely to be needed to keep 2004/05 expenditure below available resources.

C.2.4 The Board should have expected to be provided with more financial analyses of emerging or new policies and with regular monitoring, capable of showing that options for change were being considered when finances were tight. The service headings used in variance calculations were agreed with the Government Departments, but were not particularly useful to indicate that budget holders were taking their responsibilities seriously. Consideration of the management accounts and financial management information systems should have been included in the remit of the Finance, or perhaps Audit, Committee due to their importance in assessing the quality of management. However, given the limited knowledge of the information held by the staff and available to the members, the Board fulfilled its responsibilities adequately.

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## **D Financial Management Systems.**

### **D.1 Corporate and Business plans**

D.1.1 Since 2002 considerable effort has been devoted to a corporate assessment driven by the CE using an Excellence Model. This exercise lumped together the members of the Board and officials down to two tiers below the CE (the Senior Leadership Team). The assessments looked at

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strengths, evidence and areas for improvement<sup>30</sup>. There had been restructuring of the organisation following the CE appointment in 1998.

D.1.2 The definitions in the assessments included development of the organisation's management systems, supportive processes, management of its people and internal resources to provide effective operation of its processes, response to customer needs, the outcomes the Board can demonstrate in relation to the officers of the Board, and key performance results. This exercise should have led to a better understanding by senior staff of the measures necessary to provide good economical, efficient and effective management of the resources available to the Board.

D.1.3 It is interesting to note that the team evaluating the Criterion of Processes, which included the CE and DCFO, did not report on three processes they had identified as key strategic ones. These included management of resources (human, financial and physical), communication and corporate governance<sup>31</sup>. There was no further assessment of these areas in 2002 or 2003. In mid 2004 the CE ordered an urgent assessment of the Finance Department. There does not appear to have been a corporate decision that future update assessments be made on a departmental basis or that the original omissions be covered. Had the latter action been taken it should have reminded staff outside the Finance Department to reconsider their resource management roles.

D.1.4 The Audit Committee has taken a keen interest<sup>32</sup> in risk management and in February 2004 asked for the identification of key risk areas to be put on the agenda for future meetings. In preparing an audit plan for 2003/04 Internal Audit had consulted with senior managers to identify risk based audits. The Head of Internal Audit presented a paper<sup>33</sup> on the Board's risk management strategy with an action plan to SMT in April 2003 but no risk registers are yet in place.

D.1.5 The 2004 Finance Department assessment so clearly demonstrates fundamental weaknesses in this Department that it has been included as Appendix 3 of this report. Following this assessment, the CE obtained a note from the Procurement Officer recommending that action plans be developed around 6 main themes.

D.1.6 The 2003 – 2006 Corporate Plan is long on strategies and associated themes<sup>34</sup>. It includes, under the part Organisational Improvement Plan, a number of themes which could have, if implemented, improved the financial management systems. In particular, Performance Measurement<sup>35</sup> is still in an embryo stage throughout the organisation and has not yet been developed to include clear linkage between educational objectives and the resources required to deliver them. A template for literacy and behaviour prepared in 2003/04 has not been used for other themes or businesses.

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<sup>30</sup> 2002 Corporate Assessment of the Board

<sup>31</sup> Part 2 Section F2

<sup>32</sup> Part 2 Section D1

<sup>33</sup> Part 2 Section F3, 4

<sup>34</sup> Part 2 Section F1

<sup>35</sup> Part 2 Section F1

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D.1.7 Under Finances, the Plan merely quoted the source and historical amount of income from Departments, and sales and aggregate expenditure amounts by delegated school budgets; Centre costs met by the Board for Schools; Centre services provided for schools; Special schools; Youth; Student; Library and Other services. The SMT assessment in February 2004 fell short on recognition of the need for competency in managing to ensure that the needs of economy, efficiency and effectiveness were being met.

D.1.8 Business plans were then produced for each member of the SMT<sup>36</sup>. The format varied from Strategic Objective; Proposed action; Lead person; and Evidence/Outcome to Strategic Objective; Present position; Proposed action (some with dates); and Lead person. As with the Corporate Plan, the identification of individuals in these Business plans to take the lead on action should have helped to improve management and the process should have made managers consider more deeply their particular responsibilities.

D.1.9 Training had been provided for budget holders in 2000 and 2001<sup>37</sup>. Most of the courses dealt with the mechanisms of the system of producing reports although there was a session on the responsibilities of a budget holder. Training on performance measurement was given to SLT members in February 2004.

D.1.10 The methodology of the Best Value reviews<sup>38</sup> was based on a model of consultation, challenge, compare and compete. The studies, led by the CE, indicated considerable attention to the first three of these approaches. There was however little reference to the “compete” aspect so that the financial consequences of the recommendations was barely mentioned and there were few references to options for delivery or their potential resource implications.

