

**EXTRACT OF MINUTE OF THE STRATEGIC POLICY COMMITTEE (EDUCATION)  
21 FEBRUARY 2002**

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**1. MINUTES**

The minutes of the Strategic Policy Committee (Education) of 10 January 2002 were approved as a correct record.

Arising under item 4 (**Education Department's Financial Position**) a note of a meeting with regard to the Education Financial Position was tabled for consideration.

**Decision**

1. Agreed with the terms of the KPMG review that the process employed by the Education Service to prepare income and expenditure projections for the year to 31 March 2002 was not sufficiently detailed or robust and noted with concern KPMG inability to provide comment on the Education Service projection of an under spend of £120,000 for the year to 31 March 2002.
2. Agreed to the continued freeze of all non-essential education expenditure excluding Schools Supplies Budget at £14,000.
3. Agreed that the responsibility for financial control of the Education Service budget be transferred to the Director of Finance with immediate effect until the improved processes and actions are implemented to address the concerns raised by KPMG's review.
4. Agreed to appoint KPMG to undertake further work with the Director of Finance and to agree that their appointment is made without a tendering process and to note in terms of the Contract Standing Orders that this is due to the urgency of the work required and their prior involvement in and knowledge of the position.
5. Agreed to allocate the Director of Finance up to £150,000 from the projected Education Service "payback" savings of £792,000 for 2002/2003 to resource the work required to provide detailed and robust budget information.
6. Agreed that the Director of Finance report back regularly to the monitoring group.

**EDUCATION DEPARTMENT'S FINANCIAL POSITION**

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**1 SUMMARY**

In October, the Controller of Audit for Scotland, issued a statutory report on the Scottish Borders Education Department overspend.

The external auditors to Scottish Borders Council were KPMG. The opportunity was taken to secure the services of KPMG to carry out an audit of our Education Department's financial position for the current financial year. They were asked to express a view on the reliability of the system for producing reliable information to support assertions regarding the likely adherence or otherwise by the Education Department to the revenue budget for the year ending 31 March 2002.

KPMG have completed their report and the following is a summary of their findings (see Appendix 1 for full details):-

- (i) It has not been possible to form a view, as requested, with the level and accuracy of information available
- (ii) Budgets are compiled using the corporate finance system Oracle and the Education Department's management system Devolved Management Resources (DMR). The budgets do not agree and there is no reconciliation
- (iii) Budget changes in DMR by virement during the year have not been replicated on Oracle
- (iv) Virement within DMR are not always input in a timely manner
- (v) The projected outturn for the year has been reported as being the same as budget despite planned savings
- (vi) The lack of an interface between the systems is the primary source of difficulties
- (vii) The oracle system must be the primary source of financial information

As a result of their findings, KPMG prepared a proposed Action Plan to address the issues. This is now tasked and timescaled (see Appendix 2). Most of the work will be progressed by the new Accounting Services Manager, Sharon MacDonald who took up her post in October of this year.

A group comprising Councillor Walsh, Councillor Freeman, J McLellan, A Morton, S McGregor, B West and S MacDonald met on 12 December to discuss the KPMG report. Full agreement was given to progress the implementation of the Action Plan and a further meeting has been arranged for 23<sup>rd</sup> January 2002.

Councillors G Freeman and D Walsh will provide updates to the SPC on the monitoring.

**2. RECOMMENDATIONS**

- 2.1 The committee note the completion of a report on the Education Department's financial position by KPMG and note principal findings.
- 2.2 The committee remit the monitoring of the implementation of the Action Plan to the group comprising Councillor D Walsh, Councillor G Freeman, S McGregor and A Morton, with reports to that group being provided by the Accounting Services Manager, Sharon MacDonald in association with the Head of Service, Joe McGeer.
- 2.3 Councillor D Walsh and Councillor G Freeman to report on progress of the Action Plan to the SPC.

