

Part 6

Responsibilities and Recommendations BELB

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A Responsibilities

A.1 Board

A.1.1 The Management Statement responsibilities of the BELB are set out in the Department of Education 2000/2001 document. The main services provided by the Board are listed in Annex A of that document.

A.1.2 Board members have corporate responsibility for ensuring that its activities are consistent with its functions as set out in the legislation and that it complies with all relevant legislation and administrative requirements for the use of public funds. This corporate responsibility includes establishing the overall direction of the organisation within the policy and resources framework agreed and taking account of any guidance issued by the Department.

A.1.3 The overall aim has been set down in the Management Statement. This includes providing education and youth services for the people in the area which it serves by making the best possible use of the resources made available to it. More detailed arrangements and conditions for the payment of grant by the Department are contained in the Financial Memorandum.

A.1.4 Members of the Board must not give instructions to the Chief Executive or any other official which conflict with his/her duties as the Accounting Officer of the Board. It cannot become involved in details of operational activities which must be matters for the attention of the executive structures. The Board expects to receive regular reports on matters at an appropriate level of aggregation. The Board should ensure that policy change proposals are accompanied by details of their likely financial needs and

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impact. It is the responsibility of Board members to obtain, from staff, sufficient information or explanation to enable them to make a reasoned judgement on any financial or other matter requiring a Board decision.

A.1.5 The examination of witnesses and papers for this Inquiry has not thrown up any suggestion that Board members have failed to comply with relevant legislation or standards in public life. A more careful reading of the Annual Accounts should have led to questions to the Chief Executive regarding the increasing deficit in the Income and Expenditure Reserve. The immediate Board reaction to explore the way forward through the Sub -Group on being told of the 2003/04 accounts problem was reasonable. The reasons for some initial confidentiality are understandable but keeping details of the 2003/04 likely account deficit from Board members for so long was a minor error of judgement. The corporate responsibility of the Board has been discharged in so far as was possible on the basis of the information made available to it by Board staff.

A.2 Chief Executive

A.2.1 As Accounting Officer the Chief Executive is responsible for the stewardship and proper use of the grant-in-aid and other public monies, the keeping of proper accounts, for prudent and economical administration, for the avoidance of waste and for the efficient and effective use of all resources in his/her charge and for compliance with the Financial Memorandum. There are numerous Manuals, Dear Accounting Officer letters and Treasury guidance notes determining the requirements with DAO (DFP) 2/95 "The Responsibilities of a NDPB Accounting Officer" being particularly relevant.

A.2.2 These indicate that the Accounting Officer has responsibility, which only he or she is in a position to discharge, for the overall organisation, management and staffing of the Board and for its procedures in financial and other matters. Many of these instructions concern purely accounting matters to ensure regularity and propriety and the keeping of proper financial records and accounts. These requirements are kept more up to date than the Financial Memorandum.

A.2.3 The Management Statement makes the Chief Executive responsible for maintaining administrative structures which enable the Board to discharge its statutory responsibilities efficiently and effectively and for ensuring that all legitimate decisions of the Board are implemented.

A.2.4 Specific responsibilities rest on the Chief Executive from the Management Statement and Financial Memorandum including:-

- ensure expenditure is contained within the limits approved by the Department
- ensure Board is organised and provided with the necessary information systems ... so that managers at all levels are aware of their objectives and delegated authorities,
- delegation to accountable units ... is maximised,
- have the means to access and, where possible, measure outputs or performance;
- ensure the service is managed and organised effectively and efficiently and that clear lines of responsibility and accountability are established and understood,
- provide direction and leadership to staff ... to make best use of their talents,

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- arrangements for internal audit are in place,
- sign the statement of internal financial control,
- assist in statutory audits,
- ensure the Board's public profile is managed and presented under the general direction of the Board,
- sign the accounts as being accurate and complete,
- maintain internal resource controls in accordance with Government and Resource Accounting procedures.

A.2.5 Lines of responsibility and accountability exist from the Chief Executive to the four members of the Senior Management team and the members in the Senior Leadership team of second tier officers. These groups do not appear to have been used fully as a collaborative management team considering all aspects of the business and in particular financial aspects.

A.2.6 The mismatch between the organisation structure and the budget management structure was a serious failing given that the Chief Executive had introduced a wide ranging re-organisation since the start of the decade. There were weaknesses in some budget holders not accepting their full responsibilities and controlling their budgets and a lack of care in the checking of data entries to the new Oracle system. Some expenditure was permitted without going through a budget holder. This situation had been partially corrected by extra work done in the Finance department but at the cost of weakening the approach of budget holders to their duties. It would have been reasonable for the Chief Executive to follow up his re-organisation with a check that all aspects of it were working correctly but this did not happen. He should have been aware of the communication difficulties within the organisation, including in the Finance department.