D.1.11 In June 2003 it was recognised by CFOs that a Best Value report on Special Education had not identified ways in which financial constraint could be effectively exercised and there were difficulties in capturing information even though the need for a Management Information System had been recommended by NIAO in 1998. One Board had developed a proforma to estimate %age increases from job evaluation and a back pay model but these do not appear to have been adopted in BELB.

D.1.12 Unfortunately, the whole top down planning process as described above lacked any adequate link to the personnel, funds or assets required to deliver the various objectives. This failing, which had been recognised<sup>39</sup> by the Chairs of the Finance and Audit Committees, meant that individual managers were not made to think in depth of the resources needed to meet any aim, objective or theme, or be able to consider appropriate prioritisation when resources were scarce. In addition there was still a problem flowing from the re-structuring in that some staff were not clear about their

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<sup>36</sup> BELB Education (Schools) 2003/04, Technical and Services 2004/05, and Finance 2004/05 Business Plans

<sup>37</sup> Part 2 Section I 5

<sup>38</sup> Part 2 Section F3

<sup>39</sup> Part 2 Section F1

responsibilities, in spite of the training which had been organised. There are no complete risk registers in the BELB<sup>40</sup>.

## D.2 Budget preparation

D.2.1 A requirement for clear documentation of the roles and responsibilities of budget holders was recommended in the 1998 Deloitte & Touche review<sup>41</sup>. This was linked to a bottom up approach to budget preparation<sup>42</sup> with resource allocation being driven by the aims and objectives of the organisation. The SEO has now started to develop a budget management policy setting down the duties<sup>43</sup> of holders. This needs to be expanded to cover more effective management and collection of information to help determine priorities and options.

D.2.2 Budget preparation followed the normal route of budget holders making bids and discussing these with Finance staff. The latter then assembled this information along with baselines linked to previous spending and the allocation letters from the Government Departments. The methodology<sup>44</sup> involved preparing tables showing the previous year budgets, allowance for inflation, treatment of earmarked funds and new or reduced commitments to produce the next budget by service. The CE had indicated<sup>45</sup> he did not approve of individuals competing with each other in a group for more resources but felt that clear knowledge of the objectives, aims and needs of the organisation should be sufficient. Before presentation to SMT, it appears Finance made adjustments to make the budget total equal the amount of funds allocated by the Departments, and discussion<sup>46</sup> at SMT was limited. There is no record in the SMT or SLT minutes<sup>47</sup> of any requests by any of their members for a change to the draft budget, or of any disagreement with the figures. The Board had been told<sup>48</sup> on one occasion that SMT had discussed 4 options and had agreed to a reduction in maintenance budgets across various services, but there is no note to this effect in the SMT minutes.

D.2.3 Mid year revisions of budgets are required by DENI. These followed the above route<sup>49</sup>. The running down of reserves and use of school surpluses to cover deficits in non-delegated services had not been taken into account when preparing budgets and RAP forms for DENI. The purpose of an end year RAP produced in March is not clear.

D.2.4 Difficulties were noted by Deloitte in 2004 in tracing ear marked funds carried forward from one year to the next<sup>50</sup>. End year flexibility seems to have caused problems and budget holders do not appear to have been fully

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<sup>40</sup> Part 2 Section F3.

<sup>41</sup> Review of Strategic and Financial Management, BELB Deloitte 21 July 1998

<sup>42</sup> Part 2 Section A3

<sup>43</sup> Part 2 section F3

<sup>44</sup> Part 2 Section C3

<sup>45</sup> Part 2 section I1

<sup>46</sup> Part 2 Section B3

<sup>47</sup> Part 2 section F4

<sup>48</sup> Part 2 section E1

<sup>49</sup> Part 2 Section I1

<sup>50</sup> Part 2 Section G7

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aware of their implications or taken appropriate action. In year, the many further allocations from the 3 Departments are added to budgets by Finance staff. The cumulative size of these additions over the years (up to 15%) has made it difficult to plan budgets from the start of the year, particularly as so much of Board expenditure is staff related. Even where received late in the period, there is no allowance for carry forward to be built into the budgets, nor do holders appear to be asked if they envisage being able to spend all these new allocations within year.

D.2.5 There are particular difficulties making budgets for demand led expenditure such as certain elements of special education. This makes it most important that these are dealt with by staff closest to the decisions implementing these actions and their need to be given budget responsibly. Their assumptions need to be subject to challenge by finance and other members of the Senior Management Team.

D.2.6 The Departmental allocation letters are expressed in accruals terms indicating the maximum levels of resource consumption for the year. The Recurrent Financial Schemes do not indicate whether they are in cash or accruals terms.