Stewart McGregor  
Director of Finance  
19 December 2001  
*reports/januaryspceducationdeptfinancialposition*

## 1.4 Principal findings

- 1.4.1 We have been asked to express a view on the reliability of the system for producing reliable information to support assertions regarding the likely adherence or otherwise by the education department to the revenue budget for the year ended 31 March 2002. It has not been possible, with the level and accuracy of information available, to form a view on this. An overview of the contributory factors to this assessment is given below.
- 1.4.2 The education department budget is compiled using both the DMR and ORACLE systems. The major element of the budget (employee costs) are calculated using information from school rolls at different dates. The resulting budgets are therefore not in agreement, and there is no reconciliation performed between the two systems.
- 1.4.3 Due to a lack of an interface for budget updates, any changes to the budgets made by virements in the DMR system throughout the year are not replicated in the ORACLE system. This results in further discrepancies between the two systems.
- 1.4.4 Furthermore, virements within DMR are not always being input in a timely manner. This results in budgets and spending patterns shown in DMR which do not reflect an up to date assessment of what the head teachers actually intend to spend their funds on.
- 1.4.5 Budget monitoring does not accurately reflect the projected outturn position. The projected outturn for the year to 31 March 2002 has consistently been reported as being the same as budget. This is despite the savings that have been planned.
- 1.4.6 As we see it the four main problems between the positions in the ORACLE and DMR systems are
- the budgets at the start of the year do not agree; the figure being monitored in the ORACLE system is not a true picture of the starting budget position;
  - as a result of virements that have been input to the DMR system but not to the ORACLE system, the ORACLE system again does not reflect the true budget position;
  - there are occasions when virements are not being input to DMR, yet the schools are following spending patterns that are therefore not reflected in either the DMR budget, or the budgets in ORACLE; and
  - the projected outturn position in ORACLE does not reflect known, or expected outturn variations.
- 1.4.7 The lack of an adequate interface between the two systems is the primary source of the difficulties arising. They cannot be jointly maintained throughout the year at a level such that relevant management information is obtained from both systems. The result is that neither system produces financial data that can be used to reliably monitor and control the education budget.
- 1.4.8 The ORACLE system is the corporate financial information system. It is to be used to compile the council budget, used for monitoring purposes, and used to compile the final accounts. In every department in the council, including education, ORACLE must be the primary source of financial information.

No	Recommendation	Management response	Person responsible	Action (date)	by
1.	The employee budget within the corporate financial information system, ORACLE, should be constructed using projections based on the actual payments to be made to employees.	Further discussion required, firstly, within Finance to determine whether it will be possible to hold both average and actual budgets in Oracle and, secondly, with Education in order to reach agreement on this, quite contentious, issue. As budgets and budget movements will be fed from DMR to Oracle it will be average budgets only that are shown initially. However, pay templates will be completed, for the first time, for Education staff – manual, APT&C and Teachers – and this will aid any reconciliation.	Sharon Macdonald	2001/02 March 2002	–
2.	The budgets in ORACLE and DMR must be reconciled at the start of the financial year, with appropriate adjustments made to ensure that the systems are consistent. Monthly reconciliations between the two systems should be performed, with a final reconciliation being conducted at the year end.	The input of budgets to DMR and Oracle will not be separate tasks – the budgets from DMR will be uploaded into Oracle. Part of this process would, of course, involve checking to ensure that both systems matched. Monthly uploads will be performed during the course of the year and would, of course, be followed by a reconciliation.	Sharon Macdonald	2002/03 – June 2003	Initial upload – January 2002
3.	Any variances that impact on the projected outturn must be recorded in ORACLE. Changes to the projected outturn in ORACLE will be saved automatically by the system, and will be rolled forward to the next monitoring period.	It was explained to KPMG that a decision had been taken, by Finance, not to update the forecast budget, within Oracle, with any deviations from the annual approved budget. This will remain the position until there is some degree of certainty regarding the accuracy of projections. However, it should be noted that once a thorough review of budget monitoring procedures has been carried out Education would conform to the Council's procedures.	Sharon Macdonald		February 2002