A.2.7 An attempt made in recent months by some senior managers to improve the system of budget holder responsibilities has shown that action can be implemented quite quickly. It is recognised that some forecasting of financial implications can be difficult, especially where there is a partial demand led element, but it would have been reasonable for the Chief Executive to have pressed for stronger attempts to have been made to assist budgeting.

A.2.8 While the Senior Management Team had a hand in the iterative process of drafting the year's budget the fact that the Finance Committee was given a final copy which totalled the same as the Departmental letter, and that the full Senior Management Team was not available at the Board meeting which discussed the next year's budget, inhibited to some extent the Board's discussion of options. Leaving the half year budget revision and changes when further funds were received to Finance without the Senior Management Team's involvement did not help to engender a feeling of responsibility throughout the organisation.

A.2.9 It was unreasonable for the Chief Executive to approve staff career breaks and make so many suspensions of professional staff without replacement thereby leaving the Board without a fully functioning Finance Department, especially once the deficit problem was known. Great reliance had been placed on the Chief Finance Officer by the Chief Executive who used this delegation to keep himself fairly aloof from financial matters. Delegation of day to day aspects to a Chief Finance Officer does not absolve

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an Accounting officer from the responsibility to ensure that financial matters and controls are being properly maintained.

A.2.10 Numerous training courses and planning days etc had been organised for staff. The Chief Executive laid great emphasis on people and their development and organised much of the Board's corporate assessment etc round this theme but it does not appear to have led to universal acceptance at Board level, or with some staff, of his approach to management. As regards budget management and control there was an insufficient amount of follow up to ensure that the training was being adequately put into effect.

A.2.11 With his obvious interest in planning and setting objectives it was a serious failing for the Chief Executive not to ensure Corporate Plans and Assessments and Business Plans etc were better linked to the resources needed to deliver the objectives and targets. Compliance with the Accounting Officer responsibilities to promote the efficient and economical conduct of the business requires that much more attention should have been paid by the Chief Executive to financial appraisal of policies and options, and to ensuring all managers also complied with these duties.

A.2.12 There was a serious omission during the corporate assessment that the team evaluating the "Criterion of Processes", which included the Chief Executive and Deputy Chief Finance Officer, failed to report on three key processes they had identified as strategic ones. These included management of resources (human, financial and physical), communication and corporate governance.

A.2.13 It would have been reasonable for the Chief Executive to have assured himself, to a greater extent, that all managers were operating with due attention to economy, efficiency and effectiveness. Various plans towards benchmarking etc were insufficiently rigorous to ensure that these matters were given the priority that Government Accounting requires.

A.2.14 The regular reporting of expenditure against budget with some services indicating surpluses and others deficits did not always give an adequate picture as it ignored the impact of accruals, deferred income, pre-payments etc and delays in getting information from schools into the Board's reporting system. It also depended on the quality of profiling, which was at times weak, and variances appeared to give an adequate budgetary control. Finance were estimating that the 2003/04 end year would show a surplus and a similar position had been demonstrated for some years in the final accounts prepared by staff.

A.2.15 The determination of such a large deficit of £4.5m in the 2003/04 accounts came as a complete shock to the Chief Executive but it should not have been. The Annual Accounts had shown the deficit in the Income and Expenditure Reserve to have risen from £1m at 31 March 2001 to over £7m at 31 March 2003. Given the knowledge of the problems arising from job evaluation payments and special education etc and the introduction of the major change from cash to resource accounting it would have been reasonable for the Chief Executive to have taken more formal action to obtain

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for himself assurance that adequate financial controls were in place and that the cumulative deficit in the Income and Expenditure reserve was eliminated..

A.2.16 Given the history of the Board apparently keeping within expenditure limits in spite of in-year warnings of high spending on certain services and a knowledge that reserves were being eroded it was not unreasonable for the Board to set the initial 2003/04 budget at the level of the Department of Education allocation, which itself had taken account of reduced funding due to falling pupil numbers.

A.2.17 The inadequacy of management information systems has been stressed for some years with numerous recommendations to correct this position. These are essential to close the gap mentioned above between objectives and the resources needed to deliver. Many studies had produced ideas on the physical information required to understand and make policy and then indicated the need for better financial data to enable decisions to be finalised. It has been a major weakness that the Chief Executive did not ensure earlier action was taken to correct this failure to improve financial management information systems.