D.2.7 Departments require an Initial Resource Allocation Plan<sup>51</sup> (RAP) before the commencement of the year, a revised one in mid year and a final one in March. There are three parts; parts 1 and 1A give financial information while part 2 gives planned outputs all in accordance with DENI instructions. There is no real tie up between the finances and the outputs. The breakdown within the financial RAP gives similar detail to that in the Board's Recurrent Schemes. There was no RAP allowance for End year Flexibility or unspent earmarked funds. Extra funds had been allocated<sup>52</sup> for 2003/04 and the 2002/03 final accounts indicated there was £3m of End Year Flexibility at 31 March 2003 to be added to the next year.

D.2.8 The CE closed all budget holding authorisations<sup>53</sup> in mid 2004/05 and restricted these duties to SMT members only. The Acting CFO has since expanded the number of budget holders to the almost 30 SLT members.

D.2.9 The Acting CFO has introduced a more open course for the preparation<sup>54</sup> of the 2005/06 budget and hopes to have detailed discussion in SMT or SLT of all the bids and consequences.

### D.3 Monitoring

D.3.1 The 1998 Deloitte & Touche study<sup>55</sup> suggested that monitoring returns had no serious defects although it noted the returns did not include accruals. It reported budget holders were monitoring their budgets and both SMT and the holders were taking action as necessary. The expectation in this report that the AAP should ensure both accrual and commitment information

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<sup>51</sup> Part 2 section B 3

<sup>52</sup> Part 2 Section B1, 2

<sup>53</sup> Part 2 Section I4

<sup>54</sup> Part 2 Section I1, 2

<sup>55</sup> Review of Strategic and Financial Management Arrangements in BELB, 21 July 1998

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are available has not been achieved. There are too many potential accrual situations which are not readily captured by the various systems.

D.3.2 Following the re-organisation at the end of the decade, monitoring and action have not been so thorough<sup>56</sup>. While there are some queries over the accuracy of budget profiles into Oracle, a check on recurrent expenditure returns<sup>57</sup> to DENI for 2004/05 indicated that expenditure was continuing to run at too high a level during the first quarter. By end September 2004, expenditure was 50% of the annual budget which was too high to effect corrections. This suggests that there will be great difficulty making sufficient savings in the current year.

D.3.3 The CFO realised the impact of accruals on the final accounts and during 2003/04 had allowed for a similar amount as in previous years to be added to the computer generated actual expenditure when making projections from monitoring returns. There had been no great change in previous years.

D.3.4 The lack of an interface<sup>58</sup> between the CLASS system used by schools and the Oracle system used for Board direct expenditure was well documented. It would have been reasonable to take the potential impact of this on the end year position into account. Problems associated with the timing of the Board receiving invoices etc from schools also affects the validity of monthly monitoring returns.

D.3.5 The F10 return to DE showed aggregate expenditure to the end of February 2002 was £3.2m below budget. A deficit only appeared in the return, dated 10 June 2004, for the period ending 31 March 2004 when it was shown as £2.4m. This return also showed expenditure in March 2004 to be twice the normal monthly average but this possibly included some adjustments for end of year flexibilities.

D.3.6 There is no record of any challenge being made that the Oracle system had not delivered on a management information system which took adequate account of accruals, although this could have been surmised from the inclusion of a reference to MIS in the user requirements of a project specifically designed to allow for the introduction of accruals accounting. This need for a system to ensure budget holders were aware of information on the total funds<sup>59</sup> committed rather than just cash had been made in the 1998 Deloitte report. While a very powerful tool<sup>60</sup> the computer model could not keep a continuous check on accruals without the costly input of very considerable additional data. There are difficulties in calculating accruals<sup>61</sup> and other means of capturing sufficient data in-year to understand trends may well be more cost effective. The Acting CFO now has in place a system<sup>62</sup> run by the Finance Department, although this is a task which might be better under a budget holder or spending department's control, working closely with

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<sup>56</sup> Part 2 Section G6, I2 and 4

<sup>57</sup> Part 2 section I3

<sup>58</sup> Part 2 Section G2

<sup>59</sup> Part 2 Section D3

<sup>60</sup> Part 2 Section I2

<sup>61</sup> Part 2 section H1

<sup>62</sup> Part 2 Section I2

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finance staff. Having to deal with three Government Departments<sup>63</sup> with differing requirements makes monitoring more difficult.

D.3.7 There does not appear to have been a rigorous attempt to forecast the likely cost of ongoing policies such as job evaluation either in advance or when partially completed and some indication of the magnitude should have been available. Had this been done action could have been taken in-year to make allowance for future costs.

D.3.8 Although the accountability review of June 2004 was told<sup>64</sup> schools in deficit were closely monitored and the Board was satisfied with its tight control of repayment plans the DCFO sent a minute to the CE on 27 July 2004 to state<sup>65</sup> that the potential for the net deficit of all schools to double from its current level of £797k was serious unless swift and decisive action was taken against 8 named schools.

