

Part 7

Responsibilities and Recommendations SEELB

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A Responsibilities

A.1 SEELB Board

A.1.1 The Management Statement responsibilities of the SEELB 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

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structures. The Board expects to receive regular reports on matters at an appropriate level of aggregation.

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. An earlier problem with individual schools running up serious deficits has apparently been brought under control. The corporate responsibility of the Board has been achieved on the basis of the information made available to it by staff. Members did not become involved in details of operational activities but did work closely, in a strategic role, with staff at all times and particularly as soon as the 2003/04 account deficit was found. The Board, and the Working Group of Board members set up to monitor 2004/05 expenditure and a recovery plan, strongly supported staff at all times.

A.1.6 The Board was aware that the staff were taking accruals etc into account. It was getting monthly financial reports showing that expenditure by service was being managed reasonably within budgets and it was being told regularly that the final accounts were expected to be within budget. Such expectations had apparently been delivered since resource accounting was introduced. The Board members had no reason to query the expertise of the staff providing advice or to challenge their assumptions. My assessment is that the Board discharged its duties reasonably.

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.

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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,
- 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 Clear lines of responsibility and accountability exist from the Chief Executive to the eleven members of the Senior Management/Leadership Team and these appear to have reasonable levels of delegation. There is no doubt these managers are managed and organised effectively and are fully aware of their responsibilities to manage the resources of their command within budget. There have however been a few problems in ensuring that all budget holders have been clear about their responsibilities and understand their budget role but action has been taken within the past two years to remedy this position. With the introduction of the new Oracle system it would have been reasonable for the Chief Executive to have been more pro-active in ensuring all the necessary changes in culture were implemented throughout the organisation to enable its full potential to be achieved.

A.2.6 Strong action has been taken by the Chief Executive to follow the Corporate Plan with sound Business Plans and clear Targets linked to the strategic aims and objectives of the Board. Unfortunately these paid little attention to the financial and resource requirements needed to deliver the related services. It would have been reasonable for the Chief Executive to have spent more time encouraging his senior managers to consider the link between their objectives and targets and the resources needed to deliver them.

A.2.7 The operating staff in SEELB have taken cognisance of Best Value reports and considered the implications for their services relatively quickly.

A.2.8 The Chief Executive had from 2003 pushed the staff to complete a full series of Risk Registers. These showed action needed to provide a better service to the Board's client base. . These Risk Registers went a long way to ensure managers at all levels were aware of their objectives and delegated authorities but were short on the resource costs of the additional controls which had been identified. The Risk Register for the Chief Finance Officer did not adequately identify risks in his system of financial controls regarding items not captured in the Oracle system.

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A.2.9 With the Oracle system being introduced as an aid to the introduction of accruals accounting there was apparently a thought that it was going to sort out earlier information systems' difficulties and provide all the options relating to resource accounting. It could produce financial reports for a whole range of users quickly. But like all computer systems it can be no better than the information fed into it. The regular reporting of expenditure against budget with some services indicating surpluses and others deficits, none of which were particularly exceptional, appeared to give an adequate budgetary control. This was heightened as Finance staff were estimating that the end year would show a surplus and this had been demonstrated in the final accounts notified by Finance staff for some years. This regular monitoring ignored the impact of accruals, deferred income, pre-payments etc and the known delays in getting schools' invoices etc incorporated into the Board's systems. Reported variances also depended on the quality of profiling which was variable. From the regular monitoring returns it was understandable that the Chief Executive felt assured that sufficient financial controls were in place but they did not give a sufficiently accurate picture .

A.2.10 Examination of the Annual Accounts would have informed the Chief Executive that the Income and Expenditure Reserve had grown from almost zero at 31 March 2001 to almost £14m at 31 March 2003. It would have been reasonable for him to take this position into account and required action to eliminate this cumulative deficit in the Income and Expenditure Reserve during 2003/04 or sooner. Instead the deficit grew by £5.7m in 2003/04. It would also have been reasonable for the Chief Executive, before signing the Statement of Internal Control, to have examined in greater detail the Chief Finance Officer's Risk Register and noted that it did not identify all potential problems associated with the introduction of resource accounting.

