

Chapter 4: Financial Management

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Chapter 4

Financial Management

Sound financial management is one of the key determinants of the performance of the NCSE. The spending of public funds brings with it certain responsibilities, for staff, for the Executive and for the Council. Reporting structures have been established by legislation to protect these funds and this chapter describes how the NCSE should comply with such requirements. In reference to budgeting it outlines the relevant legislation and the roles of Council and Executive in developing budgetary targets and submissions, accounting arrangements and value-for-money procurement procedures. In terms of auditing, it highlights what the role of the finance and audit Committees of the Council will be, the significance of internal audit, external audit and value for money audit; the role of the Comptroller and Auditor General and the role of the Dáil Select Committee on Public Accounts. The material is presented under the following headings:

- 1 Legislative framework and government policy

Budgeting

- 2 Budgeting and the NCSE
- 3 The process of budgeting

Accounting

- 4 Accounting arrangements
- 5 Procurement procedures
- 6 The role of the Council in accounting matters
- 7 The role of management
- 8 The role of Council members

Auditing

- 9 Audit Committee
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- 14 The role of the Council in auditing
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- 16 The role of Council members

1 Legislative Framework and Government Policy

- Budgeting: See Appendix V of the *Code of Practice for the Governance of State Bodies*, which outlines the format of the report from the Chairperson regarding the financial controls of NCSE. Section 3(i) of that Appendix which refers to the need to ensure an appropriate control environment is particularly important for the Council from a budgetary responsibility viewpoint.
- Accounting Officers: See the *Report of the Working Group on the accountability of Secretaries General and Accounting Officers*, otherwise known as the Mullarkey Report, published in 2003, which summarises the responsibilities of accounting officers. Summary in **Appendix 12** of this text.
- Financial Control arrangements: See *NCSE Financial Policies and Procedures Manual*, **Appendix 14** of this document, which details the financial management arrangements in place in NCSE.
- Public procurement. See *Public Procurement Guidelines – Competitive Process*, published by the Department of Finance in 2004, **Appendix 13** of this document. NCSE is subject to these rules, as well as to EU Procurement rules.
- Audit Committee: See *Code of Practice for the Governance of State Bodies*, section 10, which requires the Council to establish an Audit Committee to advise it on internal control (including corporate governance) and audit matters.
- Internal audit: See *Code of Practice for the Governance of State Bodies*, Appendix III, section 10.3 which outlines the work of the internal audit function.
- External audit: See Section 29(2) of the *Education for Persons with Special Educational Needs Act, 2004*, which requires the NCSE to submit accounts for audit to the Comptroller and Auditor General (C&AG). See also *Code of Practice for the Governance of State Bodies*, especially Section 12 which requires that the Chairperson’s statement be reviewed by the external auditors and their findings reported
- Taxation: See *Code of Practice for the Governance of State Bodies*, section 13, which requires the Chairperson to furnish a report to the Department of Education and Skills on the organisation’s compliance with tax laws, confirming that it has complied with its obligations. In the context of its corporate taxation and tax clearance obligations, the NCSE is expected to and operates in an exemplary manner. This includes the payment of tax liabilities by relevant due dates.

Financial Management Framework

The *Public Financial Procedures, 2008*, define the principles of Government accounting, as derived from the Constitution. The guide outlines essential features of financial management for Governmental bodies. It also explains the appropriate application of accounting principles to the day-to-day activities.

The latest Edition of the Public Financial Procedures (the Blue Book) was published by the Department of Finance in 2008. The new edition of the Blue Book includes sections on the financial framework for expenditure and receipts, the procedures and practices in Government Accounting and a significant section on financial management and the value for money framework.

The Book reflects developments in public sector financial management and the general demand for greater transparency and accountability. It is an important document for all organisations that are in receipt of and use public funds.

Budgeting

2 Budgeting and the NCSE

- The strategic plan is the framework from which all budgetary decisions within the NCSE must flow. As the key strategic document, the strategic plan forms the basis for deciding the funding priorities for the NCSE.

3 The Process of Budgeting

- The provisional budget for NCSE is prepared early in the preceding year by the Finance Officer and members of the Finance Unit, with reference to the strategic plan. The timing of budget preparation must be consistent with the Department of Education and Skills budgetary cycle.
- It is developed with a view to funding on-going commitments such as salaries as well as anticipating future commitments.
- The provisional budget is then put before the Finance Committee of the Council, to approve or amend, as appropriate. The annual budgetary process allows for the identification and prioritisation of requests for additional funding for the year. Once approved by the Finance Committee, the provisional budget is put before the full Council for approval. The terms of reference for the finance committee approved by the previous Council is included in **Appendix 3**.
- Once approved by Council, an application is made to the Department of Education and Skills for the funds outlined and this forms part of the Department's own submission to the Department of Finance, as part of the Government's estimates exercise, which precedes Budget Day. The budget for NCSE is likely to be settled by the Department based on the available funds provision and the needs of NCSE.
- On the proposal of the Government, Dáil Éireann considers the spending estimates for every Department and votes funds accordingly, giving statutory effect to the estimates by means of the Appropriation Act.
- In practice, this process does not take place in isolation from the Department of Education and Skills. There will normally be some interaction with the Department at

an early stage of the budget process, to determine the levels of available funding. The Department may also have a view as to the reaction of the Department of Finance to certain funding proposals. Any information gathered will be given to the Council before it signs off on the NCSE budget proposal.