D.3.9 To strengthen control and budgeting it is important that financial information and related performance are linked and timely particularly for demand led services. Comment on the type of information needed to manage special education<sup>66</sup> was included in an IA report of May 2004.

D.3.10 In theory, systems are available for reasonable control of budgets but there has been failure to ensure their proper implementation. Insufficient thought has been given to allocate estimating and control to those individuals responsible for particular items of expenditure, and to using a higher level of control to bring together different expenditure responsibilities, thereby providing comprehensive data to link to the attainment of specific objectives. The budgetary control weaknesses certainly contributed to the failure to note the changing level of accruals. Budget holders can only be expected to manage resources for which they are responsible for their use and expenditure. In too many instances the returns include re-charges, or expenditure is recorded under another service. Holders should take responsibility for the determination of budget profiles. The variance reports do not show how well individuals or the sections are at managing their resources.

D.3.11 The 2004 Deloitte report<sup>67</sup> indicated a failure to recognise significant movements in accruals during the year because there was no mechanism in place to identify these. Another factor contributing to the problem was the treatment of earmarked and ring fenced funds<sup>68</sup> which meant that their impact had not been adequately recognised in the process of financial control for a number of years and some of the funds could have been used for other purposes. Once included in a RAP the use of funds was controlled by the Board.

## D.4 Audit

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<sup>63</sup> Part 2 Section I2

<sup>64</sup> Part 2 Section B4

<sup>65</sup> Report on Financial Position for BELB 2003/04, DCFO to CE. 27 July 2004

<sup>66</sup> Part 2 Section D2

<sup>67</sup> Project Academy, Deloitte Final Report 1 October 2004

<sup>68</sup> Part 2 Section G3

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D.4.1 The Head of internal Audit is not shown on the organisation chart as reporting to the CE. The HIA indicated to the Inquiry that he has reported to the CFO on operational issues since the CE's department was wound up in re-structuring by the present CE. The NIAO commented in its management letter of 2002 that Maintenance of a Register of Members Interests was a management function not compatible with the IA role. A similar point, which also covered Corporate Governance, was made in their 2003 letter. IA independence has also been eroded by the secondment of the HIA to the Finance Department since September 2004.

D.4.2 Up to 2002, IA reports were addressed to individual service officers but now are not so nominated. The CE said he had a monthly meeting to discuss any audit issues with the HIA.

D.4.3 Internal Audit has planned its programme of work on an assessment of needs with an evaluation of priority. Coverage of the operations of the Board appears to be reasonable, with an increasing activity on systems rather than compliance audits<sup>69</sup>. The number of reports seems reasonable for a unit of its size. It is unfortunate that an audit of financial systems/budgets was postponed from 1999/2000 and is only included for 2004/05.

D.4.4 Following problems in another Board, DENI requested a review of procedures for the management and control of budgets. The resultant IA report of October 1997 found many of the problem areas did not exist in BELB. However, a number of recommendations were made regarding reporting structures and the need for improved communication to capture committed expenditure in HQ which should have helped to avoid the 2003/04 difficulty.

D.4.5 A number of IA reports addressed issues relevant to improvement of the financial management systems in the service areas being audited. Many of these had wider implications but there was no clear evidence that these had been brought to the attention of all managers and action taken to implement changes to avoid problems in other activities. In his evidence the CE suggested that it would be for the IA unit to ensure such read across was undertaken whereas this is properly a management function.

D.4.6 There was recognition that budget holders were not really getting to the bottom of their proper control requirements. There was also a lack of discussion of audit findings in senior management meetings such as SMT and SLT.

D.4.7 Closure of the accounts since the introduction of accruals accounting had been delayed until a number of issues were sorted out between the Boards, DENI, DFP and NIAO. However some NIAO management letter references are relevant to the adequacy of controls in place<sup>70</sup>. Thus, a query on the 1999/2000 accounts elicited the response that for 2000/01 all accruals were identified by user site and that there was now greater control over the whole area of identifying and recording accruals.

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<sup>69</sup> Part 2 Section D2

<sup>70</sup> Part 2 Section D3

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D.4.8 The CE did not appear to recognise<sup>71</sup> that matters raised by audit, even if of a technical nature, required him to be satisfied that appropriate corrective action had been taken. Using IA staff to meet with senior officers within each department<sup>72</sup> in order to identify, prioritise and agree risk areas as part of planning interferes with audit independence.

D.4.9 NIAO had commented on the importance of the accuracy of the Statement of Internal Control in management letters.

D.4.10 The history of failure to implement fully the recommendations of the major 1998 review, a paucity of read across from internal audit studies, non-specific responses to many audit recommendations and, also, many business plan actions, leaves a strong impression that there was insufficient attempt to learn from, and implement, improvements in financial management systems.