A.2.11 The adequacy of information systems has been queried for some years. These are essential to ensure there is a proper link between objectives and the resources need to deliver them. It would have been reasonable for the Chief Executive to have ensured more speedy action to improve the management information systems, insisted that thorough appraisals of the financial consequences of options or new and amended policy decisions were included in policy papers, and confirmed that resources were being managed economically, efficiently and effectively.

A.2.12 The Senior Management Team had a hand in the iterative process of drafting the year's budget, but not revisions. Finance staff took more control of operations which probably should really have been the responsibility of budget holders. This was no doubt with the best intentions but it added to a feeling that staff in the Finance department would look after all things to do with finance. Giving the Finance Committee a final copy of the proposals for the next annual budget, which totalled the same as the Departmental allocation letter, inhibited the Board's discussion of options.

A.2.13 One requirement on the Chief Executive from the Management Statement is to have arrangements for internal audit. These have been put in place in SEELB in accordance with latest good practice. Audit had not thrown up serious problems in their propriety and regularity audits but had not examined the system of financial controls for accruals, pre-payments,

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deferred income etc. There had been no suggestion that other accounting controls or systems have been weak or missing. The use by the Board members of the head of Internal Audit to service the Working Group monitoring the 2004/05 position did not impair his audit independence.

A.2.14 A duty of the Chief Executive is to collaborate closely with other Boards. This was done through the Association of Chief Executives. This process was carried further through the Association of Chief Finance Officers and one for Assistant Finance Officers and the Central Management Support Unit producing Best Value reports etc. The SEELB Chief Executive and his staff played an active part in these activities.

A.2.15 A major five Board project started in the SEELB in 1999 was the Accruals Accounting Project. This took an inordinate amount of the time of the Chief Finance Officer and meant much less attention being paid by him to his normal duties. This project was handled with great skill in the face of many difficulties by the SEELB Chief Finance Officer. It is possible that the attention which the Chief Finance Officer had to pay to this major computer project, including negotiations and non-financial matters, was such that insufficient heed was paid by him to considering and sorting out other more obscure technical accounting problems associated with the change from cash to resource accounting.

A.2.16 The Chief Executive had kept a close watch on the day to day financial monitoring returns of the Board and appointed properly qualified staff to give advice. He failed to take action to ensure that serious overspending identified in the Annual Accounts was corrected or to set up a Contingency Reserve. The only other question over the Chief Executive's regulation of the Board's expenditure, application of other financial regulations and the completion of financial reports and accounts is that he could have reasonably challenged that the Statement of Internal Control had clarified the position regarding adequate financial controls to capture those elements of accruals etc not covered in the Oracle computer system. In these circumstances it was reasonable that the Chief Executive did not require the initial budget and the initial Resource Allocation Plan for 2003/04 to be set below the amount in the Department of Education Allocation letter for that year.

A.2.17 When finance staff warned the Chief Executive about the deficit on the 2003/04 accounts he immediately informed the department.

A.2.18 My assessment is that the Chief Executive fulfilled the bulk of his Accounting Officer and Management Statement responsibilities with due diligence but permitting the 2003/04 deficit and not confirming the Chief Finance Officer had adequate financial controls were very serious failings. Regarding measures of economy, efficiency, and effectiveness and management information there have been instances where it would have been reasonable for the Chief Executive to have applied more pressure personally to ensure action was taken on these important matters, which are essential parts of an Accounting Officer's responsibilities, more expeditiously and with greater thoroughness. Action had however been taken to begin to address these issues before the 2003/04 deficit problem broke.

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 SEELB Chief Executive did not give written delegated authority to the Chief Finance Officer. Reliance was placed on the job description prepared when the post was created in 1985. This indicated the Chief Finance Officer was to play an important role in the formulation of policy and a pivotal role in the management of the Board's finances. He was responsible for various sections including financial management services, financial management information and accounts. The job description was adequate to require the Chief Finance Officer to alert the Chief Executive to any material financial problems which might arise. Delegation on day to day aspects does 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 to justify this especially with the change to the system of resource accounting. Unfortunately there was a very serious failure in the ability of the financial control system, which was clearly a responsibility of the Chief Finance Officer, to enable adequate warnings to be given to the Chief Executive and others of the true state of the Board's finances, including the potential impact of accruals, deferred income, pre-payments etc so that timely action on expenditure could have been instituted.