A.2.18 When Finance staff warned the Chief Executive about the deficit on the 2003/04 accounts he immediately informed the Department of Education. The Board Sub-Group deliberately left the Chief Executive to manage the day to day business once the deficit was found. The delay in taking resolute action to ensure a similar problem did not exist for 2004/05 was, in the circumstances, not reasonable.

A.2.19 One requirement on the Chief Executive from the Management Statement is to have arrangements for internal audit. These have been put in place in BELB. The reporting lines for the Head of Internal Audit, his use on the Register of Members Interests, Corporate Governance and allocation by the Chief Executive to work closely with senior staff in order to identify, prioritise and agree risk areas together with secondment to work in the Finance department from September 2004 are all non-audit duties which could seriously affect his independence in future dealings with senior staff. Internal Audit postponed an audit of financial systems budgets at the request of the Chief Executive. Audit had not thrown up serious problems in their propriety and regularity audits and there had been no suggestion that internal accounting controls or systems have been weak or missing.

A.2.20 There is no question over the Chief Executive's regulation of the Board's expenditure, application of other finance regulations and the completion of financial reports and accounts as laid down in the Financial Memorandum except that he failed to take action to ensure that serious overspending, identified over some years, in the Annual Accounts was corrected and his review of the effectiveness of the system of internal control did not pick up a major weakness in the framework of financial controls designed to avoid over commitment of resources. The Statement of Internal Control is an integral part of the Annual Accounts. No Contingency Reserve had been established.

A.2.21 A duty of the Chief Executive is to collaborate closely with other Boards. This was done through the Association of Chief Executives. This

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process was carried further through the Association of Chief Finance Officers and one for Assistant Finance Officers. An important feature was nominating the staff of one Board to take the lead in preparing and introducing a project of five Board application. Another was the Central Management Support Unit producing Best Value reports etc. The BELB Chief Executive and his staff played an active part in these activities but it would have been reasonable for greater attention to have been paid to the financial implications of centrally controlled policy reports.

A.2.22 The Chief Executive has carried out his Accounting Officer and Management Statement duties with due diligence apart from the instances referred to above. These features of requiring maintenance of a high standard of financial control and management and promotion of the efficient and economical conduct of the Board's business are essential parts of an Accounting Officer's total responsibilities.

A.3 Chief Finance Officer

A.3.1 There are no specific responsibilities laid down in the Accounting officer rules or the Management Statement for Chief Finance Officers. The Statement and the Financial Memorandum do however state that the Chief Executive may delegate day to day aspects of his financial duties to a Chief Finance Officer or other appropriate senior officer of the Board. In this event the responsibilities of this officer should be clearly defined in writing.

A.3.2 The BELB Chief Executive had given written delegated authority to the Chief Finance Officer in 1999. These wide ranging delegations on day to day aspects do not remove the ultimate responsibility of his Accounting Officer role from the Chief Executive.

A.3.3 It is clear that the Board, Chief Executive and other senior staff depended heavily on the expert financial advice of the Chief Finance Officer. The job description was sufficient justification for this reliance even with the change to the system of resource accounting. The uncertainty of the timing of payment of some substantial sums for items being progressed by the Board such as job evaluation and teachers pay was well known. The Chief Finance Officer had warned the Chief Executive that the reserves were being run down to an unacceptable level.

A.3.4 As a professional officer with close involvement in the introduction of resource accounting from the 2000/01 accounts it would have been reasonable for the Chief Finance Officer to have paid greater attention to the impact of this change from cash accounting on all aspects of financial control. In particular it was unreasonable that a greater in depth investigation had not been carried out to determine the potential effect of all changes from cash to resource accounting, especially those which could not be readily captured within the existing systems, and to devise a system to alert management when the impact of any of these changes or any new or amended policy was such that it would affect the cash available to budget holders.

A.3.5 It is now apparent that the Board should have been warned of an overspend in earlier years and formal notification given by the Chief Finance

Officer to the Chief Executive on the dangers of continuing to run up increasing Income and Expenditure deficits.

A.3.6 These findings represent a serious failing by this officer.

B Recommendation

B.1 Board.

B.1.1 There is no need for the Permanent Secretary to take any action against the Board on account of the deficit found in the Board's 2003/04 Annual Accounts.