## D.5 Conclusion

D.5.1 Very many consultants, auditors and internal papers over the past 5 or 6 years have noted weaknesses in the Board's financial management information system and recommended urgent attention to this aspect, but remedial action has been negligible. Concentration on corporate assessments and business plans etc using an Excellence Model has failed to provide a sufficient system. The lack of evaluation of key processes associated with resource and finance management in the assessments, and consideration of the necessary link between the objectives of the organisation and the resources of people and money needed to deliver the relevant services, represents a serious weakness which has gone on for some years.

D.5.2 Failure of the team, under the leadership of the CE, to properly evaluate their Key Processes associated with management of resources was a serious weakness in the corporate assessment process. Similar problems of a failure to take adequate account of financial management considerations and link Improvement Plans, Performance Measurement, SMT Assessments, Business Plans, Risk Assessments, RAPs and Best Value reviews to the resources needed to deliver objectives or properly consider options were evident throughout the planning process.

D.5.3 Re-structuring at the beginning of the decade and the introduction of a major new computer programme to provide financial information have led to problems over taking responsibility for budget holding and managing those allocations properly. Some training was provided but the system needed very much closer day to day attention from middle and senior managers to ensure all staff carried out their proper role. The value of much of the training was therefore limited.

D.5.4 On the surface the method of preparing budgets for the next year seems to be normal, but there are no clear records to indicate that the full senior management team (SMT or SLT) effectively participated in the process as a group, so that all managers were aware of the full implications of the

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<sup>71</sup> Part 2 Section D3

<sup>72</sup> Part 2 Section F3

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financial position and the impact on all programmes. The position regarding end year flexibilities and carry over was not understood by all staff.

D.5.5 Only in recent months have some operational managers taken positive steps to try to ensure that budgetary management works as it is intended, with clear duties for budget holders. Problems of allocating resources to the point where budgetary control can be exercised, and ensuring an appropriate hierarchy for virement and exerting pressure to get compliance, have yet to be solved. It is not practical to allocate all the funds to all budget holders at the start of the year and some should be kept in a Reserve to deal with emergencies or to use if accruals etc increase over the position at the end of the previous year. It is important that budget holders are only allocated funds which they have the power and ability to control. Sudden changes in the nomination of budget holders unsettled the staff.

D.5.6 Insufficient attempt was made to forecast the likely cost of one-off policies, such as job evaluation, and their future recurrent impact. Such factors had a major influence on end of year carry over and on expenditure pressures in subsequent years. A lot of effort was put into reporting the difficulties of one school with a serious deficit but there appeared to have been little attention to other schools carrying deficits of over 20%.

D.5.7 The staff up to senior management and the CE were aware that annual spending was only possible by reducing reserves and using surpluses on some services, including schools, to meet deficits in other services. The magnitude of the deficits, to over £7m at 31 March 2003, in the Income and Expenditure Reserve since resource accounting was introduced was clear from the annual accounts. Allowing this to happen to the extent it did, without taking its impact into account for the budgets of the following year, was a serious failure. Earmarked funds were included in the RAP and therefore under Board control, but failure to ensure they were only used for the purposes originally intended, and not used to cover a deficit in another service, should not have been permitted. Furthermore, it left insufficient pressure on budget holders to effectively monitor and alter expenditure plans because the Board appeared to be able to balance its annual accounts. The financial system was adequate in cash terms to inform management of the above position.

D.5.8 Financial returns (F10) to DE during 2003/04 gave no hint of a potential deficit for the year. These showed encumbrances but made no reference to other end of year finances. Some accruals were calculated after the year end by reference to invoices paid in the following April and May.

D.5.9 The introduction of accruals accounting caused many problems for finance staff in particular. There had been plenty of warning but it still took time to get agreement between Government Departments and the five Boards on the treatment of items in the final accounts. In a relatively stable environment accruals would tend to be at a reasonably constant level. The Board was, and still is, however, going through a phase of change, largely associated with teachers' payroll and job evaluation, exacerbated by growing commitments with special education. The Oracle system could not always capture these in year and the timing of additional DENI funds relative to payment dates both combined so that staff considered their impact on

accruals could only be effectively calculated at year end. Attempting to calculate accruals of such items on a monthly basis for every budget would not have helped forecasting very much and would be expensive of accountancy time.

D.5.10 For practical purposes reporting monthly expenditure from Oracle and other computer systems against budgets on a cash basis has at times to be considered as a sufficient system. An independent system of capturing potential large accruals is needed, with more help from operating divisions than in the past. This needs to be accompanied by radical improvements to the determination of funds allocated to individual budget holders to obtain a more robust financial information system where holders are solely responsible for the spending and control of all the budget funds in their name. There should then be a hierarchy of more senior staff with responsibility to monitor the actions of the staff in their command.