No	Recommendation	Management response	Person responsible	Action by (date)
4.	The Council should consider amending the criteria by which a variance is included in the monitoring report to reduce the possibility of a relatively large number of smaller variances being omitted, resulting in ORACLE not representing the true financial position. A consistent policy for reporting budget variances should be applied throughout the Council.	The council is, at present, in the process of implementing revised procedures with regard to budget monitoring. Variances in excess of £25,000, at cost centre level, for gross expenditure and income are to be reported. However, it is recognised that in order to secure the required level of confidence in monitoring within Education, a more restrictive criterion will need to be adopted. This will be discussed and a decision reached prior to the monitoring exercise for December.	Bruce West - possible change to corporate procedures Sharon Macdonald - liaison with Finance re criterion for Education.	December 2001
5.	A review of the monitoring procedures at school level should be performed to ensure that AFAs are supplied with sufficient information in order to perform meaningful reconciliations between the ORACLE and DMR statements for their schools. There should be a formal procedure for informing education HQ of variances which should then be investigated and actioned.	All financial procedures, within Education, will be subject to review by the out posted Finance team, on a priority basis. At present, the AFAs receive Oracle information that should be sufficient for them to identify any differences between the systems and, subsequently, request further information. However, it is recognised that there is, perhaps, a training requirement that needs to be addressed. The financial review will, ultimately, result in documented procedures being prepared for each activity.	Sharon Macdonald - review and establishment of procedures John Denny - monitoring of adherence to procedures	June 2002 Monthly thereafter
6.	All virements made in DMR throughout the year should be replicated in the ORACLE system. This will ensure that changes to the budgets and spending profiles are matched in both systems.	Once tested, the electronic mapping from DMR to Oracle will be performed on a monthly basis.	Sharon Macdonald	Testing January 2002 Implementation - March 2002

No	Recommendation	Management response	Person responsible	Action (date)	by
7.	All virements must be input to DMR by the AFAs on a timely basis. This will ensure that head teachers have current information at their disposal, and that ultimately, the ORACLE information will be accurate for monitoring purposes.	Due to the imminent implementation of the interface a procedure will be developed to ensure that all virements are input on a timely basis. Adherence to the procedure will be closely monitored.	John Denny / Sandra McLindon	March 2002	
8.	The budget in ORACLE, based on the estimated September school roll, should be compared with the revised budget based on actual September school roll. This information will be available in DMR. This exercise should be conducted for non-staff costs also.	This exercise will be superseded by the interface between the two systems becoming operational in March 2002. The recommendation will be re-examined if the interface does not become operational at that date.	Sharon Macdonald	March 2002	
9.	A procedure should be put in place to ensure that the monitoring takes account of the likely spend of any unused cover costs within employee budgets. The projected outturn figures should reflect the fact that it is unlikely that savings will be made in these account headings.	The establishment of proper procedures and lines of communication between budget holders and Finance staff will ensure that budget projections represent the anticipated spend, as per the budget holders.	Sharon Macdonald	June 2002	

No	Recommendation	Management response	Person responsible	Action (date)	by
10.	In setting the budget, education should ensure that all 'intra-Council' budgets are agreed by both parties prior to the budget being approved.	This is part of the budget preparation procedures set by the Finance Department and, therefore, should be adhered to by all Departments. It is recognised that Education, as a client department, requires more detailed information from accumulating departments, both at budget preparation time and throughout the year.	Sharon Macdonald – identification of information requirements  Bruce West – securement of co-operation from accumulating department	June 2002  June 2002	
11.	ORACLE should be updated to reflect the projected overspend in the transport account.	Refer to 3 above	Sharon Macdonald	February 2002	
12.	The budgets for central repairs, rates and janitorial services should be reviewed to ensure that they reflect the likely expenditure levels, and to highlight significant overspends if these budgets cannot be increased. This will enable the budget holder to take remedial action to contain any additional overspend.	All budgets will be reviewed in the next 2 months in order to improve the accuracy of projected outturns.	Sharon Macdonald	February 2002	
13.	The education department should review the adequacy and quality of the monitoring of their expenditure on non statutory catering throughout the year.	This will be part of an overall review of the budget monitoring function within the department	Sharon Macdonald	June 2002	



No	Recommendation	Management response	Person responsible	Action by (date)
14.	The known overspend in janitorial services should be reflected in ORACLE and attempts should be made to contain the costs within budget.	Refer to 3 above	Sharon Macdonald	February 2002
15.	Education should develop a more formal mechanism to record progress against the savings plan put in place.	The Council has implemented a procedure for this, which Education will comply with.	Sharon Macdonald	Currently being undertaken
16.	ORACLE must be used as the primary source of financial information within the education department. DMR figures must be reconciled to ORACLE in order to monitor expenditure and income within schools and services.	Oracle will be used as the primary source of information, however, it is recognised that in order to implement this on a department wide basis will require time, training and commitment.	Sharon Macdonald	Non school – June 2002 School – March 2003