- The final allocation to NCSE is agreed by the Department in an overall budgetary context. At this stage, the Department of Education and Skills informs NCSE of its final allocation for the year possibly necessitating some ‘re-budgeting’ in light of available resources.

Accounting

4 Accounting Arrangements

- Responsibility for day-to-day accounting in NCSE is with the Chief Executive, who holds the post of accounting officer. This is a legal term which requires the Chief Executive to operate within established principles and conventions that are derived from the Constitution and from institutional and financial relationships that have been developed between the Oireachtas and Government over the years.
- Accounting is a year-round process, requiring regular stewardship and performance reporting. Monthly and quarterly management accounts are prepared to track expenditure, comparisons and trend analysis is undertaken and variances properly monitored.
- Audited annual accounts must be prepared, submitted and published (Section 29 of EPSEN).. The Finance Officer will prepare these accounts for approval by the Finance/Audit Committee and adoption by the full Council prior to auditing by the Comptroller and Auditor General and final submission to the Minister.

5 Procurement Procedures

- As it is in receipt of public funds, the NCSE has a responsibility to ensure value for money in all expenditure. NCSE also has a responsibility to act in accordance with Public Procurement guidelines, as issued by the Department of Finance as well as EU Directives on procurement.
- Value for money in the public service means providing goods or services to the required standard in a way that is efficient and effective. Council members should always bear in mind the need for the NCSE to demonstrate value for taxpayers’ money and be continually asking questions such as:
 - Is too much money being spent on certain items or activities to achieve the objectives of the overall operation?
 - Is money being spent that is not helping to achieve objectives?
 - What changes can be made to improve performance and efficiency?

- Competitive tendering is one way of demonstrating that an organisation is being economical with the resources/services that it is purchasing. The Public Procurement guidelines and NCSE's *Financial Policies and Procedures Manual (Appendix 14)* sets out the thresholds for purchasing goods and services and the associated tendering requirements. The public financial procedures sets out a value for money framework of which competitive tendering and effective procurement systems are key components.
- The NSCE must adhere to all legal procurement and related regulatory obligations and the corporate procurement policy is consistent with the Code of Practice requirements including tendering, asset disposals and auctioning, where this applies. Specific records must be maintained in relation to asset disposals to related entities, members, employees and connected parties.

6 The Role of the Council in Accounting Matters

- The Council's first role in relation to budgetary matters is to set the broad operational parameters through the adoption of the strategic plan.
- The Council has a responsibility to ensure that public funds are well spent, supporting the achievement of strategic goals.
- Every Council meeting should have budgets and expenditure accounts as an agenda item, to discuss spending against budgetary targets, and make recommendations/decisions as required.
- The Council should expect to be kept informed of financial developments in order that expenditure is monitored on an on-going basis.
- The Council should establish procedures for the frequency and extent of the financial reports it receives throughout the year. It should also determine the extent and scope of the internal control system.
- The Council should also approve the terms of reference for the finance and Audit Committee specifying their role in monitoring and directing expenditure and assessing control arrangements.

7 The Role of Management

As outlined in the Act, the Chief Executive is accountable for all financial matters within the NCSE. The responsibility may be delegated to other members of the executive team, as appropriate.

- The Finance Officer will hold responsibility for preparing the provisional budget and for amendments based on decisions reached at Council meetings. This role will

encompass all documentation leading up to the submission of a final budget proposal to the Department of Education and Skills.

8 The Role of Council Members

- Council members should provide the ‘challenge function’ to the management’s proposals, carefully scrutinising budgets, plans and the underlying assumptions.
- Council members will be supplied with copies of the provisional budget and they should suggest amendments as they think fit.
- Council members should view budgetary and accounting matters in the light of providing value for taxpayers’ money and should continually adopt a challenging role holding the executive to account.
- Council Members should participate as required in the Audit and Finance Committees

Auditing

9 Audit Committee

- The Council is required to establish an Audit Committee to advise the Council on systems of internal control, risk management, audit matters and corporate governance issues. The Audit Committee should report to the Council on the adequacy of the financial management and accounting arrangements in place.
- The Audit Committee should:
 - be a formal Committee of the Council
 - have at least three members with at least one member with recent and relevant financial experience;
 - have a Chairperson who may or may not be an existing Council member -the Chairperson of the Council may not chair this Committee
 - have written terms of reference
 - meet at least four times a year
 - meet the external auditors at least once a year where there is any issue requiring clarification
 - have explicit authority to investigate any matters within its terms of reference, the resources that it needs to do so and full access to information. It should be able to obtain outside professional advice and, if necessary, invite outsiders with relevant experience to attend meetings.
 - The terms of reference for the Audit Committee as agreed by the previous Council are included in **Appendix 3**.
- The constitution and terms of reference of the Audit Committee should be reviewed by the full Council from time to time and updated as appropriate. The Chief

Executive, head of finance and internal auditor should be available to attend meetings (though *not* as members of the Audit Committee).