D.5.11 A number of decisions by the CE to associate IA with actions properly the remit of management has, and will continue to have, a deleterious effect on audit independence.

D.5.12 Closer attention to implementing the recommendations of consultant's reports, audit findings etc in a thorough and timely manner is needed. The necessary action on this must involve all managers.

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## **E Awareness of Financial pressures**

### **E.1 Pre March 2003**

E.1.1 The Departmental allocation letters<sup>73</sup> since 1999 stressed that funding was now on an accruals basis and underlined a key financial target of containing resource spending within the limits approved by each Department. The need for contingency plans, if offsetting savings were required, was mentioned.

E.1.2 Specific mention was made in these letters of aspects likely to impact on costs and where elements would be transferred in future from Departmental funding to be met from the Board's resources. There were Departmental references to teachers' salaries, special educational needs, premature retirement, job evaluation and classroom assistants, all of which featured in subsequent comment on budget pressures.

E.1.3 The possibility of a surplus in the schools' sector being available<sup>74</sup> to enable increased spending on other services had been mentioned in reports to the Finance Committee in 2000, and subsequently. The reductions in total allocations due to falling pupil numbers has featured regularly since 2001. The impact of job evaluation costs was highlighted to the Committee from 2001, with CASS and teachers' threshold payments from 2002<sup>75</sup>.

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<sup>73</sup> Part 2 Section B1

<sup>74</sup> Part 2 Section C2

<sup>75</sup> Part 2 Section C3

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E.1.4 Warnings on the reductions in the reserves<sup>76</sup> in BELB were widely known. Many Budget holders were aware of the need to tighten their belts in 2003/04.

E.1.5 The Association of Chief Executive Officers had discussed<sup>77</sup> the various pressures which affected BELB and others on many occasions. Best Value studies by CMSU were also discussed in that forum without the need for better financial analysis apparently being mentioned. Chief Executives were well aware of the areas where financial vigilance was needed. Financial matters were rarely discussed in this Association apart from seeking additional funding from Government.

E.1.6 The Association of CFOs<sup>78</sup> also discussed the pressures on various services. General financial problems concerning the introduction of resource accounting were frequently on the agenda although much of the detail on end year accounts was left to the Assistant Finance Officers. There does not appear to have been any discussion on the reasons for 2003/04 deficits or how they might be avoided in the future.

## E.2 2003/04

E.2.1 Job evaluation and initiatives such as Classroom 2000 were mentioned by DENI in the 2003/04 allocation letter. Reference was also made to extra funds for investment to improve the education estate.

E.2.2 At the start of 2003/04 the CFO informed the Finance Committee that he expected an end year surplus from 2002/03 of some £3m after accruals and this would have come from the schools budget<sup>79</sup>. By September 2003 he was warning that the Board's reserve funds had been considerably reduced from the previous year and the next month that expenditure was high for that stage of the year.

E.2.3 At the end of October 2003 the CFO projections<sup>80</sup> indicated a likely large deficit on special education of £1.5m, and a surplus of £1.1m on transport. Factoring in other projections left a potential surplus on the year of £0.8m. A concise Project Plan for budgetary control November 2003 to March 2004 had the same total as the annual budget at mid-year, but with zero for maintenance and notes referring to trends of known commitments and managing earmarked funds separately with no more diversion into core funds.

E.2.4 On 12 November 2003 the CFO informed the Finance Committee that there had been overspend in special schools, HQ and CASS. The following month he reported a major overspend on special schools which was a pressure on all Boards. The Board was told in December 2003 that reserves would be at minimum levels by March 2004.

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<sup>76</sup> Part 2 section H1

<sup>77</sup> Part 1 section E1

<sup>78</sup> Part 1 section E2, 3

<sup>79</sup> Part 2 Section C5

<sup>80</sup> Part 2 Section H1

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E.2.5 More careful profiling of budgets, which is feasible within the Oracle system, would make monthly variances more meaningful. This would assist in controlling expenditure and making projections.

E.2.6 At an accountability review with DENI in November 2003, reference was made to pressures from falling rolls, above average salaries for teachers and special education needs.

E.2.7 CFO projections of the likely end year position, made on 17 December 2003, gave a worst case scenario of a £2.3m deficit but a likely surplus of around £1m. Revisions at end December had involved budget holders and various Finance staff predictions then varied from a surplus of £3m to a deficit of £1m. Further estimates at end January 2004 suggested the deficit in special education might be reduced to just over £1m and a total end year surplus, including accruals, of £0.8m surplus. By end February 2004 the CFO forecast a deficit of over £300k while his colleagues indicated surpluses up to £1m. The CE was aware of the position<sup>81</sup> throughout 2003. The CAO was aware of problems with entry of data into the system affecting the output and other shortcomings in the information available.