B.1.2 The Permanent Secretary could advise the Board to:-

- Question the Chief Executive, when the Annual Accounts are presented to the Board, on action taken to eliminate the Income and Expenditure Reserve deficit and set up a Contingency Reserve,
- Insist on being able to cross examine all Senior Management Team members when considering the budgets for the following year, and any half year revisions,
- Require policy papers brought to the Board, or its Committees, to explain the full financial ramifications of proposals and options before implementation,
- Advise Committees, other than Finance, to consider requesting the attendance of the Chief Finance Officer or his Deputy, when matters with a substantial financial requirement are to be debated,
- Consider the remit of the Finance Committee to determine if it should be charged with considering if the Chief Executive has sufficient management information systems in place to ensure prudent and economical administration and the efficient and effective use of all resources, and
- Consider if the General Purposes and Finance Committee should be re-structured to deal solely with financial matters.
- Stresses that Committee Chairs should seek to have fuller explanatory information in papers put before them if there are any doubts or uncertainties and that issues discussed are summarised in the minutes,
- Considers if the practice of Committees being serviced by the staff responsible for their operations (for example Finance Committee minutes by the Chief Finance Officer) provides the most appropriate preparation of minutes.

B.2 Chief Executive

B.2.1 Permitting the Board to spend more than the resources allocated to it, and by a considerable amount considering the value of funds earmarked for the Aggregate Schools Budget, was a very serious breach of the responsibilities of an Accounting Officer but it is not recommended that the ultimate sanction of withdrawing the Accounting Officer designation from the Chief Executive be imposed by the Permanent Secretary at this time.

B.2.2 However as there were serious failings in carrying out a substantial portion of an Accounting Officer's duties it is recommended that these findings be taken into account when decisions are made on Performance Related Pay, or other emoluments, for the Chief Executive, both immediately and in respect of future determinations until adequate action has been taken to rectify the situation.

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B.2.3 Specific recommendations on areas where improvement is necessary include:-

- Urgent action to provide the Finance department with a full complement of available staff,
- Determination of immediate action to ensure that expenditure is kept within Government Departmental limits and that cumulative deficits are eliminated,
- Determination of responsibilities for all budget holders such that they have sole control of, and can be held responsible for, the expenditure of resources allocated to them,
- Confirmation of clear lines of responsibility to managers for the use of resources allocated to budget holders in their command, and of managers' powers to move resources within their command,
- Assurance from the Chief Finance Officer on implementation of a system to track accruals, deferred income, pre-payments and other issues not captured in the Oracle system to ensure timely action is taken, if necessary, to protect budgets and keep expenditure within limits,
- Determination, with the agreement of the Senior Management Team, on how available resources will be distributed to budget holders within year and, in particular, whether the Chief Finance Officer be made responsible for control of a Reserve,
- Discussion at Senior Management Team meetings of all proposed bids and savings from all members to agree the final allocation to be used for budgets and revised budgets,
- Inclusion of the Senior Management Team at Finance Committee meetings,
- Requirement on those controlling budgets, or their line managers, to produce improved budget estimates, especially for services with a large impact on accruals or where pressure is increasing on resources,
- Introduce swifter action on schools running large deficits without acceptable recovery plans,
- Implementation throughout the organisation of adequate management information systems to ensure that all managers have access to the financial and other information necessary to ensure that they have duly considered potential options and the full financial implications of proposed policy changes,
- Implementation of adequate financial management information systems to give assurance that managers are using resources under their command in an economical, efficient and effective manner,
- Completion of the Corporate assessment of Key Processes related to financial and resource management and communication, left unfinished by the Chief Executive from 2002,
- Completion of the Corporate Planning process to encompass an adequate link between objectives and the resources needed to deliver those objectives, taking due account of risk analyses and performance measures for all managers, through the complete chain down to the Resource Allocation Plan.
- Implementation of action necessary to deal with the problems listed in the 2004 assessment of the Finance department,
- Introduction of a methodology to ensure that training courses are being followed up by prompt and full action to implement the points raised in the training,
- Reconsider his style of management, both with Board members and with staff, to attempt to engender better working relationships and improve communications.

B.3 Chief Finance Officer

B.3.1 The Permanent Secretary has no power under the present arrangements to take action against any of the Board staff other than the Chief Executive.

B.3.2 The Permanent Secretary should advise the Board to take the findings of this Inquiry into account when deciding the future of this suspended officer, in particular:-

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- lack of a system to track accruals, pre-payments, deferred income and other issues not captured within the Oracle system to ensure expenditure is kept within limits,
- need to insist on issuing formal warnings to the Chief Executive if, at any time, operational activities, or new policies, threaten to put the organisation into a deficit situation, or inhibit the elimination of past deficits,
- need for completion of the Key Processes elements linked to finance and resource management in the Corporate Assessments,
- closer collaboration with Senior Management Team members on budget preparation and revision,
- involvement in challenging those assumptions made regarding the financial implications of all policy changes and assisting in their evaluation .