- Items for discussion at Committee meetings may include the following:
 - the internal auditor’s recent work and future Work Plan.
 - the internal auditor’s reports to the Audit Committee.
 - the audit needs assessment and the implications arising from it.
 - unresolved findings from audit assignments, proposals to deal with them and progress reports.
 - major policy issues and their implications for internal control.
 - risk management arrangements.
 - the plans and findings of external audit.
 - the implementation of recommendations by internal and external auditors.
 - contents of the Chairperson’s statement on assessment of internal financial controls.
 - general corporate governance compliance.

10 Internal Audit

- The Council is required to appoint an internal auditor to advise the Chief Executive and Council.
- Internal audit is part of the management control system, objectively examining, evaluating and reporting on the adequacy of internal control as a contribution to the efficient and effective use of resources.
- Best practice requires that the internal auditor should have sufficient expertise as well as authority to allow him/her free and unrestricted access to such assets, records and personnel as are necessary for the proper fulfilment of that person’s responsibilities and to report to the Council when necessary.
- The operation of the internal audit function should comply with the framework code of best practice, as set out in the *Code of Practice for the Governance of State Bodies*. The *Code* allows the employment of external contractors to carry out the internal audit function.
- An Internal Audit Charter for the NCSE outsourced internal audit Function as approved by the previous Council is included in **Appendix 6**.

11 External Audit: the Comptroller and Auditor General

- The NCSE is required to submit accounts to the Comptroller and Auditor General (C&AG), whose role is:

- to audit the financial statements of all government departments and other public bodies and report the result of this examination to Dáil Éireann.
- examine for efficiency and effectiveness the financial and other resources used by those public bodies.
- On completion of the audit, the auditors will write formally to the NCSE drawing attention to areas of possible weakness in systems and controls.
- Council members (and senior management) should pay particular attention to the content of this audit management letter and should ensure that any remedial action required is promptly taken.
- Sometimes the C&AG may not have available the staff resources to carry out an audit of NCSE. In that case, an accountancy firm, at the behest of the C&AG, will take on the role.

12 Value-for-Money Audit

- The NCSE may also be subject to value for money (VFM) audit by the C&AG.
- A value-for-money audit is an examination of the efficiency and effectiveness with which an organisation has used its resources to carry out its functions.
- The report of the C&AG may be the subject of a consultation process in order to obtain the agreement of the state body to its content, where this is deemed appropriate.
- The report is then laid before Dáil Éireann and published with an accompanying press release. Once the report has been published, the Committee of Public Accounts may invite the Chief Executive to answer any criticisms made by the C&AG.

13 The Select Committee of Public Accounts (PAC)

- The PAC is established under standing orders of Dáil Éireann and is generally regarded as one of the most important and influential select Committees.
- When the C&AG has completed the external audit of the NCSE, the report is submitted to the Minister and laid before the Houses of the Oireachtas and then scheduled for examination by the PAC.
- If the audit reveals an issue, written evidence and documentation may be sought from the NCSE by the PAC. This documentation is reviewed and analysed and oral hearings and cross-examination may follow.

- The PAC, in its report to Dáil Éireann, makes recommendations based on the hearings and enquiries. This report is published together with the minutes of the hearing.
- The government responds to the PAC report in a published memorandum, providing information on the steps to be taken to implement the PAC's recommendations and to apply the wider lessons learned.

14 The Role of the Council in audit and control arrangements

The Council has significant responsibilities in relation to audit and control and many of the obligations form part of the Audit Committee work. Among the audit and control issues to be addressed are the following:

- The annual determination of the effectiveness of the system of internal controls, including financial, operational and compliance controls and risk management.
- Determination of person, other than the Chief Executive, to whom the Internal Auditor should report.
- Risk management policy and risk management framework to be approved by Council.
- In relation to internal control and audit, establishing an Audit Committee and reviewing and approving the constitution and terms of reference of the Audit Committee who undertake some of the following functions on behalf of the wider Council:
 - Appointing an internal auditor
 - Analysing the report of the internal auditor and taking the steps necessary to correct any problems
 - Authorising the submission of accounts for audit to the Comptroller and Auditor General
 - Ensure that all remedial action recommended by the audit management letter from the C&AG is implemented

15 The Role of Chief Executive

- The Chief Executive, along with Finance Officer and internal auditor may be invited to attend meetings of the Audit Committee.
- Preparation of accounts for submission for audit to the C&AG is also the responsibility of the CEO/management team.
- Senior management are responsible for ensuring that any remedial action recommended by the C&AG is promptly taken.

- The Chief Executive may have to attend a meeting of the Select Committee of Public Accounts and answer any criticisms made by the C&AG in relation to the audit.

16 The Role of Council Members

- Council members should analyse all recommendations from the Comptroller and Auditor General following the publication of the external audit.
- Council members will expect to receive reports from the Audit Committee in relation to its activities.
- It is their responsibility to follow-up at Council meetings the progress made by the executive in applying remedial action following the recommendations of the C&AG and other control reviews undertaken.