E.2.8 Accruals had been computed at year end for accruals accounts to 2003/04. The Financial Accountant<sup>82</sup> queried the methodology used to compute Prompt Payments now reported in the annual accounts. Finance staff were aware that unspent earmarked funds were being used to cover deficits in other services. Issues surrounding special education needs had been the subject of a Five Board paper led by the WELB<sup>83</sup> but staff told the Finance Committee that BELB operated through an outreach service rather than the classroom assistants used by other Boards for special educational needs. The CFO had told the Audit Committee in May 2003 that surplus funding to the Board was 50% less than the previous year<sup>84</sup>.

### E.3 Staffing

E.3.1 The Chairperson of the Finance Committee asked in September 2000<sup>85</sup> for more consideration to be given to staffing problems due to the introduction of accruals accounting. There were frequent references at the Audit Committee<sup>86</sup> on the need to keep an eye on staffing in IA. NIAO expressed disappointment at the poor quality of work in their management letter<sup>87</sup> of August 2002. Deloitte 2004 referred<sup>88</sup> to an inadequate staff complement in management accounts.

E.3.2 During 2003 and 2004 there were serious weaknesses<sup>89</sup> in the Finance department due to non-availability of so many professional staff. The DCFO had reminded the CFO from time to time of the need to strengthen the

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<sup>81</sup> Part 2 Section I2

<sup>82</sup> Part 2 Section H1

<sup>83</sup> Part 2 Section E1

<sup>84</sup> Part 2 section D1

<sup>85</sup> Part 2 Section C2

<sup>86</sup> Part 2 Section D1

<sup>87</sup> Part 2 section D3

<sup>88</sup> Part 2 Section G8

<sup>89</sup> Part 2 Section F5

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professional cadre. This must have been apparent to the CE especially when, having granted a career break to the Management Accountant in January 2004 and knowing the Financial Accountant had resigned with effect from August 2004, he took the decision to suspend the DCFO in September 2004 and CFO in November 2004. An attempt to fill the Management Accountant's vacancy had apparently been unsuccessful.

E.3.3 The impact of the reductions in Finance Department staff has not helped to sort out the problems found as a result of the year end deficit. Comment was passed by many interviewees about the poor quality of debate in, and recording of, SMT, SLT and other meetings. This was attributed to the management style adopted throughout the organisation. People issues were recognised by the Sub-Group of Board officials set up to consider the 2003/04 deficit and are being addressed elsewhere.

E.3.4 The CE may delegate day to day aspects of his financial duties<sup>90</sup> to a CFO but the responsibilities must then be clearly defined and confirmed in writing. The delegation letter<sup>91</sup> from the CE specified paragraphs and pages of the 1992 Financial memorandum regarding the handling of accounting matters as CFO responsibilities. These wide ranging delegations do not remove the ultimate responsibility of his Accounting Officer role from the CE. The CFO was not delegated any role in ensuring effective management systems including financial monitoring and control systems and embracing economy, efficiency and effectiveness in the use of resources; advice to the Board and accountability to the C&AG.

E.3.5 The job descriptions for the senior staff are generally wide enough to require them to manage the staff under their command<sup>92</sup> with prudent and economical administration, the avoidance of waste and the efficient and effective use of all resources in their charge. It is unfortunate<sup>93</sup> that some staff apparently felt inhibited in expressing their views in group meetings and there was a feeling that senior managers did not always require budget holders to enforce their duties.

## E.4 Conclusion

E.4.1 There was ample information going to the CE and all senior management of the serious financial position. Warnings had been properly signalled by Finance staff. The change in the impact of accruals and deferred income etc on the 2002/03 and 2003/04 final accounts does not excuse the collective failure of senior management to press for stronger corrective action on the 2002/03, 2003/04 and 2004/05 situation.

E.4.2 There was wide ranging delegation of duties to the CFO from the CE. These gave very full powers regarding financial controls and accounting.

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<sup>90</sup> Department of Education Financial Memorandum 2000/2001, BELB Management Statement

<sup>91</sup> Part 2 Section F5

<sup>92</sup> Part 1 Section D2

<sup>93</sup> Part 2 Section G8

They did not cover management financial and control systems to help ensure compliance with economy, efficiency and effective use of resources.

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## **F Action to avoid Overspending**

### **F.1 2003/04**

F.1.1 During the year, messages from financial management information indicated that surpluses in the delegated schools' budgets, which had been used to cover deficits in other non-delegated services in earlier years, and reserves were being eroded. The former had indeed been evident in the previous year as well. Senior management do not appear to have taken appropriate serious action within the year to correct these indications of excessive expenditure relative to available funds.