A.3.4 Given the clear pattern over the past three years of expenditure being above allocation and Reserves being severely eroded it would have been reasonable for the Chief Finance Officer to have submitted a written memorandum to the Chief Executive and members of the Senior Management Team before the 2003/04 budgets were agreed. This should have recommended a very serious examination of all budgets, effectively starting at zero, and retaining a contingency until the position became clearer. It should also have recommended alerting the Chair of the Finance Committee to the action being taken.

A.3.5 As a professional officer with extremely close involvement since 1999 in the introduction of resource accounting and in particular his leadership of the Accruals Accounting Project it is surprising that the Chief Finance Officer failed to realise the importance of having better knowledge of the likely effect of accruals and other end year matters on the final accounts. There had been warnings from the Department and others on the need to consider fully the implications of moving to resource accounting. The difficulty of calculating the end year position must have been clear from the work

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required to determine it since the 2000/01 accounts. The uncertainty of the timing of payment of some substantial sums for items being progressed by the Board was well known. It would have been reasonable for the Chief Finance Officer to have paid much more attention to implementing a system of financial control to deal with these aspects of the introduction of resource accounting to avoid expenditure exceeding that permitted by the Government Departments.

A.3.6 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.3.7 The lapse in the discharge of his duties represented a most serious failing by this officer in an otherwise exemplary career.

B Recommendations

B.1 Board

B.1.1 Provided the SEELB take action to ensure that all aspects of resource accounting are fully under control and the Chief Executive and senior managers keep the Board informed of the situation there is no reason for the Permanent Secretary of the Department to take any action against the SEELB.

B.1.2 The Permanent Secretary might suggest to the Board that it:-

- Questions 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,
- Ensures policy papers explain the full financial implications of proposals and options,
- Considers if the Finance or Audit Committee should ensure that the management information system is robust enough to ensure prudent and economical administration and the efficient and effective use of all resources,
- Considers if the Finance and Property 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 Although permitting the Board to spend more than the resources allocated to it was a very serious breach of the responsibilities of an Accounting Officer it is not recommended that the ultimate sanction of withdrawal of the designation of the Chief Executive as an Accounting Officer be imposed by the Permanent Secretary at this time.

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B.2.2 However as there were failings in a major financial control and weaknesses in some of the organisation and management of the Board it is recommended the failings found by this Inquiry should be taken into consideration when the Chief Executive's Performance Related pay, or other emoluments, is being considered.

B.2.3 Specific recommendations on improvements which the Chief Executive should implement as soon as possible are:-

- Determination of immediate action to ensure that expenditure is kept within Government Departmental limits and that cumulative deficits are eliminated,
- Require the Chief Finance Officer to review and complete his Risk Register and ensure he/she has taken due account of potential end year financial problems,
- Require the Chief Finance Officer, in conjunction with the Senior Management Team, to implement a system to capture information to enable forecasts to be made regarding all potential end year financial matters not captured in the Oracle system to ensure expenditure is kept within Departmental limits.
- Require Senior Management Team members and all line managers to re-visit their Risk Registers to ensure adequate attention has been paid to those aspects which could impact on their ability to manage the resources given to them with economy, efficiency and effectiveness,
- Review Business Plans and Resource Allocation Plans etc to ensure that, as far as possible, there is a link between objectives and targets and the resources necessary to deliver them,
- Complete work on the system of budget holding within weeks so that each holder, or manager, is only allocated resources which they are in a position to manage and control, that no expenditure can be approved except by the responsible budget holder, and that any unallocated funds are retained in a Reserve which can only be used on the approval of the Chief Finance Officer after consultation with the Chief Executive and, normally, the Senior Management Team,
- Require papers considering new or altered policies, or where demand seems to be exceeding previous estimates, to include options and their potential financial implications, before final decisions are taken.
- Implementation of adequate financial management information systems to ensure all managers are using the resources under their command in an economical, efficient and effective manner.

B.3 Chief Finance Officer

B.3.1 It is for the Board to consider the future position of the Chief Finance Officer.

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

- 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 Risk Register for the Chief Finance Officer, and Finance department, to ensure all aspects of the change from cash to resource accounting have been assessed,
- 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 .