F.1.2 A watch was kept on individual services with potential large negative variances and senior management informed of the position<sup>94</sup>. The detailed basic information available to budget holders and their line managers did not include accruals and deferred income etc. The relatively minor action taken by management on foot of this information appeared to show that year end expenditure was going to be close to budget in spite of some services being in deficit. The result was no budget holders were forced into considering severe action to curb overspending. The CFO briefed SLT on the need for prudent budgeting in September 2003 when it agreed to discuss the financial position monthly but there is no further record of this until March 2004. In May 2004 the CFO told SLT that £4m savings were required in 2004/05. SMT had agreed<sup>95</sup> in November 2003 to exercise restraint on new commitments but there is no reference to any follow on this.

F.1.3 Investigation of the reasons<sup>96</sup> for the 2003/04 deficit indicated that some of the problem is an undetected carry over from the 2002/03 accounts. A major cause was a failure with the financial controls.

### **F.2 2004/05**

F.2.1 The Board Sub-Group set up in June 2004 took as its remit<sup>97</sup> analysis of the potential risks to the Board. Initially it worked independently of the CE with the stated aim of protecting his Accounting Officer role. This left him to determine the action needed to prevent a similar problem in the 2004/05 accounts. On 2 July the CE was re-engaged with the work of the Sub-Group, with the Board members indicating a Recovery plan working on the assumption of a £5m overspend was to be developed.

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<sup>94</sup> Part2 Section I1and 2

<sup>95</sup> Part 2 Section F4

<sup>96</sup> Part 2 Section G9

<sup>97</sup> Part 2 Section E2

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F.2.2 Board staff recognised a potential deficit at the end of May 2004. Finance staff argued the action taken in June 2004 to curb maintenance and stop advertising for posts except for earmarked funds was minimal.

F.2.3 In the absence of the CFO, the DCFO produced to the CE on 27 July 2004 his assessment<sup>98</sup> of the main reasons for the 2003/04 deficit. He further suggested detailed action to be agreed with SMT to recover the situation in the current 2004/05 year. This report was apparently copied to SMT and the Chair of the Finance Committee. The DCFO was not permitted to write to school Principals to warn of the impact of the 2003/04 deficit on 2004/05 expenditure because the CE wanted to speak to them face to face. On 12 August 2004 the sub-group expressed concern that no action had been taken, 5 months into the year, to halt current spending patterns.

F.2.4 A note suggesting that savings of as much as £25m might be needed in the remainder of the 2004/05 year was put to the DCFO on 5 August 2004. The CE was told by the DCFO on 27 August 2004 that action to reduce expenditure was having little impact and noting that more radical action needed to be taken immediately. This situation was demonstrated in the financial returns submitted to DENI<sup>99</sup> up to October 2004.

F.2.5 At a Board meeting “in committee” on 3 September 2004, members<sup>100</sup> considered a plan by the CE to take effect from 2005 to 2008 and decided that it was not an adequate recovery plan. The Board then agreed that SMT should prepare a recovery plan which was presented to them on 30 September. The CE was suspended by the Board on 28 October 2004 at which meeting the proposed economy measures were adopted.

F.2.6 There was no contingency plan to cope with cuts in expenditure as recommended in the 2001 DENI allocation letter<sup>101</sup>. Even though the 2003/04 deficit was recognised at the beginning of June 2004, there was no sign of concerted action to ensure expenditure in 2004/05 was curtailed.

F.2.7 SMT had agreed an action plan<sup>102</sup> for financial recovery on 7 June 2004. Apart from stopping advertisements and maintenance there is no record of them taking any specific action until 21 September 2004 when the Acting CFO tabled proposals and highlighted the need for radical savings. He still forecast overspending in 2004/05 of some £4.5m so each department was required to establish core areas where savings could be achieved. The Acting CE stressed to SLT in September 2004 the importance of involving SLT in shaping policies and strategies and sharing information.

## F.3 Conclusion

F.3.1 The previous section has indicated a lack of action over a number of years. Once the 2003/04 deficit was found, the officers of the Board acted immediately to determine causes and magnitude leaving the CE to carry out his normal responsibilities. Action to reduce the level of expenditure in

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<sup>98</sup> Part 2 Section H2

<sup>99</sup> Part 2 section I4

<sup>100</sup> Part 2 Section E1

<sup>101</sup> Part 2 Section B1

<sup>102</sup> Part 2 Section F4

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PART 4 BELB Findings

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2004/05 was not taken at a sufficient intensity or in time to make it possible to effectively control the year's situation, although the finance staff had got SMT to agree in early June on some necessary action. Delay in producing to the Board a comprehensive plan which tried to ensure no deficit in 2004/05 and, if possible, permit re-building of a reserve was a serious failing. Only by September/October have financial records indicated savings on budgets beginning to bite and this may not be sufficient to bring the whole year into balance. These budgets had been set at March before the deficits had been identified.